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Change management & benchmarking analysis
Case study of the collective bargaining system in Iceland

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Declaration of Research Work Integrity

This work has not previously been accepted for any degree and is not being concurrently submitted in candidature of any degree. This thesis is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by giving explicit references. A bibliography is appended.

By signing the present document, I confirm and agree that I have read Reykjavik University’s ethics code of conduct and fully understand the consequences of violating these rules in regards of my thesis.

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Abstract

The collective bargaining system is a set of rules and measures to ensure efficient wage formation. One of the direct results of a failed collective bargaining process are industrial actions where the conflict is no longer only a concern for the disputing parties but becomes a public policy concern with economic and social costs. Experience shows that some systems are more efficient in promoting mutual gain and preventing disputes from escalating into major conflicts than others. This thesis explores total of six different collective bargaining and labour dispute management systems in Iceland, Australia, Austria, Germany, the Netherlands and Sweden. The objective is to identify and evaluate best practices through benchmarking analysis that can be used to improve the performance of the collective bargaining process in Iceland. This cannot be done without considering the process of change. Hierarchical relationships, power and bureaucracies are factor that often obstruct change management processes in public organizations. The collective bargaining system in Iceland operates in a dynamic environment where change is a deep-rooted element and thus needs to be able to adapt its direction, structure and capabilities. Conclusions of this benchmarking analysis indicate that all researched collective bargaining and labour dispute management systems are underperforming in terms of dispute prevention and performance management.

Keywords: Change management, benchmarking, collective bargaining, labour dispute management.
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1 INTRODUCTION

Conflict is inevitable in a market economy and the practice of collective bargaining was established in conditions of hostility so it is no surprise that it is surrounded by adversarial culture (International Labour Organization [ILO], 2013a; Thompson, 2010). However, it is important to prevent labour disputes escalating into major conflicts as they are not only a concern for the disputing parties but also a public policy concern with economic and social costs (ILO, 2015). This requires a dispute management system which traditionally has been the responsibility of the government in each country (ILO, 2013a).

Today, the maturity and performance of a labour dispute system is measured in the capacity of the social partners (employers, employees and their organizations) to resolve their disputes without interference from the state (ILO, 2013a; ILO, 2015). However, the social partners need encouragement to resolve their conflicts through consensus based initiatives and that is usually done through a range of services, including conciliation and arbitration services, provided by the relevant state office (ILO, 2013a). In Iceland, the responsibility of dispute prevention and resolution lies with the incumbency of the state mediator which Bryndís Hlöðversdóttir currently occupies. The incumbency is dependent on government funding but operates independently from both the government and social partners (Talvik, 2014).

According to the International Labour Organization (ILO), if the main objective is to obtain and keep industrial peace then the collective bargaining system needs to be flexible yet integrated in order to service different labour disputes (Thompson, 2010; ILO, 2013b).

1.1 Terms and scope of the topic
This thesis is a case study analysis of the collective bargaining system in Iceland. The objective is to identify the best practices by conducting a benchmarking analysis using the Xerox benchmarking model as a framework. The focus is on collective bargaining practices and processes to provide a better understanding of the factors that contribute to the system’s effectiveness. This cannot be conducted without considering the process of change (ILO, 2013a).
This paper does not promote any specific country labour dispute system nor does it provide easy answers on how to increase efficiency and effectiveness of the collective bargaining system in Iceland. Additionally, what needs to be considered is that what works in one country doesn’t necessarily work in another but experience shows that some systems are more efficient and better promote mutual gain for disputing parties and the society (Thompson, 2010).

1.2 Outline of the thesis
The framework for this thesis is based on the “Xerox benchmarking model” which is a widely used 10-step process (Camp, 1993). Before discussing the benchmarking process, the concept of change management and the benchmarking method is viewed and explained in a literature review. Subsequently, the first 7 steps of the Xerox benchmarking model are carried out (identify benchmarking subject, identify benchmarking partners, determine data collection method, determine current competitive gap, project future performance, communicate findings and establish functional goals). The remaining 3 steps are not carried out as they refer to the implementation of the change initiatives and thus are beyond the scope of this thesis.
2 THEORETICAL FRAMEWORK

The main objective of this chapter is to provide a review of some of the main theories on organizational change management and benchmarking practices. The relevant practices will then be adopted for the research of the collective bargaining system in Iceland. As this research is conducted in collaboration with the incumbency of the Icelandic state mediator it is necessary to also discuss the scope of the role it plays in the collective bargaining system.

2.1 The collective bargaining system in Iceland & the incumbency of the state mediator

The Icelandic labour market is divided into private and public sector and union federation members are arranged according to occupation and whether they are employed in the public or the private sector. The state and local municipalities are the employers in the public market (Olafsdottir, 2015). The pace of collective agreements is set with the private sector where, in most cases, negotiations take place between the Icelandic Confederation of Labour (ASÍ) and Business Iceland (SA) as they usually conclude their bargaining before the players in the public sector negotiate their agreements (Olafsdottir, 2015; Stefansdottir, 2015; Icelandic confederations of employers and trade unions, 2013). The Icelandic Confederation of Labour (ASÍ) is the largest federation in Iceland representing 56.4% of employees in Iceland (Alþýðusamband Ísland, n.d.), the second largest is “Bandalag starfsmanna ríkis og bæja” (BSRB) with 14.7% then “Bandalag háskólamanna” (BHM) with 8.1% and “Kennarasamband Íslands” (KI) with 7.6% (Icelandic confederations of employers and trade unions, 2013). SA Business Iceland represents 2200 business which accounts for 22% of all registered companies and 71% of all salaried employees in the Icelandic labour market (Samtök atvinnulífsins, n.d.). Approximately 240 agreements are negotiated on average in each bargaining round where the public-sector employers conclude around 110 agreements combined whereas SA concludes around 130 agreements (Alþýðusamband Íslands et al, 2015).

The role of the state mediator in Iceland is twofold; to provide mediation services and to monitor the labour market. The state mediator primarily interferes in dispute cases which are formally referred to the Conciliation office (B. Hlöðversdóttir, personal interview, February 27, 2017). The state mediator is not legally obligated to produce an arbitration motion but is required to consult with disputing parties before such a proposal is put forward. However, it is obligatory to provide a discussion schedule to which all
stakeholders should respect and adhere to, although that is seldom the case in practice (Holden, 2016). The objective of the discussion schedule was to introduce negotiation practices in the collective agreement process where both parties are obliged to plan their discussions regarding the renewal of the contract and to encourage both parties to finish wage negotiations before the previous contract expired (Aðalsteinsson, 2006; Olafsdottir, 2015).

The main disadvantage of the current collective bargaining structure is that it is susceptible to the leapfrogging effect where each union tries to outperform the others at the bargaining table. This causes the wages to increase to unsustainable levels. If nothing is to be done it is likely that the wage demands become even higher and thus increasing inflation in the coming years which in turn reduces the benefits of high wage increases (Icelandic confederations of employers and trade unions, 2013; Stefansdottir, 2015). Advancing the unsustainability of the current structure is the lack of trust between employees and the government which eroded when the government lowered or eliminated taxes on employers and shortened the duration of the unemployment benefits without consulting the union movement (Olafsdottir, 2015). Today, tension presides the negotiations in the public sector between the government and social partners (B. Hlòðversdóttir, personal interview, February 27, 2017). The lack of trust is also the main issue which has stood in the way of implementing new wage bargaining model and of making long term contracts. An attempt was made to implement the Nordic bargaining model in 2013 which failed due to this issue. In the 2014 collective bargaining round, short term agreements were made, the average duration is 3 years, in order to use the time to implement new collective bargaining procedures. However, that plan was stopped dead in its tracks as many unions insisted that the wage increases would be re-aligned before entering into a new bargaining system (Olafsdottir, 2015).

The first steps towards improved bargaining system have been taken as in 2013, the incumbency of the state mediator led the cooperation between the confederations of the Icelandic labour market (ASÍ, BHM, SA, KÍ and BSRB) with the aim to improve preparation and negotiation practices of the collective bargaining agreements. All parties involved have agreed to the revision of the current bargaining model and in 2015 they signed an agreement to that effect. A new and revised collective bargaining model should be implemented at the beginning of year 2019. Therefore, all parties need to conclude collective bargaining agreements before the end of 2018. This agreement is meant to serve as a foundation for increased cooperation and less conflict between the negotiating
parties; and contribute to greater economic and social stability (Alþýðusamband Íslands et al, 2015).

With this agreement, they hope to ensure a permanent increase in purchasing power, stabilize the exchange rate and lower interest rates. Iceland has increased wages twofold compared to other Nordic countries during the past 15 years. However, the purchasing power has not been able to follow suit as it increased by 0.8% while in other Nordic countries it increased by 1.7% (Alþýðusamband Íslands et al, 2015). The new bargaining model is yet to be determined but the above-mentioned parties have agreed on the following factors that need to be considered going forward:

- The scope of the wage increases should be defined by its competitiveness against major trading partners
- Companies that produce goods and services for export or compete with imported products should shape the scope for wage increases.
- Alignment of pension both in the private and the public sector
- Public sector employees will be guaranteed a share in the wage increases/drift in the private sector
- Collective agreements aim to increase the purchasing power on the basis of stable exchange rate. (Alþýðusamband Íslands et al, 2015).

The main objectives, according to the information of the above-mentioned agreement, of a new collective bargaining model is to promote economic and social stability. To reach those objectives and make them sustainable, it is important that all associated parties including the government, co-operate and ensure that the new model is aligned with economic policy (Alþýðusamband Íslands et al, 2015). More importantly, increased transparency and greater formal stability of the collective bargaining process is necessary if the performance of the labour dispute system is to be improved (B. Hlöðversdóttir, personal interview, February 27, 2017).


2.2 Change Management

The objective of organizational change is to adapt organization’s direction, structure and capabilities to today’s ever changing market environment and successful change management has become a necessity for organizations’ survival today (Kotter, 1995; Barr et al, 1992; Leana and Barry, 2000; Luecke, 2003). The focus of this thesis is process change management which typically aims to make processes within an organization more effective and more reliable while keeping costs down (Luecke, 2003).

Although, the necessity of successful change management remains undisputed in published literature, the failure rate of change initiatives in practice is close to 70% (Kotter, 1995, Balogun & Hailey, 2004; Beer & Nohira, 2000). There are different explanations stated in the literature for this high failure rate; Kotter (1995) believes that it is due to the failure of creating enough sense of urgency which sets the stage for the change initiative. However, other authors of earlier published literature argue that high failure rate is due to the resistance to change (Lawrence, 1954; Maurer, 1996; Strebel, 1994; Waddell and Sohal, 1998). Beer and Nohira (2000) argue that most failures can be linked to lack of focus of managers during the change period and their rush (short-sightedness) to accomplish the transformation. Kim and Mauborgne (2003) state that the toughest battle is to get people to agree on the need for change and on the causes of the current crisis. It may also be suggested that currently available frameworks for organizational change are too confusing and contradictory (Burnes, 2004). However, there is no one size fits all when it comes to managing change.

Change is triggered by different factors but without a dire sense of urgency, people are reluctant to change (Garvin & Roberto, 2005). Just as Maslow pointed out years ago, people are creatures of habits and we need a certain level of routines and predictability in our lives in order to stay sane (Maslow, 1943; Luecke, 2003; Price Waterhouse, 1996). But can you only lead change when striving for survival? Palmisano (2005) suggests that when business is good, managers should lead changes initiatives with empowerment but not through fear of failure. In the following section are brief summaries on change management frameworks published by key authors in the subject. Table 1 summarizes these frameworks.
### Table 1

**Change management frameworks.**

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<tr>
<td>1) Analyse the organization and its need for change</td>
<td>1) Mobilize energy and commitment through joint identification of business problems and their solutions</td>
<td>3) Develop a vision and strategy</td>
<td>2) Provide a plan</td>
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<td>2) Create a vision and a common direction</td>
<td>2) Develop a shared vision of how to organize and manage for competitiveness</td>
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<td>3) Separate from the past</td>
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<td>1) Establish a sense of urgency</td>
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<td>4) Create a sense of urgency</td>
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<td>5) Support a strong leader role</td>
<td>3) Identify the leadership</td>
<td>2) Create a guiding coalition</td>
<td>5) Build external support</td>
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<td>6) Line up political sponsorship</td>
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<td>6) Provide resources</td>
<td>3) Build internal support</td>
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<td>7) Craft an implementation plan</td>
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<td>5) Empower employees for action</td>
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<td>8) Develop enabling structures</td>
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<td>4) Communicate the change vision</td>
<td>4) Ensure top management support</td>
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<td>9) Communicate, involve people and be honest</td>
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<td>8) Anchor new approach in culture</td>
<td>8) Pursue comprehensive change</td>
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<td>10) Reinforce and institutionalize change</td>
<td>6) Institutionalize success through formal policies, systems and structures</td>
<td>6) Generate short-term wins</td>
<td>7) Institutionalize change</td>
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<td>7) Consolidating gains and producing more change</td>
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<td>4) Focus on results, not on activities</td>
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<td>5) Start change at the periphery, then let it spread to other units without pushing it from the top</td>
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<td>7) Monitor and adjust strategies in response to problems in the change process</td>
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Lewin (1947) introduced a three-step framework for successful change management process which entailed unfreezing the present situation, moving to the new level and refreezing this new level. This framework has been adopted as the general understanding of the organizational change process but it is relatively broad and many of
contemporary frameworks are based on Lewin’s phases of change. Kanter, Stein and Jick (1992) suggest that Lewin’s framework is too simplistic as it does not relate to the dynamics of today’s environment. Therefore, they introduce a more practical and complex framework; the Ten Commandments for executing change. The first commandment in the change process is to analyse the organization and the need for change, followed by development of the vision and direction. Consequently, in order to embrace the new vision it is critical to disengage the organization from the past routines and structures that are no longer worthwhile to create a sense of urgency. Strong leadership with a broad-based support from both internal and external stakeholders is a key step in this framework. It is also important to develop an implementation plan and enabling structures to support the vision as well as change leaders upholding open communications to ensure trust and involvement of people throughout the organization. The final step is then to reinforce and institutionalize the change (Kanter, et al. 2003).

Luecke’s seven steps builds on previous work published by Michael Beer and colleagues in 1990. Beer et al identified a number of steps that constitute the bedrocks of effective change and this model has stood the test of time. However, Luecke adds two steps to their framework; one borrowed from General Electric’s Management Development Centre (step 3) and another suggested by Robert Schaffer and Harvey Thompson (step 4) (By, 2005). Step 3 emphasizes the importance of appointing a “change leader” who is responsible and leads the change initiative. The aim with step 4 is to avoid the common pitfall of focusing on measurements and activities that do not contribute to the bottom line/end results. Luecke’s framework is quite similar to Kotter’s Eight-Stage Process in regards to creating urgency, developing and communicating the vision, identifying leadership and institutionalising the successful change processes once objectives have been met. Additionally, Luecke discusses that the probability of a successful change initiative is higher when it’s initiated at the periphery and from there spread to the rest of the organization. Therefore, management should avoid imposing a canned solution but rather develop their own within the solution that needs change (Luecke, 2003).

The change management process tends to be reactive as the need for change is often unpredictable as it is frequently triggered by organizational crisis (Burnes, 2004; De wit and Meyer, 2005; Luecke, 2003). Kotter (1995), underlines that organizational change is not a single event but a continuous open-ended process that can be arranged in several stages and skipping steps only creates impression of change but not sustaining
impact. The third model is Kotter’s Eight-Stage Process for Successful Organizational Transformation. Per Kotter (1995), the first step is the most important as it is crucial to create enough urgency to set the stage for the change initiative. But, when is the urgency rate high enough to enhance change? A good rule of thumb is; change goal can’t be achieved unless 75% of the organization’s management is honestly convinced that business as usual is totally unacceptable. With a clear understanding of the stages of change, Kotter argues that managers are better equipped to avoid the pitfalls associated with each stage and therefore more likely to conduct a successful transformation. The next step is to establish a guiding coalition which is followed by developing a vision and strategy for the change initiative. Consequently, the vision must be effectively communicated and all barriers to action need to be identified and removed. Next is to accomplish short-term wins which can enhance motivation and consolidate these advancements to boost further change initiatives. The step is to establish the new approaches in the organization’s culture to make their impact sustainable (Kotter & Cohen, 2002).

Fernandez and Rainey (2006) developed previous frameworks to create a new model for change initiatives more adaptable to public organizations. The first step is to ensure the need for change and persuade all stakeholders that it is necessary; this entails creating a compelling vision. The next step is to transform the vision into a plan and then establish internal support to minimize the resistance and potential barriers to the implementation of the change initiative. To have a change leader to lead the transformation and ensure top-management involvement can play a crucial role in success, for public organizations it is also important to develop support from political authorities and other key external stakeholders. This framework takes the cost of change into an account as change processes need sufficient resources and it is not without compromises. The last two steps are to institutionalize the change and pursue comprehensive change in a systematic approach to ensure organizational congruence (Fernandez & Rainey, 2006).

The above-mentioned frameworks describe the change process within organizations and point out important success factors. However, they largely focus on the soft side or the people issues of the organizational change processes. The hard side of change management is presented in the “DICE-framework” which is an acronym for Duration, Integrity, Commitment and Effort (Sirkin, Keenan & Jacskon, 2005). Duration is the time between milestone reviews, Integrity is the project team’s skills, Commitment
is the leader’s dedication to the program and Effort is the extra works stakeholders must do to adopt new processes. Sirkin et al. (2005) also state that successful change management must address the harder elements before focusing on the soft issues.

### 2.3 Benchmarking

Benchmarking is a tool for effectively managing change; it can be described as a continuous process of identifying, understanding and evaluating industries’ best practices to improve the organization’s performance. This is usually done by studying other organizations performing similar operations (Bhatta & Huq, 1999; Camp, 1992; Kumar, 2006). The benchmarking process is an outward looking activity which can enable the organization to break away from tradition (Kumar, 2006). However, benchmarking should not be confused with comparative analysis. In comparative analysis set of measurements for similar items are compared between organizations or within an organization and this is simply one step in the benchmarking process (Harrington, Esseling & Nimwegen, 1997).

There are many different benchmarking approaches, ranging from 4 to 33 steps, including product, production processes, equipment, business processes, etc. (Harrington et al., 1997). In 1999, Anderson and Moen identified a total of 60 different models and it is probable that more have been developed since then. Business process benchmarking is the approach that is relevant for this review. The first step of business process benchmarking is to define possible performance gaps by identifying and comparing the best equivalent processes. This comparative analysis usually yields several organizations that are performing better. The next step is to try to identify why they are performing better. The information gathered from the previous steps is then used to implement an improved process (Harrington et al, 1997). Xerox developed a benchmarking model which they give the primary credit for their survival and today the “Xerox model” is the most commonly used model in practice without any modifications (Camp, 1992; Harrington et, al 1997). The Xerox model has total of 10 steps in 4 phases and is displayed in figure 1.
The Xerox model is a 10-step process, categorized in 4 phases. The planning phase consists of the three most important steps; Identifying what to benchmark, who to benchmark and where to attain the information and relevant data (Camp, 1993). In the first step, the benchmarking subject is documented to gain an understanding of the status quo and perform a better benchmarking. The benchmarking partners can either be internal such as organization’s subsidiaries or external, such as competitors or best-in-class industry leader. The research for possible benchmarking partners should result in no more than 3-6 benchmarks to be examined in more detail (Anand & Kodali, 2008). The information collected in the first steps is then analysed in the next phase. The following steps are to prepare the organization for the implementation of new practices and to gain acceptance of the individuals that would be affected by the change. The competitive gap is identified in step four through comparative analysis conducted on the benchmarking partners compared to the benchmarking subject. In step five the future performance is projected through identifying the best practices based on the comparative analysis. Subsequently, those results are reported and communicated to those affected by the change to gain internal and/or external support for the change initiatives. The second step in the integration phase is to establish functional goals or a plan on how to implement the
best practices identified (Anand & Kodali, 2008). The final phase is implementing the change initiatives and monitor performance (Camp, 1993). If the implementation is done poorly, the whole project can become a failure. Thus, Organizational Change Management (OCM) practices should be conducted parallel to the benchmarking process. It’s too late to start the OCM activities at the implementation phase and it increases the likelihood of failure (Harrington et al, 1997). The last step is meant to ensure a continuous benchmarking process by setting new objectives and identifying further opportunities for improvement leading back to step 1 (Camp, 1993).

The ability to analyse, reflect and change based on experience symbolizes a learning organization (Aanand & Kodali, 2008). Benchmarking is a part of organization’s learning experience and mistakes are inevitable but they can be curtailed with careful planning of objectives and guidelines to achieve them (Camp, 1992). However, there are several limitations concerning the benchmarking process. The existing models in literature are unique and differ from each other as they have been adapted to each organization’s processes and experience (Partovi, 1994). Additionally, Anderson and McAdam (2004) highlight that available process benchmarking models have limited use in today’s dynamic environment as they are usually grounded within existing theory. These factors may pose a challenge as to whether the model selected is appropriate for the intended use and requirements. Other limitations include the size of the organization, as the disposal of available resources for the change process usually increases with the size of the firm (Dervitisioits, 2000).

Intangible assets, such as high quality and responsive operating processes, have become a foundation of a competitive advantage and benchmarking is an important tool to describe the value of these assets (Kaplan & Norton, 2004). Principally, benchmarking should be utilized for existing processes to achieve improvements in what organizations are already doing well (Dervitisioits, 2000). Benchmarking the upstream elements of an organization is called lead benchmarking. The upstream elements are where the actual process input occurs and these metrics provide better insights to the processes involved compared to downstream metrics (Anderson & McAdam, 2005). The structural representation associated with downstream thinking is clear lines of authority and bureaucracy; where employees receive instructions, and are controlled from the top. Whereas, upstream thinking represents a learning organization where the information flows from the bottom to the top (Wood, 1994). The purpose of outlining the benchmarking process it to define the necessary actions that should be carried out. It is
important that the model establishes procedures and expected outcomes in a clear and simple manner (Anand & Kodali, 2008).

2.4 Change management & benchmarking in the public sector
While there is growing research on large-scale organizational change management in the private sector there is very limited research on change management in governmental agencies or public organizations (Nadler & Tushman, 1990). Principally, organization change in two ways: through drastic action or through continuous incremental change. In the former situation, the change is often forced upon the organization while incremental change is decentralized and takes place through many small steps (Meyerson, 2001; Nadler & Tushman, 1990). The most dominant form of change processes within government organizations are small incremental changes usually in intra-organizational structure, wide-ranging transformation in governmental institutions is relatively rare (Chackerian & Mavima, 2001). Hierarchical relationships, power and bureaucracies are factors that often obstruct change management processes in government organizations (Bingham & Wise, 1996; Keehley & MacBride, 1997). Even though, government and public organizations operate in a unique environment and face different operative and strategic concerns to those of the private sector; their objectives are similar if not the same. Thus, the method of achieving them should be no different (Dorsch & Yasin, 1998).

The fundamental difference of change management between the public and the private sector is the political context (Kickert, 2014). That is why, Fernandez & Rainey (2006) introduced “external support from politicians and other key external stakeholders” as a success factor for change management in public organizations. Governments and state-owned organizations must also adapt to the dynamics in the environment for example technological advancements have introduced new industries and new jobs and thus changed the distribution of employment (Belanger & Murray, 1994).

Benchmarking practices have caught the attention of many public-sector managers due to possible cost savings achieved in executing operations. However, benchmarking in the public sector is a political process and the government is an important catalyst in managing the change (Dorsch & Yasin, 1998; Keehey & MacBride, 1997). Al Gore National Performance Review (NPR) raised the attention of benchmarking in the public sector, as NPR showed that taxpayers were discontented with poor services of government agencies (Keehey & MacBride, 1997). Therefore,
knowledge and understanding of benchmarking practices has become essential for managers in the public sector (Magd & Curry, 2003).

2.4.1 What’s at stake?
For governmental institutions, such as the incumbency of the state mediator, it is important to provide quality and efficient services; as such they also need to be able to reflect, learn and adopt best practices within the given budget restrictions. One of the direct results of a failed collective bargaining process are strike actions especially when the bargaining objectives are unclear and complex (Hicks, 1966). Strikes are costly both from an economic and social perspective. They pose implications for the economy, corporate institutions and employees alike. Possible consequences that have occurred in the past include job loss, violence, property damage, decreased creditworthiness for employees and insurance loss etc. (Aðalsteinsson, 2015). Therefore, in many countries, there are policy legislations to inhibit such actions and to increase the effectiveness of negotiations. Such frameworks regarding labour disputes and collective bargaining can affect the strike frequency (Bean, 1994).

Strikes can be in multiple forms, the most common being a group of employees within a specific union stop working during a specific period or at least a part of that group. They can also refuse to work overtime, during weekends or part of the job is not carried out. The most common notion is that employees within a union that adhere to the collective agreement in question lay down all work. Strike activities tend to be more common in labour disputes in the public sector and it is believed to be due to lack of experience and knowledge to reach an agreement in a consensus manner; a tool that the private sector has been developing for decades (Bean, 1994). In Iceland, strike activities for public sector employees were not legalized until 1976 so this is a relatively new weapon in their arsenal which they have been putting to the test during the past decades which can explain, in part, the high frequency in the Icelandic public sector. One of the contributing factors is also that the wage setting in the public sector is more centralized and the wage increases have lagged significantly behind of those in the private sector (Aðalsteinsson, 2015).

The most recent example of strike activity in Iceland is the dispute between Icelandic fishermen and fisheries firms. It lasted approximately two months and based on the calculation conducted by the sectoral ministry it cost the economy ISK 3.5 billion, as income lost from export value. Additionally, around 2400-2600 other employees in the industry experienced a loss in income during that period, estimated at ISK 818 million.
These financial losses are irrevocable (Atvinnuvega-& nýsköpunarráðuneyti, 2017). Not many strike participants anticipate the damage or calculate the net value they receive from going even on a short strike for example how many working days they require to make up for the income that they lost during the strike, even with the few negotiated % in salary increase. The longer the strike action is the smaller the quantitative gains (Franzosi, 1989). Therefore, it is usually less costly for everyone involved to reach an agreement without strike action or court interventions.

In industrialized countries, the employment trend has shifted towards the service sector. This affects the operations of the labour unions including the landscape of the collective bargaining system (Belanger & Murray, 1994; Miller, 1999). Corresponding to this cultural change is the decline in union density in many countries. This could be linked to the fact that unions are more established in sectors with weak employment growth and less so where employment growth is strong (Belanger & Murray, 1994). Therefore, it can be concluded that change management is necessary for all stakeholders in the collective bargaining system just as it is for large-scale international organizations.

2.5 Conclusions
Majority of published literature on change management and benchmarking practices refers to the private sector, but to what extent can these practices be utilized in the public sector? Public organizations are usually perceived as bureaucratic and inefficient and thus resistant to change. For governmental institutions, such as the incumbency of the state mediator, it is important to provide quality and efficient services; as such they also need to be able to reflect, learn and adopt best practices within the given budget restrictions. The collective bargaining system in Iceland does not operate under constant conditions. It operates in a very dynamic environment where change is a deep-rooted element that affects all organizations and the pace of it has never been greater. The need for change, especially if triggered by external factors, is often unpredictable and consequently its’ management tends to be reactive. Therefore, it is of the outmost importance that the state mediator can identify where it needs to be in the future and how to manage the process to get there.
Chapter Outline

The Xerox benchmarking model

Planning
- Identify benchmarking subject
- Identify benchmarking partners
- Determine data collection & collect data

Analysis
- Determine competitive gap
- Project future performance

Integration
- Communicate findings & gain acceptance
- Establish functional goals

Action
- Develop action plans
- Implement plans & monitor progress
- Recalibrate benchmark
3 METHODOLOGY

The Xerox benchmarking model (Camp, 1993), discussed in previous chapter, is utilized as a framework for this study. This chapter discusses the planning phase of the model consisting of the first three steps: identify the benchmarking subject, identify the benchmarking partners and data collection. The first step explains how the benchmarking subject was defined. The benchmarking subject itself is then characterized and documented in more detail in chapter 4. The second step discusses the selection process of the benchmarking targets and the third step then explains the data collection method for all collective bargaining systems included in this study.

3.1 Phase 1. Planning

3.1.1 Step 1: Identify the benchmarking subject

The planning phase is the most important part for a successful benchmarking process. This step refers to establishing an understanding and defining potential areas of improvement and sets the foundation for the following steps in the process (Camp, 1993). This step explains the actions taken by the researcher to understand the process and the challenges that the state mediator is currently facing.

The subject of interest in this study is the collective bargaining system in Iceland and the role of the state mediator. To be precise, the aim of this benchmarking exercise is to identify best practices in collective bargaining and labour dispute management. The
objective of this first step is to document the status quo of the collective bargaining process in Iceland. However, for academic purposes the collective bargaining system in Iceland is presented in chapter 4 and methods of how the data and information was collected is discussed in the following section.

Firstly, an interview was conducted with Bryndís Hlöðversdóttir, who currently holds the office of the state mediator, to obtain a better understanding of the current situation of the collective bargaining process and the need for improvement thus the scope of this Thesis. The latest version of the “Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS)” database was used to calculate the level of centralization and coordination for the collective bargaining systems included in this study (Visser, 2015). The data can be seen in Appendix A and the code book for the variables and equations can be seen in Appendix B.

3.1.2 Step 2: Identify benchmarking partners
After having identified and established an understanding of what to benchmark, a screening process could be conducted to identify possible benchmark “targets”. Targets refers to the countries that are the end-result of the benchmarking process. To ensure objectivity, the initial benchmarking pool included all United Nations member countries of total 193 (excluding Iceland) (United Nations, n.d.). A criterion was set to ensure that the targets would be relevant to the study and relatable to the governance structure of Iceland to be able to carry out a comparative analysis. Due care has been taken to ensure that the selected criteria was based on reliable information from sources such as ILO, OECD, CIA and the World Bank. The following criteria was set in order to narrow the selection.

**System of Government (24 countries excluded).**
The government and political structure needs to be comparable to Iceland as this significantly effects the operating environment of the collective bargaining system. Therefore, the first criterion is that the political environment needs to be governed by democracy.

- Exclusion criteria was the following:
  - “Monarch personally exercises power in concert with other”
  - “All authority vested in absolute monarch”
  - “Power constitutionally linked to a single political movement”
“No constitutionally-defined basis to current regime”. (Central Intelligence Agency [CIA], n.d.-d).

**Labour Force participation (12 countries excluded).**

The collective agreements only adhere to the active portion of an economy so a labour participation rate of over 50% was determined as the minimum to be included in the benchmarking study.

- Exclusion criteria: less than 50% (The World Bank, 2016).

**Labour Data not available (16 countries excluded).**

To be able to carry out a comparative analysis of the final benchmarking targets, census data or other labour statistics needed to be available and accessible in an international database.

- Exclusion criteria: data not available in the ILO database (The World Bank, 2016).

**Developing Countries (117 countries excluded).**

The CIA world factbook uses the same classification as the International Monetary Fund (IMF) for developing countries or countries in transition. The developing countries represent the bottom of the hierarchy of advanced economies. The developed countries are the top group in the pyramid and includes mainly the market-oriented economies of democratic nations in the Organization for Economic Cooperation and Development (OECD) (CIA, n.d.-a).

- Exclusion criteria: not included in the list of developed countries by CIA factbook.

**Average number of Working Days Lost per 1000 employees between the years 1997-2006 (3 countries excluded).**

Frequent strike activity was defined as one of the key challenges of the current collective bargaining system. This criterion was set to identify countries that are outperforming Iceland in this area. However, the most recent numbers available for this comparison are from 2006.

- Exclusion criteria: More than 100 days on average (Hale, 2008).
Coverage Rate of collective agreements (8 countries excluded).

Collective agreement coverage refers to the number of people whose terms and condition of work are determined by collective agreements (OECD, n.d.). As with the labour force participation rate criteria, coverage rate of over 50% was determined as the minimum to be included in the benchmarking study.

- Coverage rate of less than 50% (Visser, Hayter & Gammarano, 2015).

Average Gross Domestic Product (GDP-PPP) between the years of 1996-2015 (5 countries excluded).

The wage setting through collective bargaining does have significant impact on the economy and thus the GDP and as this research attempts to identify “best in class” collective bargaining system. Only countries who are outperforming Iceland in terms of GDP are included in the benchmarking target pool.

- Exclusion criteria: countries with lower GDP than Iceland (US 41,575 per capita).
  - Additionally, Luxembourg was also excluded, despite having GDP of US 89,073 per capita. The reason for this is that a big part of the working population in Luxembourg lives in the neighboring countries and therefore these numbers are not reliable. Calculation for average GDP per capita can be seen in Appendix D (OECD, 2017b).

In cooperation with the state mediator it was decided that one Nordic country would be sufficient for the case analysis. The justification for this is that the Nordic countries have all implemented similar labour dispute system and it has been thoroughly researched by the social partners as part of the “Samstarf um launaupplýsingar og efnahagsforsendur kjarasamninga (SALEK)” initiative. Ergo, Norway was excluded from the case analysis and Sweden will be researched as a representative of the Nordic bargaining model.

Final targets: Austria, Australia, Germany, Netherlands and Sweden.
The benchmarking process is displayed in more detail in Appendix C.
3.1.3 Step 3: Determine data collection method and collect data
As this research is a case study, it is not recommended to consider many targets as it may reduce the effectiveness of the benchmarking. Therefore, the research lacks statistical reliability so this thesis is more about generating hypotheses rather than to test them, thus generalizations cannot be made based on this research. To grasp complexity of change management and other processes one can only work with a limited number of cases. Additionally, collective bargaining is a process and therefore qualitative data is predominated (Gummesson, 2000). In this case, the data collection method is to review data and information published by governments and other official statistical organizations. Therefore, the data collection method can be considered as external data collection method. However, it is difficult to observe principal characteristics of organizations at the surface level in addition to limited access to empirical data and information for all targets. The research is thus limited to the availability of data and information.

Census data from the target countries was used to evaluate the country environment as it is a record of important facts regarding economic and social factors. However, censuses may vary in data collection in terms of frequency and as the time from collection and data publication is often long so comparing statistics across countries should be carried out with caution (David, Kumar, Day & Leone, 1987).

Primary data was also collected to enhance the research and provide a better basis for analysis and conclusions. Firstly, an in-depth interview was conducted with Bryndís Hløðversdóttir who currently holds the incumbency of the state mediator to gain a better understanding of the current situation and the need for improvement. Secondly, to gain a further insight to the collective bargaining process of the benchmarking targets, a survey was conducted using the online survey program, Google Forms. The framework for the questionnaire was “The guide for improved performance for labour dispute systems” published by the International Labour Organization (ILO, 2013a). The participants in the survey were representative from the final benchmarking target countries including Iceland thus total of 6 participants. Firstly, a phone call was made to each participant to get a confirmation of participation and permission to send the survey via e-mail. Due care was taken to select a representative with a similar position within the collective bargaining system as the incumbency of the state mediator of Iceland for comparability. All countries agreed to participate but the survey answers from the Netherlands were never received. The response rate was thus 83% and all results for the Netherlands are based on secondary
research. The survey questions can be seen in Appendix E. The answers will not be published nor the name or official positions of the participants.

Caution must be exercised on comparative sources. Institutions, policies and practices are truly products of their homes and histories and seldom if ever are open to ready adoption abroad. Benchmarking analysis does not provide straight answers to the “problems” but it can provide a wider range of option for considerations (Gummesson, 2000; David et al, 1987).
4 Phase 2: Analysis

This chapter discusses the analysis phase of the Xerox model consisting of two steps: determine the competitive gap (step 4) and project future performance (step 5). The fourth step displays the characteristics of the benchmarking subject and the benchmarking target countries in alphabetical order (Australia – Austria – Germany – the Netherlands – Sweden). This chapter begins with a summary of an effective labour dispute management system based on publications from the International Labour Organization to provide a reference of what characterizes an effective labour dispute management system. In the fifth step, the observation from step four are summarized and performance gaps are addressed and identified.

4.1 Step 4: Determine current competitive gap

In this step, different characteristics of each country’s labour market and the challenges and strengths of each collective bargaining system are presented. As mentioned before, comparative analysis between different countries should be taken with caution as what works in one country does not necessarily work in another. Therefore, the chapter begins with a description of what constitutes a good labour dispute and collective bargaining system according to ILO standards. Subsequently, the benchmarking subject is discussed in more detail or the collective bargaining process in Iceland and its current disadvantages and then each target country in an alphabetical order.
4.1.1 Effective dispute management system according to the International Labour Office

The International Labour Office (ILO) is a U.N. agency and its role is to set labour standards and develop labour policies amongst other responsibilities. ILO has published numerous recommendations and policy guides regarding effective dispute management systems and how to approach revitalization of related processes. According to ILO, consensus based approaches are the essence of an effective labour dispute system and conflict prevention should be the ultimate objective. Emphasizing dispute prevention instead of reactive measures to dispute resolution improves communication and hence the relationship of the disputing parties and eases them to reach consensus (Thompson, 2010). Also, dispute prevention through conflict management in the workplace is also a vital component of a sound industrial relation system. Conflict management is carried out through information sharing, dialogue, consultation, negotiation and bargaining (ILO, 2013a).

The role of the state or the government in wage setting should be limited to ensure objectivity and self-governance. In a well-functioning system, the government involvement is only when a negotiation is at an impasse or public interests are at risk (Thompson, 2010). A legal framework should be in place that encourages collective bargaining and highly discourages industrial actions while mediation or arbitration processes are underway (ILO, 2013a). In most countries, the public-sector accounts for a large part of the total employment where the state is the employer so the political character that surrounds the wage setting in the public sector is inevitable (Thompson, 2010).

In dealing with change and reforms, unilateral decision without consulting the affected parties will trigger action, diminish trust and ultimately be unsuccessful. Therefore, structured tripartite social dialogue between representatives of employers, employees and the government should form a key part of the wage setting and collective bargaining system. It is stated that open and regular communication between these parties promotes social cohesion and improves governance (ILO, 2013a; Thompson, 2010).

ILO states that coordinated bargaining system promotes orderliness and self-regulation. Additionally, that the relationship between coordination and centralization in wage setting leads to lower wage disparities, including narrower gender pay gap (Thompson, 2010). Coordinated bargaining is when the negotiations on the main topics takes place at a central level and then supplementary negotiations take place in a more decentralized setting (Thompson, 2010). However, before the negotiations take place it is important to address any inter-union rivalry and the possibility of leapfrogging effect is
firmly kept in check. If the bargaining partners perceive the negotiations as a contest, their strategies will be coloured accordingly (ILO, 2013a; Thompson, 2010). A common fact finder is an approach to bring gravity to collective bargaining as it has persuasive power to pressure the negotiation partners to respect the given data and reducing miscommunication and data conflict (ILO, 2013a). Today’s environment is very dynamic and therefore it is important that collective agreements have dynamic features especially if the length of the agreement is longer than a year. The appropriate length of a collective agreement related to pay matters is around 3 years, longer if its regarding other employment conditions (Thompson, 2010).

The actual performance of the labour dispute system should be monitored on a continuous basis and compared to required or target performance. However, the target performance may not be too strict as that may cause the performance to decline (ILO, 2013a).
4.1.2 Iceland
The population of Iceland is currently 332,559 (Hagstofa Íslands, 2016) which translates into a small-scale labour market. However, Iceland has the highest labour force participation compared to other OECD countries or 87.9% (OECD, 2017c) and the unemployment rate is 2.6% according to the Statistics Iceland (January 2017). The Icelandic labour market is also characterized by high level of union affiliation or 86.4% (OECD, 2014). High level of union affiliation strengthens the bargaining positions of the federations and to promote unionization; the collective agreements include priority clauses that state for example that union members have priority to employment (Holden, 2016; Olafsdottir, 2015; Stokke & Seip, 2008). Also, employers automatically register their new recruits into the relevant union which might also explain the unusually high union membership rates (Olafsdottir, 2015). Other characteristics of the Icelandic labour market, apart from high union density and high labour force participation rate, are long work hours, late retirement (compared to other OECD countries) and low frequency of part time employment (Olafsdottir, 2015).

The wage bargaining system in Iceland can be generally seen as centralized as the existence of these large umbrella organization for both employers and employees has made nationwide labour bargains possible, which typically involves active participation of the central government (Icelandic confederations of employers and trade unions, 2013). However, individual unions have the right to negotiate independently of the confederations and since the federations are acting on behalf of the unions, each agreement they reach must be voted on within each union. The size of each labour union in Iceland is small and they are formed for each industry which provides them with a strong bargaining position but there are total of 150 separate labour unions in Iceland (Holden, 2016; Olafsdottir, 2015). However, regulations are in place to minimize the number of contracting parties in the private labour market which states that the trade union must have the mandate to be a party to collective bargaining for the industry covered by the agreement (Stokke & Seip, 2008). In the 1997 bargaining round, the collective bargaining system in the public sector was further decentralized with the introduction of institutional agreements so part of the bargaining process was transferred away from the central government to individual institutions. Consequently, due to this fragmented set up of the labour unions; the Icelandic collective bargaining system fluctuates in terms of centralisation and coordination (Olafsdottir, 2015).

The basis of the current labour market was built in 1990 with the National Pact Agreement where the nominal wage increases followed by a spike inflation were rejected
for a system of lower wage increases, lower inflation thus providing growth in purchasing power. Since then, collective bargaining agreements have included relatively low wage increases that nonetheless have led to growth on purchasing power until 2008 when a market crisis arose in the wake of economic crisis (Aðalsteinsson, 2006; Olafsdottir, 2015; Stokke & Seip, 2008). Collective agreements are generally perceived as minimum conditions which the Icelandic trade unions see as a tool in the fight against social dumping, wage formation is flexible and there is relatively low job protection (Icelandic confederations of employers and trade unions, 2013; Stefansdottir, 2015).

The legal framework concerning the labour market is very similar within the Nordic countries but strike activity is substantially more frequent in Iceland, despite such activities being illegal while a contract is still valid (Stefansdottir, 2015; Stokke & Seip, 2008). Employees have the right to partake in a strike activity in order to pursue their claims and protect their rights in labour disputes. In the same way, employers have the right to a lockout. A strike in the Icelandic labour market is defined as a minimum of 4 working hours being lost and including at least 4 employees (Aðalsteinsson, 2006). According to the literature, frequency of strike activity can be linked to the quality of the communication between the negotiating parties in the labour market (Edwards & Hyman, 1994). It is often said that Iceland holds the world record in strike activity but with that statement in mind it is important to look at how strike volume is calculated and recorded. Strike volume is calculated as the number of working days lost divided by the number of employees partaking in the strike. In other words, strike volume measures how long the average employee spends in the strike not the average duration of the strike activity (Aðalsteinsson, 2006). However, another important fact to keep in mind is that the statistics on strike activities in Iceland is lacking as there is currently a disagreement on how to measure the number of working days lost due to labour actions (B. Hlöðversdóttir, personal interview, February 27, 2017). The state mediator does not have the authority to postpone or prevent strike or lockout activities but the government has used legislation several times in recent years to that effect (Olafsdottir, 2015).

There has been an overall decline in strike activity but this is also the trend seen in Europe since 1995 as can be seen in figure 2. Global comparisons on strike activity is becoming more difficult as the number of countries covered by reliable data has fallen but they days not worked per 1000 employees is considered the most reliable indicator (Vandaele, 2016). High frequency of strikes in Iceland can be linked to the employees in the public sector and mainly to the education- and healthcare sector (Aðalsteinson, 2006).
The same can be said for Europe as strike activity has been declining in the private sector but increasing in the public sector (Boeri, Brugiavini & Calmfors, 2001; Vandaele, 2016).

*Figure 2. Strike activity trends in Europe (1995-2014).*

*Source: Vandaele, 2016*

4.1.2.1 Collective agreements.

One of the main characteristics of small open economies is specialization in exports and Iceland is no exception to this, where fish and aluminium are equivalent to 77% of total product exports (Statistics Iceland, 2017). These commodities carry little weight in domestic consumption and therefore price fluctuations have a large impact on affiliated companies but little or no effect on the purchasing power of employees. However, there has been an interesting shift in Icelandic export specialization that has been taking place in the past decade. Where the revenue from product exports has been slowly decreasing while the revenue from the tourism industry has grown significantly, or approximately 20% since 2009 (Seðlabanki Íslands, 2009). Developments of the international economy has decisive influence on Icelandic economy through trade. Prices in foreign trade has a strong impact on performance of Icelandic export companies and thereby their flexibility for wage increases (Alþýðusamband Íslands et al, 2015). To this day, the competitiveness of the Icelandic economy in international markets has been maintained through currency rate reductions. Excessive exchange rate fluctuations have primarily shaped the economic
development and thus the wage ratio for the past decades. This is in clear opposition of the Nordic bargaining model, which will be discussed in further detail in the next chapter, which is based on constant exchange rates (Alþýðusamband Íslands et al, 2015).

The collective agreements set the floor for further wage increases and there is no upper limit to wage increases. Therefore, part of the wage formation in the public sector is set outside the formal centralized wage agreements (Olafsdottir, 2015). Institutional agreements are an extended version of the collective agreements and were adopted by the state in 1997, it further determines the daytime/regular wages of each individual employee. The municipalities use systematic evaluation of the content and characteristics of the job post. The assessment is then utilized for the arrangement of different positions and wages based on the assessment. Apart from wages, the collective agreements also specify workplace conditions and insurance, tools necessary for the job at hand, termination of employment, general objective of the employment contract, financing of further education etc. (Alþýðusamband Íslands et al, 2015).

The previous chapters have discussed the benchmarking subject and what characterizes an effective labour dispute management system. The aim of the subsequent chapters is to discuss the characteristics of the collective bargaining systems and labour markets in the benchmarking target countries in an alphabetical order: Australia, Austria, Germany, the Netherlands and Sweden. Then the information presented in these chapters, including Iceland and ILO, are summarized in a table for a comparative analysis.
4.1.3 Australia

The Australian population is approximately 23 million (22,992,654) with 60% labour force participation rate (CIA, n.d.-b). The main bargaining level in Australia is enterprise or company level agreements which might explain the high number of agreements negotiated per year. But total of 5,562 agreements are concluded each year on average. Australia was the first country to introduce enterprise bargaining which is now the centrepiece of their industrial relations system. Enterprise bargaining is a negotiation between the employer, employees and their bargaining representatives (Thompson, 2010). Only approximately 15% of employees are trade union members, a record low, a result from a long-term decline for the past decades (Toscano, 2015). Collective bargaining coverage is highest in the public sector and the maximum duration of a collective agreement is a term of four years but enterprise agreement will continue to operate past their nominal expiry date until they have been superseded by a new agreement (Oliver, 2016 & Stewart, 2013). Australia is the only system in this research that is characterized by low coordination in collective bargaining.

For almost 100 years, Australia operated through a negotiation-conciliation-arbitration model where almost any workplace dispute was brought to a tribunal where the majority of disputes were resolved through compulsory conciliation (Thompson, 2010). This form of system is an example how conciliation and arbitration can be used to advance the bargaining process (Perry & Wilson, 2004). The Fair Work Act (2009) regulates the framework for both the bargaining process and the content of the agreements in both the public and private sector (Thompson, 2010). The purpose is to assist both employers and employees to negotiate in good faith and reach an agreement. The former government argued that the act would deliver greater workplace cooperation resulting in productivity improvements (Bray & Macneil, 2016). This places previous different types of collective and individual workplace agreements in a single type of an agreement: an enterprise agreement. Enterprise agreements can be made as a single-enterprise agreement or as a multi-enterprise between two or more employers and their employees (Fair Work Ombudsman, n.d.).

Series of reform acts have been put forward in pursuit of greater wage flexibility over the last 20 years, starting in 1993 (Fair Work Ombudsman, 2009). Additionally, Australia has also experienced a shift in collective bargaining towards the enterprise level where the encouragement was towards productivity not income policy as it was before. This was followed by an increase in wage dispersion, in line what has been published in literature, and a decrease in trade union membership (OECD, 2004). The Fair Work Act
(2009) is a legislation that includes several requirements for representatives of both employers and employees to collaboration and respect for each other and other ethical conducts that contribute to the efficiency of collective bargaining (ILO, 2015).

The Fair Work Ombudsman is an independent government organization and its main role is to promote productive and cooperative workplace relations. Together with the Fair Work Commission, the Ombudsman resolves a range of workplace disputes through mediation, conciliation and exceptionally public tribunal hearings. Additionally, the Commission regulates how industrial action is taken as well as to ensure minimum wages and employment conditions. In a strict sense, the state is involved in all collective agreements as the Fair Work Commission needs to approve all agreements before they can be finalized (Fair Work Ombudsman, 2009).

Award coverage in Australia is around 19% but they are issued by a tribunal that set the pay and other employment conditions for a particular industry, occupation or company (Bray, 2011). The Fair Work Commission carries out an annual wage review where the award wage is revised as well (Oliver, 2016). One of the key characteristics of the Australian labour market is high prevalence of part time employment (Healy, 2014). Australia categorizes strike activities according to cause for example on category being wages, hours and leave issues while other might be managerial policy and physical working conditions issues (Perry & Wilson, 2004).
4.1.4 Austria
The collective bargaining system in Austria is characterized by a stable structure in regard to the practices of the wage bargaining agents. Since the early 1950s, the collective bargaining has primarily taken place at the industry level, where the labour unions represent the employees and the chamber of commerce (Wirtschaftskammer Österreich, WKÖ) represent the employers (Adam, 2009). The high collective bargaining coverage of 95% is ensured by obligatory membership of employers in the chamber of commerce. The Austrian Trade Union Federation (ÖGB) is the single trade union federation in Austria and is further divided into 7 separate unions. The ÖGB is not affiliated with a particular political party but it was founded in 1945 to overcome divisions between unions (ÖGB, n.d.). Europe has been experiencing a decline trend in trade union density rates in recent decades and Austria is no exception to this where only 28% of Austrian workers are currently union members (ETUI, 2017). However, all employees are covered by collective agreements by law, whether they are members of the union or not, as the Federal Arbitration Board issues an extension order for the part of the sector that is not covered by a collective agreement (Adam, 2009; “Austria: Trade Unions”, 2015). Therefore, the bargaining coverage has been maintained due to the high degree of bargaining coordination (European Trade Union Institute [ETUI], 2017).

Negotiation are normally annual and in total the ÖGB unions conclude approximately 450 agreements each year and wage leadership is ascribed to the metal industry. Generally, the unions’ aim for increase in real earnings in line with economic growth (“Austria: Trade Unions”, 2015). The Austrian government does not set a central wage norm nor is there a national minimum wage legislation that covers the whole economy. Nevertheless, in 2007 the ÖGB and government representatives (Austrian chamber of commerce) concluded a collective agreement of sorts where they agreed to ensure a cross-sectoral minimum amount of EUR 1,000 month (Adam, 2009). The contractual wage rates constitute the minimum rates for the wages actually paid for most employees (Pollan, 2004). In the private sector, the bargaining parties act independently from the state bodies but monetary and fiscal policy goals are often utilized as framework in the wage setting process (Adam, 2009). However, in the public sector the parliament eventually determines pay and the terms for employees (Adam, 2009). Disputes are referred to the Federal Arbitration board if agreement is not reached through collective bargaining and the Board may issue a minimum pay scale or an extension order for sectors not covered (Adam, 2009).
There has been recent inclinations and market driven pressure for decentralisation and flexibility of wage formation in Austria so the competences of lower level bargaining actors have been enlarged (Adam, 2009). For example, in 2013 the so called “free time option” was introduced in the collective bargaining in Austria for two sectors; the electronics and the mining and steel industry. This option is intended to improve work-life balance as it gives the workers the opportunity to convert annual pay increases into additional free time (Krenn, 2015). Interestingly, the pay differential in Austria is among the highest in Western Europe despite its highly-coordinated system (“Austria: Trade Unions”, 2015; Pollan, 2009). It was previously stated in the ILO chapter that high level of coordination and centralization in wage setting is associated with lower wage discrepancies including narrower gender wage gap. This is in line with GINI coefficient rate of the target countries; Iceland (0.244), Austria (0.28), Sweden (0.281), the Netherlands (0.283), Germany (0.292) and Australia (0.337) (OECD, 2016). However, despite this fact Austria has the highest gender wage gap in Europe as well as out of the target benchmarks as can be seen in figure 3.

![Gender Wage Gap](image)

**Figure 3. Gender wage gap (2000-2014)**

*Source: OECD (2017a)*

The main reason for this is perceived to be the centralized nature of the trade unions and because they have not opted for an egalitarian pay structure policy. The overall pay policy coordination is therefore restricted to average rate of increase with macro-economic goals being prioritized above equality goals (Adam, 2009; “Austria: Trade Unions”, 2015).
4.1.5 Germany

Germany represents the largest economy in Europe with a population of 80 million which translates into a large-scale labour market with a labour force participation rate of 77.6% (CIA, n.d.-c). Collective bargaining in Germany takes place at industry level between individual trade unions and employer’s associations. Industry agreements are usually negotiated on regional level and are therefore territorially limited. Company level agreements are becoming more frequent over the years, where a trade union negotiates with a single employer. However, only one fifth of German workers are union members and with the current decentralization trend that is taking place their institutional power is weakening (Bispinck, Dribbusch, & Schulten, 2010; Marquardt, 2006). In practice, employers that are partners to a collective agreement usually extend it to all employees, regardless of whether they are member of the trade union (Dribbusch, 2009). Additionally, employers are leaving or never join employers’ associations as the company level agreements allow for greater flexibility. This dual representation system does however allow the individual employers and employee representatives to develop a more cooperative relationship as the conflicts on wages and conditions are undertaken at industry level, between the unions and employer’s associations (“Germany: Collective bargaining”, 2015; Marquardt, 2006).

The average length of collective agreements is increasing but it has gone up from 1.1 year in 2000 to approximately 2 years in 2010. Agreements covering other issues than pay have longer duration, around 5 years or longer (“Germany: Collective bargaining”, 2015). The state does not participate or interfere in collective bargaining but the government is of course involved in setting the wages for federal employees. Nevertheless, in 2015 a new law was introduced in Germany and it included establishment of statutory minimum wages. As in many other countries, collective agreements set the minimum standard but opening- or so-called “escape” clauses have become part of collective bargaining in Germany over the years. These clauses specify when and to what extent firms are allowed to reduce working conditions below the normatively binding standards of the collective agreement (“Germany; new law”, 2015). The increase and widening of the use of escape clauses was a response to increased political pressure to shift the focus of bargaining to lower levels but the use of these clauses need to be agreed upon by both parties at industry level (OECD, 2004). Another development in German collective bargaining system in response to decentralization is that employees may choose between a pay rise, working one hour less per week or receive additional six days of holiday per year comparable to the “free-time”
option in Austria (Kraemer, Vogel & Nehm, 2017). The increase in opening clauses in sectoral agreement and the “free-time” option is one of the signs of decentralization trend which has also led to decline in bargaining coverage and undermined the system of multi-employer bargaining. The decline in bargaining coverage is greater in former east Germany where company agreements have become more common (Marquardt, 2006). The continued decline in collective bargaining coverage is thought to be the main contributor to wage inequality because since the mid-1900s, 20% of Germany’s high earners received 2.5% increase in real wages (adjusted for inflation) while the lowest 20% levels sank by 2% during the same period. It is estimated that the share of collective bargaining agreements has declined to around 43% (Kraemer, 2015a; Kraemer, 2015b).

The German wage setting system is coordinated and comparable to Austria and Sweden, pattern bargaining is prevalent where the collective bargaining is led informally by the metal industry (IG Metall) (Visser, 2013). For the past recent years, Germany has been experiencing economic growth and last year collective agreed wages increased by 2.4% on average (Kraemer, Vogel & Nehm, 2017). The trade unions forecast a continued moderate market growth despite uncertain economic and trade policy associated with the outcome of recent US elections and the Brexit vote (Kraemer, Vogel & Nehm, 2017).

The primary means to resolve labour conflicts in Germany is through labour courts, both in individual and in collective labour disputes, as there is no formally established dispute resolution system. Both the trade unions and employers’ associations share doubts about introducing institutionalized labour dispute mechanisms into German labour law. Also, the government does promote out-of-court mediation but nothing is stated in the law to that effect. The labour court system is three-layered with the Federal Labour Court (Bundesarbeitsgericht) being the highest authority and having the final say in labour related lawsuits. In practice, it is very uncommon that disputes go through mediation before being heard by a labour court but if that is the case the work councils play a central role. However, as there are no formally established alternative dispute resolution measures no data exists on how many cases are solved directly by work councils or out of court (Dribbusch, 2010).
4.1.6 Netherlands
Free collective bargaining has remained predominant for the past decades in the Netherlands. This entails the formal discussion between employees and employers without any government involvement or legal restrictions (Boonstra, 1996; Cambridge Dictionary, n.d.). The main characteristics of the collective agreements in the Netherlands is that they contain a minimum standard while allowing a freedom for the individual employee (Seweryński, 2003, p. 183). The collective bargaining takes place mainly on the industry level and in some cases industry agreements serve as framework agreements where a certain margin is left to be filled by collective bargaining at company level. Industry agreements typically entail employment conditions of an industry and is usually negotiated by organisations of employers (Peijpe, 2006). Multiemployer bargaining is dominant in the Netherlands but the main Dutch multinational companies (MNCs) such as Unilever, DSM, Shell, Philips etc., tend to negotiate company-specific agreements for their Dutch subsidiaries ("Netherlands: collective bargaining", 2015; van het Kaar, 2009a). These MNCs are big employers and thus play a big role in the Dutch economy and from the mid-1990s some of them (especially Philips) have had an impact on the Dutch wage setting system by introducing variable pay systems (van het Kaar, 2009b).

The duration of the collective agreements is usually one year but agreements negotiated at sectoral level have a maximum binding period of two years ("Netherlands: collective bargaining", 2015; van het Kaar, 2015). However, the recent trend is that negotiations have become more difficult and therefore prolonged leading to elongated bargaining rounds. Occasionally, this results in long gaps between expiry of the former agreements and the starting date of a new agreement. These trends have not altered the overall bargaining coverage (van het Kaar, 2015). The collective bargaining coverage is 81% but the union membership rate is only 17.8% (Visser, Hayter & Gammarano, 2015). The increasing gap between union density and collective bargaining coverage has raised some concerns within the Dutch collective bargaining system and with ageing union membership the negotiation power continues to decline. There is no independent state body or official mechanism to deal with labour disputes. Occasionally, the government appoints mediators to conflicts but this is usually the responsibility of the disputing parties themselves. Many collective agreements include clauses on how to resolve conflicts arising on the existing agreement (van het Kaar, 2015; van Hoek; 2002).

The government does not directly participate in the collective bargaining system except in regard to setting the national minimum wage which is normally increased twice a year as long it is not expected to be damaging to employment. However, historically the
government has sometimes pressured the social partners and intervened in the wage setting with measures such as wage freeze, the most recent example being in 2004 and 2005 (van het Kaar, 2009a). One of the key objectives of the Dutch collective bargaining system, is to ensure moderate wage increases in line with economic prospects. The government and the central institutions of employers and employees negotiate annually the outline of next rounds of collective bargaining including the optimal development of wages and related topics. This is not a binding collective agreement but serves as a framework to the unions and employers’ in different branches of industry to negotiate within (van het Kaar, 2017). Due to this setup, different arrangements of government intervention and forms of sectoral bargaining, the Netherlands scored quite high on coordination based on data from OECD (2004). However, employers have demanded less coordination to be able to take into account differences across sectors and companies allowing for more flexibility in the negotiations. As the framework and recommendations made in the tripartite dialogue are not binding it can also be argued that the coordination is relatively weak in the Netherlands (van het Kaar, 2015).

There is no leading sector that sets the pace for other industries (no pattern bargaining) but some agreements are considered to be more important than others such as the metal sector (van het Kaar, 2015). Additionally, there is no legal obligation for Dutch employers to negotiate with trade unions; thus collective agreements depend on both parties’ willingness to negotiate. Also, employers can exclude the big national unions and choose to negotiate with the so-called “yellow unions”. This form of unions has caused some tension and raised discussions regarding stricter requirements for the representability of the bargaining partners. Because by negotiating with the “yellow unions” employers can conclude cheap collective agreements for temporary workers from other EU member states, mainly Poland. However, if employers decide to negotiate with a certain union, they are obliged to offer the same terms to non-union members or might have to admit other representative unions to the negotiating table as well, so in practice all Dutch employees are covered (Peijpe, 2006). In line with better economic conditions, a recovering housing market and falling unemployment levels last year's’ wage increases amounted to 1.9% and a significant increase in the public sector of 3.4% after several years of wage freezes (van het Kaar, 2017).
4.1.7 Sweden
Sweden has the largest labour market of the Nordic countries but at the same time the lowest number of working days lost per year due to strike activity. The level of coverage of collective agreements is high, estimated at 88% with 83% of employees covered in the private sector and 100% in the public sector (“Sweden: collective bargaining”, 2013). Overall there are over a hundred of contracting parties in the Swedish labour market, reaching 680 collective agreements (Swedish National Mediation Office, 2016b). The main characteristics of the Swedish collective bargaining model is its strong independent social partners, high rate of union membership and extensive labour market regulation through collective agreements. Another distinctive feature is that agreements bind both parties, the peace obligation applies to the organisations and the employees who are members of the trade unions concluding the agreement (Stefansdottir, 2015; Söderberg, 2015).

The responsibility for wage formation lies solely with the social partners, without state interference. Consequently, there is no statutory minimum wage as that would entail a clear state interference in wage formation (Swedish National Mediation Office, 2012a; Swedish National Mediation Office, 2012b). The social partners conduct a close collaboration on statistical information so all negotiating parties base their approach on the same data. In preparation, all parties discuss and analyse the results of previous collective agreements and during the bargaining process the situation is assessed and workgroups go through individual factors and statistics constituting the grounds for assessing the scope of wage increases. Agreed time schedules prevails, for example, demands must have been submitted before a certain time limit after which new demands cannot be made (Söderberg, 2015). Additionally, number of unions and employers’ associations have agreed to cooperating bargaining procedures which include timetables for negotiations, arrangements for ending negotiations as well as clear set of rules for the appointment of mediators (“Sweden: collective bargaining”, 2013).

The National Mediation Office of Sweden (Medlingsinstitutet) has eight members of staff and began its operations in 2000. It replaced the National Conciliation Office, the previous government body which also appointed mediators. The role of the Swedish National Mediation Office is to act as a mediator in labour disputes and facilitate new collective agreements to be reached before previous agreements expire and thus maintain industrial peace within the scope that the industry sets (Icelandic confederations of employers and trade unions, 2013). Submitting disputes to the state mediator is a prerequisite for a lawful strike and the state mediator has the authority to suspend a strike
or a lockout for up to 5 weeks in order to pressure the disputing parties to reach an agreement (Icelandic confederations of employers and trade unions, 2013; Stokke & Seip, 2008). Part of its responsibilities is to promote an efficient wage formation process and it does that by publishing an annual report on economic conditions which is used as a supportive material by the social partners in the wage negotiation process (Icelandic confederations of employers and trade unions, 2013). The wage statistics related to collective bargaining are published by the state mediator according to law, but the Industry Council, the National Institute of Economic Research and the federations of trade unions and employers also publish various statistical material relevant for the bargaining process (Icelandic confederations of employers and trade unions, 2013; Stokke & Seip, 2008).

The share of individual and differentiated wage determination is increasing in Sweden as the collective bargaining system is moving towards more decentralization. The content of work and performance are the principal factors that are evaluated when determining individual wages (Stokke & Seip, 2008; Söderberg, 2015). The decentralization of the collective bargaining model has enhanced the stability in wage formation, inflation and exchange rates so far. The labour market has been relatively peaceful in recent years as strikes are rare except for occasional strikes by municipal employees (Swedish National Mediation Office, 2012b; Söderberg, 2015). The year 2015, was the most peaceful year in the Swedish labour market since National Mediation Office was established in 2000. Only 40 agreements on wages and working conditions were signed in 2015 and all together only 234 working days were lost due to strikes or lockouts. However, no working days were lost in the two central negotiations to which mediators were appointed (Swedish National Mediation Office, 2015). The collaboration agreements between the social partners also contributes to the efficiency in the bargaining process. The collaboration agreement state the forms of bargaining and include factors such as a timetable for the bargaining process which both parties agree to adhere to during the negotiations. An economic advisory council is also attached to the disputing parties in the collaboration agreements and its responsibilities include statements and recommendations on economic issues. Today, collaboration agreements cover the majority of Swedish labour negotiations (Eriksson, n.d.).

The average duration of collective agreements is usually three years and most agreements start at the same time producing clear negotiation cycles. However, in 2010 and 2012 the agreements ran for shorter period partly due to uncertain economic situation
but in 2013 they ran again for three years and in 2016 approximately 500 collective agreements were made for one year thus the 2017 round is expected to be equally extensive (“Sweden: collective bargaining”, 2013; Swedish National Mediation Office, 2016a). Generally, the export industries negotiate their collective agreements first and thus set the framework for pay rises for other industries in the wage formation process (Icelandic confederations of employers and trade unions, 2013; Stokke & Seip, 2008). This pattern bargaining is meant to ensure that the industrial costs do not exceed those of Sweden’s competitors.

The main emphasis of the Swedish dispute management system is to settle all disputes at the bargaining table. In order to increase efficiency, negotiations are sorted in three different categories based on negotiation level and topics. Codetermination negotiations which refer to employment conditions or any substantial changes in company’s activities, where the employer is obliged to inform the union organization at the workplace. Dispute negotiations refer to a disagreement in interpretation of signed or already existing collective agreement. Lastly, agreement-linked negotiations mainly regarding pay and general employment conditions to conclude a collective agreement (Eriksson, n.d.).

Involvement of the state in the wage setting system is limited to creating the framework and pre-condition for the social partners to do their job. The National Mediation Office is an independent body financed by the state but not subjected to control by authorities and assists disputing parties by providing information and conciliation services. The belief that the social partners are best equipped to set wages and working conditions for employees is the foundation of the Swedish collective bargaining model (Swedish National Mediation Office, 2016a; Söderberg, 2015).
4.1.8 Comparative Analysis
Table 2, displayed below summarizes the characteristics and labour dispute management approaches for each country mentioned above; Iceland, Australia, Austria, Germany, Netherlands and Sweden. Also, included in the table are inputs from representatives of each collective bargaining system (not the Netherlands) based on answers given to the survey which was discussed in chapter 3. Therefore, there are new approaches or methods stated in the table that haven’t been mentioned in previous chapters. The characteristics, challenges and approaches are listed row wise whereas different countries are listed column-wise. If the challenge or approach is present/utilized in the country’s collective bargaining system it is marked with “yes” if not then “no”. However, if the information is not available or no accessible it is marked with “N/A”. The similarities and differences between the six system is then discussed in further detail in the following chapter.
## Table 2

**Comparative analysis**

<table>
<thead>
<tr>
<th>Characteristics criteria</th>
<th>Iceland</th>
<th>Australia</th>
<th>Austria</th>
<th>Germany</th>
<th>Netherlands</th>
<th>Sweden</th>
<th>OECD (average)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Population (July 2016)</strong></td>
<td>335,878</td>
<td>22,992,654</td>
<td>8,711,770</td>
<td>80,722,792</td>
<td>17,016,967</td>
<td>9,880,604</td>
<td></td>
</tr>
<tr>
<td><strong>GDP (PPP) - (average US per capita 2006-2015)</strong></td>
<td>41,575</td>
<td>42,732</td>
<td>43,659</td>
<td>42,901</td>
<td>45,871</td>
<td>42,960</td>
<td>41,040</td>
</tr>
<tr>
<td><strong>Labour Force participation</strong></td>
<td>87.9%</td>
<td>77%</td>
<td>75.5%</td>
<td>77.6%</td>
<td>79.6%</td>
<td>81.7%</td>
<td>71.3%</td>
</tr>
<tr>
<td><strong>Union Membership</strong></td>
<td>86.4%</td>
<td>15.5%</td>
<td>28%</td>
<td>18.1%</td>
<td>17.8%</td>
<td>67.3%</td>
<td>16.7%</td>
</tr>
<tr>
<td><strong>Collective Bargaining Coverage</strong></td>
<td>89%</td>
<td>60%</td>
<td>98%</td>
<td>57.6%</td>
<td>81%*</td>
<td>89%</td>
<td>50.4%</td>
</tr>
<tr>
<td><strong>Main collective bargaining level</strong></td>
<td>Industry</td>
<td>Company</td>
<td>Industry</td>
<td>Industry</td>
<td>Industry</td>
<td>Industry</td>
<td></td>
</tr>
<tr>
<td><strong>Number of collective agreements (year average)</strong></td>
<td>≈100-200</td>
<td>5,562</td>
<td>450</td>
<td>No data</td>
<td>701</td>
<td>50-500</td>
<td></td>
</tr>
<tr>
<td><strong>Level of Coordination</strong></td>
<td>High (5)</td>
<td>Low (2)</td>
<td>High (4)</td>
<td>High (4)</td>
<td>High (4)</td>
<td>High (4)</td>
<td></td>
</tr>
<tr>
<td><strong>Level of Centralization</strong></td>
<td>Medium (0.515)</td>
<td>Medium (0.517)</td>
<td>High (0.875)</td>
<td>Medium (0.470)</td>
<td>Medium (0.566)</td>
<td>Medium (0.501)</td>
<td></td>
</tr>
<tr>
<td><strong>National minimum wages</strong></td>
<td>Yes¹</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td><strong>Average length of Agreements (Years)</strong></td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

¹ Not established directly by law but is established in practice
## Change Management and Benchmarking Analysis

<table>
<thead>
<tr>
<th>Common Trends</th>
<th>Iceland</th>
<th>Australia</th>
<th>Austria</th>
<th>Germany</th>
<th>Netherlands</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of disputing topics</td>
<td>Staying about the same</td>
<td>Unclear</td>
<td>Staying about the same</td>
<td>Staying about the same</td>
<td>N/A</td>
<td>No answer</td>
</tr>
<tr>
<td>Average duration of agreements</td>
<td>Staying about the same</td>
<td>N/A</td>
<td>Staying about the same</td>
<td>Staying about the same</td>
<td>N/A</td>
<td>Differs from time to time</td>
</tr>
<tr>
<td>Decentralization trend/pressure</td>
<td>Yes &amp; No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Union rate decline</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Common Problems</th>
<th>Iceland</th>
<th>Australia</th>
<th>Austria</th>
<th>Germany</th>
<th>Netherlands</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Leapfrogging effect”</td>
<td>Yes</td>
<td>To some extent</td>
<td>Yes</td>
<td>To some extent</td>
<td>N/A</td>
<td>No</td>
</tr>
<tr>
<td>Labour disputes requiring involvement of state mediator or relevant office</td>
<td>≈35</td>
<td>All</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>20-25</td>
</tr>
<tr>
<td>Lack of Trust</td>
<td>Yes</td>
<td>No answer</td>
<td>No answer</td>
<td>No</td>
<td>N/A</td>
<td>No</td>
</tr>
<tr>
<td>Identified improvement area</td>
<td>Trust &amp; cooperation, statistical information, mediation, arbitration, legal clarifications, social dialogue structure</td>
<td>N/A</td>
<td>N/A</td>
<td>Legal clarification Social Dialogue Structure</td>
<td>N/A</td>
<td>Trust &amp; Cooperation</td>
</tr>
</tbody>
</table>
## CHANGE MANAGEMENT AND BENCHMARKING ANALYSIS

<table>
<thead>
<tr>
<th>Methods/Activities</th>
<th>Iceland</th>
<th>Australia</th>
<th>Austria</th>
<th>Germany</th>
<th>Netherlands</th>
<th>Sweden</th>
<th>ILO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mediators appointed to labour disputes</td>
<td>1</td>
<td>N/A</td>
<td>0</td>
<td>0 (N/A)</td>
<td>0 (N/A)</td>
<td>2</td>
<td>Yes</td>
</tr>
<tr>
<td>Postpone or prevent strike or lockout activities</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>N/A</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>State involvement/Office of state mediator</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Consensus-based approaches encouraged</td>
<td>N/A</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>N/A</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Clear, Measurable &amp; Attainable targets</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>N/A</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Planned vs Actual performance compared</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>N/A</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Assess the impact of the wage increases on the country’s overall economic performance</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>N/A</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Conciliation/Negotiation Time-Frame</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>N/A</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Agreement succeeds agreement</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>N/A</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Information for dispute prevention</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>N/A</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Training Services to resolve conflict within the workplace</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>N/A</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Labour Inspections/Governmental agents</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>N/A</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Iceland</td>
<td>Australia</td>
<td>Austria</td>
<td>Germany</td>
<td>Netherlands</td>
<td>Sweden</td>
<td>ILO</td>
</tr>
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<td>--------------------------------------</td>
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<td>---------</td>
<td>-------------</td>
<td>--------</td>
<td>-----------</td>
</tr>
<tr>
<td>Obligatory federation membership of employers</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Not stated</td>
</tr>
<tr>
<td>Pattern bargaining</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes (informally)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Free time option</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Not stated</td>
</tr>
<tr>
<td>Negotiation categorization</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Not stated</td>
</tr>
<tr>
<td>Collaboration Agreements</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes but not binding (recommendations)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Opening Clauses</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Extension</td>
<td>Yes</td>
<td>To certain extent</td>
<td>Yes</td>
<td>Rare</td>
<td>To certain extent</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Mutual Statistic Information</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
4.2 Step 5: Project future performance
The information in table 2 demonstrates that the benchmarking subject does share some similarities with the benchmarking targets. This benchmarking research explored total of 6 different collective bargaining and dispute management systems, where 5 out of 6 are from European countries and have more common characteristics than Australia. The European countries are characterized by high coordination with Iceland residing at the top, while the Australian system is classified as uncoordinated. Australia also has the lowest trade union membership rate but the highest number of collective agreements concluded per year by far. Both Iceland and Sweden have significantly higher union membership rates compared to the other countries but Austria scores the highest on collective bargaining coverage and is the most centralized system in this benchmarking research.

In terms of centralization the degree from highest to lowest goes as follows; Austria, Iceland, the Netherlands, Sweden, Australia and Germany. Sweden draws a clear line for government interference in the collective bargaining process and is the only country that does not have any form of national minimum wages. The average duration of collective agreements ranges from 1-4 years, where 3 years being the average in Iceland and Sweden, 2 years in Germany and the Netherlands, 4 years in Australia and collective bargaining in Austria is carried out on a yearly basis.

There was no noticeable trend regarding the number of disputing topics at the negotiation table or the time taken to reach an agreement but all countries except Iceland are experiencing decline in trade union membership. The Netherlands, Austria and Germany are facing decentralization pressure including Iceland to some extent. It is no surprise that this isn’t the case for Australia at the moment as they have a rather decentralized system but it is interesting that Sweden is not experiencing this pressure.

The leapfrogging effect was mentioned as one of disadvantages of the current Icelandic collective bargaining process and according to this research this problem is prevalent in other collective bargaining systems as well. Sweden was the only country that stated that this was not an existing problem in their collective bargaining process. Iceland, Sweden and Australia are the only countries that have a government funded mediator office. In Australia, all collective agreements require the approval from the state mediator and thus all labour disputes require the involvement of the state whether its mediation or labour court. In Sweden and Iceland, the number of disputes requiring involvement from the state mediator are approximately 35 and 20-25 per
year, respectively. The lack of trust between the social partners and/or towards the government has been identified as the main inhibitor of cooperation in the collective bargaining system in Iceland and to the introduction of change initiatives to the current bargaining structure. An attempt was made to explore whether this was prevalent in other systems as well but it appears not to be the case for Germany and Sweden. Austria and Australia were not willing to provide this information.

Although, all systems are unique, many experience the same challenges and no system is beyond improvement. Interestingly, Sweden stated that trust was prevalent between social partners and/or towards the government but identified trust and cooperation as the main improvement area in the collective bargaining process. Germany identified legal clarifications and social dialogue structure as areas that needed improvement. Lastly, Iceland identified trust and cooperation, statistical information, mediation, arbitration, legal clarifications and social dialogue structure. Australia and Austria did not share the information or the participants did not have the information to be able to answer the question.

All European target benchmark countries: Austria, Germany, the Netherlands and Sweden, utilize pattern bargaining to frame the wage increases and the negotiation pace. Where the metal industry is usually the first to conclude its collective agreements thus setting the pace for the remaining industries, formally or informally. Austria and Germany have introduced an innovative response to decentralization pressure with the “free time option” which allows the employees the flexibility to choose between a pay-rise or additional free time thus receiving greater authority over one’s own work-life balance. Also unique, is the negotiation categorization carried out in Sweden based on the disputing topics. This way there is an established process in place when a dispute arises; this approach standardizes the process and can increase the time efficiency of resolving labour conflicts. Sweden and Australia also have pre-collective agreements or so-called collaboration agreements where the social partners establish “the rules of the game”. This agreement can include for example a timetable for the negotiations, responsibilities of each party, economic information, ethical conducts, content of the collective agreement etc. An example of what should be included in such agreement can be seen in the ILO Labour Dispute Manual (ILO, 2013a).

The collective bargaining system is a set of rules and measures to ensure efficient wage formation. In Sweden both the social partners and the state mediator publish statistical material regarding wages and other economic conditions to be used as support material during the
negotiations. This way the estimations of economic conditions and other relevant information is transparent to both parties. The state mediator in both Sweden and Australia have the authority to postpone and prevent strikes and lockout activities. This allows the disputing parties to “cool off” when they have reached an impasse in their negotiations.

Consensus based approaches are identified as the foundation of an effective labour dispute system by ILO. This includes a range of measures and services that encourages both employers and employees to reach an agreement or to resolve their conflict without the intervention of a third party. Perhaps this should be the responsibility of the employers and the employees themselves and not the office of the state mediator. However, Sweden, Austria and Australia have such processes in place. It varies between countries which office or who holds the responsibility of labour market inspection or observation. In Iceland, this is the responsibility of the state mediator. However, it also varies what can be classified as labour market inspection. This could entail visiting companies and making sure they are complying with safety laws; In Iceland that responsibility falls within another governmental agency. Labour inspection can also include a timely action by a third party to prevent a labour dispute escalating to a full-scale dispute with threats of industrial actions etc. The labour inspection can play an important role in preventive measure and a pro-active labour dispute management system.

Hitherto only approaches used in the target benchmark countries but not in the Icelandic collective bargaining process have been discussed. Few approaches were identified that were not used in any of the researched systems but are stated in the ILO labour dispute management guide (2013a). These are mainly performance management measures such as setting targets and measuring the performance of the collective bargaining process. There is no country in the research measuring the operational performance of their collective bargaining process or system.
5 **Phase 3: Integration**

The aim of chapter 5 is to discuss the information discovered in chapter 4. Firstly, the position of the collective bargaining system in Iceland compared to the benchmarking targets will be discussed. Secondly, what best practices Iceland could integrate to enhance the efficiency of the collective bargaining system. Lastly, it will be explained how this relates to the process of change management.

5.1 **Step 6 Communicate findings**

As previously stated in the research, the social partners and other stakeholders have agreed that the status quo of the collective bargaining system in Iceland is not acceptable. This does not necessarily mean that the system is operating at an unacceptable level but more so that performance gaps have been recognised. Based on the comparative analysis in the previous chapter, other collective bargaining systems are facing similar challenges despite different characteristics.

According to ILO, a well-functioning labour dispute system is governed by a legal framework that encourages collective bargaining and highly discourages industrial actions and that the government involvement should be highly restricted to situations when public interests are at risk (Thompson, 2010). According to this definition and the results from the benchmarking analysis, Iceland does have an established labour dispute and collective bargaining system that is
operating to a similar standard of other Western societies, regardless of a small sized labour market. However, there were several approaches used by the target benchmark countries to resolve disputes that Iceland could integrate in an effort to improve the effectiveness of the collective bargaining and/or labour dispute management process.

The main conclusion of this benchmarking analysis, considering the recommendations provided by the International Labour organization, is that all systems including Iceland are underperforming when it comes to dispute prevention and performance management. According to the literature, this is an important concept to manage when the system is facing decentralization pressure, which seems to be prevalent in several wage-setting systems based on the results of this benchmarking research (Myers, Hulks & Wiggins, 2012). Decentralization of activities increases the need for effective coordination and communication between different structures. Institutional agreements became a part of the Icelandic collective bargaining process in 1997 and shifted the level of communication more towards individual institutions. This is an indication of decentralization. Further decentralization trend could weaken the collective bargaining process and increases the need for labour dispute prevention to service the rise in number of individual rights disputes. The pressure for decentralization is often placed by the employers who request greater flexibility and authority to set wages but this raises the concern of inequality in the labour market. If only few groups benefit from the decentralization trend it can eventually trigger recentralization.

The most noticeable shortcoming of the dispute management system in Iceland compared to the other systems, is shortage of contemporary data. There is a well-known phrase: “You can’t manage what you don’t measure” which emphasizes the importance of documentation. To be able to improve performance, clear, measurable and attainable targets must be set but to be able to do that, the current situation and performance must be documented. First then can the performance of the process be monitored and hence improved. The actual performance of the labour dispute system should be monitored on a continuous basis and compared to the set targets. An example of a performance measure are conciliation success rates.

The primary objective of a labour dispute system should be first and foremost: prevention. Preventive measures and conflict management are carried out through information sharing, consultation and dialogues. A tripartite social dialogue between representatives of the employers, employees and the government should form a key part of the collective bargaining system. A more
structured dialogue system could therefore enhance the prevention mechanism of the collective bargaining system in Iceland. Another example of a preventive approach that Iceland can adopt, is mutual fact-finding where a third party identifies and examines information and presents it to the disputing parties with the purpose of eliminating data conflict.

Other countries with an established state mediator office provide it with the authority to prevent or at least postpone strike and/or lockout activities for a certain time period. The purpose is to avoid costly strikes and as previously mentioned the direct economic cost for the last strike action in Iceland was ISK 3.5 billion. The incumbency of the state mediator in Iceland does not have such authority and compared to other state mediator offices in this research it seems to have more of a decorated purpose than functional.

In summary, the collective bargaining system in Iceland needs to improve in the following areas; preventive measures, documenting real-time data, information sharing and dialogue structure between the social parties and the government. There are several approaches that can be adopted for this purpose such as mutual fact-finding, performance measures such as conciliation success rates and other previously discussed approaches in the target benchmarking countries chapters. It is for the incumbency of the state mediator to decide what approaches could prove to be viable and effective to manage disputes in the Icelandic labour market. Table 2 in chapter 4 should be viewed as a buffet of ideas to improve dispute prevention and performance management of the collective bargaining process in Iceland.

When implementing new approaches or any change initiatives to the collective bargaining process, it is inevitable for the state mediator to consider the change management process. To establish a new process, new thinking or new bargaining pattern, the existing system needs to be disturbed. Therefore, the change process and the implementation of change initiatives needs to be managed in an effective manner. No matter what actions are taken, they require careful planning, implementation and more importantly follow-up. Prerequisite the performance shortcomings need to be addressed and examined in detail before action in planned (ILO, 2013a).

It is possible to revitalize the system by making internal adjustments without having to go through major re-structuring or reorganization. As previously stated in the theoretical framework, the most common form of change within public and government organizations are small incremental changes which can be due to the many different stakeholders and political surroundings. When a system is operating reasonably well but the performance assessments
indicates gaps in certain areas, improving existing processes rather than introducing new arrangements might be sufficient to revitalize the system.

Reviewing the different change management frameworks, there was a notable consensus that creating enough sense of urgency or to get people to agree on the need for change was one of the most important success factors for initiating change. For a successful change process, it is crucial to establish a clear understanding of the organization’s status quo and where it needs to be and then a clear action plan on how to bridge gap between the two situations. A change management process will only succeed if the current paradigms are challenged and changed. Therefore, a strong leadership can be an important differentiator of successful change programs.

In terms of the collective bargaining system in Iceland, there seems to be an understanding of the need for a change and a guiding coalition was formed temporarily (SALEK) to lead the implementation of a new bargaining model. However, it does not look as if the sense of urgency is high enough amongst the social partners to support the implementation. Or it is not high enough to overshadow the lack of trust between the social partners and towards the government. Smaller incremental changes such as introducing the free-time option or categorizing labour disputes might be successfully implanted without the dire sense of urgency. However, bigger change initiatives such as introducing pattern bargaining or providing the state mediator with the authority to prevent industrial actions requires both political and other stakeholders’ support. The process of change involves vulnerability so mutual trust is a vital factor in successful change management (Myers, Hulks & Wiggins, 2012).
5.2 Step 7: Establish functional goals
This thesis provided a wide range of options to be considered for the revitalization of the collective bargaining process in Iceland. The results of this benchmarking analysis are intended to benefit the state mediator in the process of identifying ways to improve the performance of the collective bargaining process in Iceland. Hitherto, their focus has only been on the Nordic countries so this thesis broadened the scope of what can be identified as best practices in this area.

The main strengths of this study are that it was conducted from an independent viewpoint and it is the first benchmarking study conducted of the collective bargaining system in Iceland. This thesis can thus be used as a foundation for further or more detailed benchmarking analysis in the future. As mentioned before, this research is a case study analysis so statistical reliability is lacking and no generalizations can be made based on its results. Therefore, this thesis did not support or reject any hypotheses related to the subject but by reviewing the common characteristics and challenges of the bargaining systems, the following hypotheses were generated and can be subjects for future research:

H1: Mutual fact and statistical finder will reduce conflicts at the negotiation table.
H2: Established tripartite social dialogue structure between representatives of employers, employees and the government on a regular basis will enhance trust between these parties.
H3: A coordinated and centralized wage-setting system does not reduce the gender wage gap.
H4: Increased authority of the state mediator will lead to decline in industrial actions and increased conciliation success rates.

These hypotheses are based on the identified best practices from this benchmarking analysis but require further research to be proven or rejected.
The fourth and the last phase in the Xerox benchmarking model refers to the “action” phase of the change management process. In this phase action plans are developed based on the analysis and objectives determined in the previous steps and finally the performance is monitored. This is beyond the scope of this thesis but could also be an interesting subject for future research.
REFERENCES


