

GESAMT**M**ETALL

Die Arbeitgeberverbände der Metall- und Elektro-Industrie
The employers' associations of the
metalworking and electrical industries

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ERA: The Reform of Collective Wage Agreements

in the Metalworking
and Electrical Industry

GESAMT**M**ETALL

Die Arbeitgeberverbände der Metall- und Elektro-Industrie

I. In the Federal Republic of Germany employers and employees determine the pay and working conditions to be offered by individual companies in a process of free negotiation, i.e. without regulatory intervention on the part of the state, formally known as *Tarifautonomie* or free collective bargaining. The German federal constitution guarantees each side the right to form coalitions (employers' associations on the one side and trade unions on the other). In addition, where conflicts arise the constitution guarantees these coalitions the right to initiate industrial action (e.g. strikes and lockouts) against the other side.

II. In the 2002 round of collective bargaining in the German metalworking and electrical industry both sides agreed to introduce a uniform pay structure for both white collar and blue collar workers. Previously, the 'salaries' of the one group and the 'wages' of the other had been treated separately. These new collective contracts with uniform pay structures are usually referred to as *Entgelt-Rahmen-Abkommen* (Single Status Pay Agreements, or ERAs for short). The majority of the 21 regions into which the German metalworking and electrical industry is divided for collective bargaining purposes already have such agreements and they are expected to be in effect throughout the industry by the end of 2010.

This is the culmination of a negotiating process on uniform working conditions for all employees which began at the end of the sixties with a number of important fringe benefits, such as holidays, savings bonuses and certain special payments, covered by collective bargaining.

However, the ERA pay structures are not only new in being valid for all employees. They also represent a modernisation of collective pay. Companies had become increasingly aware that collective pay structures would have to be adapted to the changing demands on industrial labour. Within the last few decades job descriptions, and

with them the nature and the quality of the work expected from the workforce, have changed beyond recognition. Flexible deployment, work in groups, co-operation between blue and white collar workers, an expansion in the role of service activities and, last but not least, the need for performance-related pay structures closely tailored to the needs of individual companies made a modernisation of collective pay structures essential.

Lastly, the introduction of ERAs has made it possible to reduce the number of regional collective agreements to 11. (How the 11 ERA agreements apply to the 21 geographical regions into which the metalworking and electrical industry is divided is explained in Fig. 1)

Regions of the Metalworking and Electrical Industry in Germany	Regional Employers' Association or Group of Associations
North Wurttemberg/North Baden South Wurttemberg-Hohenzollern South Baden	SÜDWESTMETALL
North Rhine-Westphalia	METALL NRW
Hamburg Schleswig-Holstein Mecklenburg-West Pomerania Lower Weser Northwest Lower Saxony	NORDMETALL METALL UNTERWESER NORD-WEST-METALL
Hesse Rhineland-Rhine Hesse Palatinate Saarland	HESSEN METALL Rheinland-Rheinhessen PFALZMETALL ME Saar
Lower Saxony	NIEDERSACHSEN METALL
Bavaria	Bayern (VBM)
Saxony	Sachsen (VSME)
Saxony-Anhalt	Sachsen-Anhalt (VME)
Thuringia	Thüringen (VMET)
Berlin and Brandenburg I and II	Berlin und Brandenburg (vme)
Osnabruck-Emsland	Osnabrück-Emsland

Fig. 1
Regions of the German metalworking and electrical industry with a single ERA collective contract



The core content of the collective pay system continues to be the division of pay into two components: every employee (and with ERA that now means white and blue collar workers without distinction) receives payment for

- fulfilling the requirements of the job description entrusted to him (= basic pay), on the one hand, and
- a contribution over and above a certain standard to meeting the company's targets (= performance related pay) on the other.

The methodology for assessing **basic pay** has likewise been retained. It is based on a description of a number of different levels of requirement using a variety of criteria, but especially 'expertise and experience'. The individual criteria are defined more or less comprehensively according to the specific nature of the process and subdivided into several levels. The criterion 'expertise and experience' is defined in terms of the channels used, and the time taken, to convey different levels of expertise (e.g. three-month introductory training on the job, 3 ½-year vocational training, university degree course).

For **performance-related pay** there are now alternatives available equally to all employees.

In ERA agreements, compensation for stress factors (e.g. noise) and dangers and difficulties (e.g. working on ladders at certain heights) is no longer integrated into the job-related basic pay but is catered for where necessary by means of special supplements.

The following delineates the basic characteristics of the regional pay structures in the eleven regions of the metalworking and electrical industry.

1. Requirement-related basic pay

- Assessment for the purposes of requirement-related basic pay is based on the job description.
- The number of pay categories in the individual regions varies between 11 and 17.
- In two regions (Baden-Württemberg and North Rhine-Westphalia) each requirement of a job is assessed separately with distinct criteria and the result documented in detail as well as within an overall result (on a point system). In the other regions job assessment is carried out according to a procedure which only gives total values using correspondingly defined pay category schedules.
- The following criteria (combination) are examples of those used to assess the tasks and responsibilities of a job:
 - Knowledge, ability, expertise, experience
 - Degree of discretion for taking action and decision-making
 - Independence, responsibility
 - Collaboration, co-operation, communication
 - Flexibility
 - Leadership, management of subordinates.
- At present seven of the eleven regions are planning to provide examples of grouped job requirements.

Sample structure of a pay category schedule:

- a) Establishment of eleven requirement levels using eleven summary descriptions of pay categories and thus dividing basic pay into eleven pay levels (cf. Fig. 2 on Page 6).
- b) Definition of the individual pay categories by means of a description of the level of task complexity and the assessment criterion expertise and skills.

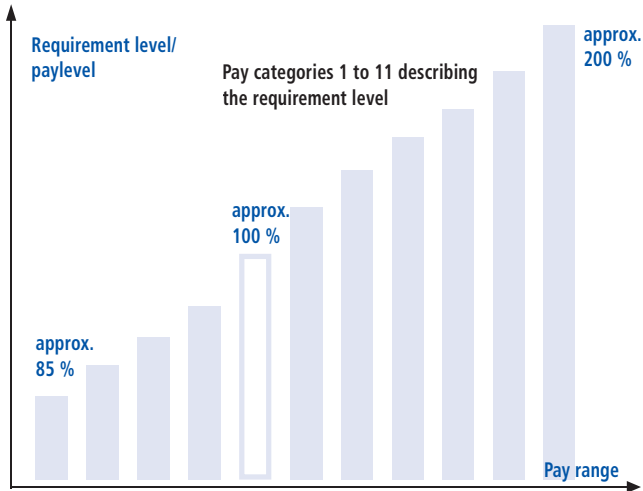


Fig. 2 Diagram showing the structure of an ERA pay group schedule

Example of a description of pay category 2

Activities with clearly specified processes and procedures.

Performing these activities requires:

- familiarity with the work processes or
- familiarity with the materials or
- manual skills

which can be acquired in the course of a specially designed introductory training course and practice of up to four weeks.

Example of a description of pay category 5

Administrative tasks and/or skilled work for which the procedures are largely prescribed.

This work requires expertise and skills which are acquired

- (as a rule) by completing a specialised vocational training course lasting at least three years

- or by completing vocational training in an unconnected field and gaining professional experience in this field over several years
- or in another way.

Example of a description of pay category 9

Complex areas of responsibility within guidelines

This work requires expertise and skills which are acquired

- (as a rule) by completing a university or university-level degree course
- or by completing a two-year technical college course together with several years of professional experience as well as an additional specialised course of further education
- or in another way.

2. Performance-related pay

The arrangements for performance-related pay offer companies a framework within which they can tailor pay structures to their own individual organisation and style of management.

To this end the ERA collective contract contains a **new** pay instrument allowing for an individual employee and his or her immediate superior to agree on performance targets to which the performance-related element of the employee's pay is then linked.

The performance-related supplements, bonuses, piece-rates and sometimes also commission already included in the general agreements on wages and salaries have been retained, albeit for the most part in a revised form. (The arrangement in the three regions in Baden-Wurttemberg is based on a modified basic concept but results in practice in similar pay structures.)

The general characteristics of these performance-related pay structures are given below. (The actual agreements vary widely from region to region):

- Performance related supplements
The level of performance is in general established by means of an **assessment procedure** agreed at the regional or plant level. The assessment criteria are, for example: diligence, commitment, efficiency, customer satisfaction, etc. Each criterion is defined and ascribed to a precisely described level. Each level is then accorded points. Finally, the amount of performance-related pay is calculated as the sum of the points which the employee has attained according to the supervisor's assessment.
- Agreement on targets
On the basis of a general formula worked out at company level **superior and employee** agree a performance target (e.g. reducing the time needed to complete a certain project), a grading of the target into different levels of fulfilment (e.g. completion time reduced by 4 weeks, 3 weeks, 2 weeks, 1 week) and the respective effect on pay (e.g. a 10 % performance-related supplement for completion four weeks early, 7 % for 3 weeks, etc.)
- Bonus
Performance criteria (e.g. inventories, customer contacts, processing times, machine utilisation rate), performance level (for example, reducing inventories by 2 % per month) and the resulting effect on pay are established by the **management and workers** for the relevant division of the company.
- Piece rate
The sole performance criterion is the **standard time** (or quantity) of the items produced by the employee. The effect on pay is linear (ranging from directly proportional to less than proportional).
- Commission
This is a form of performance-related pay especially for employees whose performance has an immediate influence on turnover or profit levels (e.g. sales).

Various combinations of pay forms are admissible in different regions.

IV. Companies incur no additional costs as a result of the change in payment structures from the present pay and salary arrangements to ERA.

The parties to the collective bargaining process recognised that in the individual regions implementation of ERA will lead to additional costs amounting to 2.79 % but agreed that these costs were to be completely off-set by compensatory amounts set aside from the negotiated rises in wages and salaries. The exact amounts, referred to officially as 'ERA structural components', were 0.9 % for 2002, 0.5 % for 2003, 0.7 % for 2004 and 0.7 % for 2005. They are transferred to ERA adjustment funds set up by every company.

For cases where individual companies incur actual costs amounting to more than 2.79 % as a result of ERA, the collective agreements include a number of compensatory instruments, of which the main ones are: direct use of the funds of the ERA adjustment fund, reduction of certain pay components in compensation, reduction in various collectively negotiated benefits (e.g. holiday pay).

By successfully negotiating the ERA pay system the employers and unions of the metalworking and electrical industry have proved their ability to tackle the most complex issues in a spirit of industrial co-operation and find positive solutions even where initial positions are diametrically opposed. This agreement on a modern structure for pay and working conditions will further strengthen the competitiveness of the industry.

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