**Exploring the interaction of firm-level change and national institutional environments in shaping employment and union relations:**

**A comparative case study of four European Airlines**

**Abstract**

Contrasting with earlier work on employee and union relations in the airline industry, we explore, in a longitudinal comparative case study, the question of how firm-level changes and national institutional environments interact in shaping employee and union relations. Our work shows that changes at the firm-level—mainly in the form of firm growth, acquisitions and the foundation of new subsidiaries—have an influence on how firm heritage is affected by institutional frameworks. These effects can be intended or unintended, and they can shape firms’ responses in employee and union relations. Our findings suggest that understanding firms’ responses in employee and union relations requires the adoption of a dynamic perspective that takes a close look at changes in the interaction between firm heritage and national institutional contexts over time. While changes in the nature of interaction are linked to changes in institutional contexts, they are, above all, related to changes in firm heritage. Hence, our work illustrates the importance of firm growth, acquisitions and the foundation of new subsidiaries in explaining the shifting interaction between the firm and its institutional environment and its implications for changing employee and union relations within firms.

**Keywords**

Employee relations, union relations, airline industry, comparative institutional analysis, firm heritage and temporality

**Introduction**

Comparative institutional analysis (CIA) has substantially contributed to our understanding of how and why employment and industrial union relations in firms vary across national contexts. However, while national institutional settings remain a crucial building block for understanding the variance in employment and union relations across different contexts, the picture has become more complex with recent advancements in CIA (Wilkinson et al., 2014; Brewster et al., 2014a).

Notwithstanding the wide variety of approaches and developments in CIA, one major development is the growing recognition of the heterogeneous responses of firms embedded in the same national context. As we will argue in more detail below, this development has primarily been driven by a growing concern over the variety and change of institutional settings below and above the national level. In contrast to this development, we have seen far fewer contributions exploring the role of firm-level variety and firm-level change to heterogeneous responses within the same institutional context. More specifically, we still know only little about how the variety and change of firm-level conditions interact with institutional conditions to shape employment and union relations within firms. We argue that despite longstanding calls for a stronger focus on the firm in CIA (e.g., Allen, 2004; Morgan, 2005; Brewster et al., 2014b), we are still missing dynamic firm-level perspectives that can advance our understanding of the variance in employment and union relations within national institutional contexts. This is not to argue that institutional embeddedness does not matter. Rather, we argue that it is the interaction of changing firm-level conditions with specific institutional settings that serves to develop a better understanding of diverse firm responses in employment and union relations.

Drawing on the example of the airline industry, this paper explores the question of how firm-level changes and national institutional environments interact in shaping employee and union relations. Adding to previous research in CIA, we illustrate that the way in which industry pressures and national-level effects play out to influence employee and union relations depends on firm-level changes, mainly in the form of firm growth, acquisitions and the foundation of new subsidiaries. We show in particular that depending on firm-level changes, the very same firm might engage differently with a given institutional context at different points in time. In doing so, our contribution is twofold.

At a general level, we contribute to a CIA understanding of the variance in employee and union relations within and across national institutional contexts (e.g., Brewster et al., 2014a/b) by adopting a more dynamic understanding of firm-institutional context relations. We respond, in particular, to calls for a greater consideration of temporality and firm-level dynamics in order to understand divergent firm-institutional context relations (e.g., Morgan, 2005; Deeg & Jackson, 2007; Lane & Wood, 2009).

At a more specific level, we contribute to the literature on changing employee and union relations in the airline industry. We build on the recent works that take a closer look at the interaction of national institutional and firm-level variety to understand diverse employment and union relations in this industry (e.g., Bamber et al., 2009a; Harvey & Turnbull, 2015). We also extend earlier works by moving beyond a static understanding of the interaction between different types of firms and different types of institutional environments. By adopting a longitudinal study, we are able to highlight the temporal and dynamic nature of the interaction between firms and their institutional environments. We illustrate that while changes in the nature of interaction are also linked to changes in institutional contexts, they are above all related to changes at the firm level. What is significant to note here is that we uncover the change-triggering role of firm growth, acquisitions and new subsidiary foundations in the specification of firm-level changes. Hence, contrasting with earlier works on employee and union relations in the airline industry (e.g., Bamber et al., 2009a), we introduce and specify the dynamic element of firm-level changes to understand the shifting influence of the national institutional context and the related firm responses in employee and union relations.

The paper is organized as follows. In the sections below, we present the theoretical background of our study, including recent advances in CIA and corresponding insights from the research on employee and union relations in the airline industry. In the subsequent sections, we outline our research method and present the findings of our four case studies. In the last two sections, we discuss the theoretical implications of our findings, followed by the conclusion highlighting the contribution as well as the limitations of our study.

**Theoretical background**

The past few decades have seen substantial empirical and theoretical developments in CIA. Among others, these developments have challenged the notion of the homogeneity of firms or firm practices that are embedded in the same national institutional context (Lane & Wood, 2009; Wood & Lane, 2012).

From an empirical perspective, challenges to the notion of homogeneity spring from both market liberalization and internationalization processes as well as observations of sectoral and regional differences within national economies (e.g., Lange, 2009). Within the context of market liberalization and internationalization, studies have explored, for instance, the related changes in national institutional settings and their diminishing relevance. A case in point is the ability of firms to avoid home institutional settings or to tap into institutional contexts outside their home context. Regarding the closer scrutiny of sectoral and regional conditions, studies have emphasized the effect of specific institutional settings below and/or above the national level. Either way, these studies contradict notions of homogeneous firm responses within a national context.

Such empirical observations were paralleled by theoretical considerations that call for a less tightly coupled and more dynamic perspective on the relationship between firms and their institutional environments (Morgan, 2005; Streeck & Thelen, 2005; Deeg & Jackson, 2007; Lane & Wood, 2009). These more dynamic and open perspectives comprise, at least, three related insights. First, the institutional landscape within national settings is more diverse and subject to change than previously thought (e.g., Streeck & Thelen, 2005). Second, the influence of national institutions on firm practices is less coherent and determining than previously thought (e.g., Crouch, 2005). Third, and relatedly, there is a growing emphasis on agency, including firms as agents who proactively and creatively engage with a given institutional setting (Morgan, 2005; Hall & Thelen, 2009).

Building on and contributing to these recent advancements in CIA, comparative employment relations have also developed a more refined picture of the variety of employee and union relations within and across national institutional contexts (e.g., Katz & Darbishire, 2000; Marginson & Sisson, 2006; Mills et al., 2008; Croucher et al., 2011; Bechter et al., 2012; Wilkinson et al., 2014; Brewster et al., 2014a). This work has emphasized the interacting influence of international or regional integration and competition, sector-specific trajectories, national institutional settings and firm-level variation in shaping employment systems (e.g., Katz & Darbishire, 2000; Marginson & Sisson, 2006). However, studies in comparative employment relations have paid little attention to how changes at the firm level interact with institutional contexts to shape firm responses in employee and union relations. While there is the recognition that, next to global, national and sectoral influences, firm-level influences also matter (e.g., Katz & Darbishire, 2000), there is limited systematic investigation of the influence of firm-level variety in general (Brewster et al., 2014a) and firm-level changes in particular. A notable exception here is the work of Enre (2008), which illustrates how the internationalization of firms through mergers led to the Europeanization of union responses. Overall, however, there is little work that specifies firm-level changes and explores in a temporal perspective how these firm-level changes interact with institutional environments to shape employment and union relations.

To address this caveat, we draw on a longitudinal comparative case study on employee and union relations in the European airline industry. This sector has a well-developed empirical and theoretical foundation, offering us an ideal opportunity to explore our research interest. Specifically, in addition to recognizing international sectoral pressures, previous research on employment and union relations in the airline industry has pointed to the relevance of both national institutional embeddedness and firm-level conditions. More importantly, recent work has highlighted the interaction of firm-level variety and national institutional variety in explaining different approaches to employment and the industrial union relations of firms in the airline industry (Bamber et al., 2009a; Harvey and Turnbull, 2015). Taking this work as our analytical starting point, we extend it by exploring how firm-level change interacts with national institutional environments to shape responses to common international pressures in the European airline industry. It is for this reason that we adopt a longitudinal study.

Drawing on both CIA and comparative employment relations, we discuss in the next section major contributions regarding the conditions that have been identified as shaping employee and union relations in the airline industry. These conditions include: i) the influence of market liberalization and internationalization in the airline sector, ii) the influence of the national institutional context, and iii) the influence of firm type.

***The influence of market liberalization and internationalization in the airline sector***

Employee and union relations in the airline industry have drawn increasing attention in recent years (e.g., Harvey & Turnbull, 2010; Gittell & Bamber, 2010; Harvey & Turnbull, 2012). At the heart of the discussion has been the question of how market deregulation and the emergence of international low-cost competition have impacted employment and union relations in the sector.

The European airline industry has been exposed to the pressure to reduce costs since the liberalization of the industry in the late 1980s. The European air transport sector was traditionally a highly regulated industry, characterized by the absence of competition between national carriers and tariffs established by bilateral agreements between states (Domanico, 2007). From 1987 onwards, the situation changed progressively and gradually with regulatory packages introduced in phases (ibid.). Following the US experience, the liberalization process of the European air transport sector provided European airline companies with the freedom to choose and determine routes, capacity and tariffs, playing an essential role in the emergence of competition and greater segmentation. Above all, it marked the dramatic growth of low-fare airlines (LFAs).

The advent of LFA competition in the European airline industry not only introduced new types of players but also new kinds of employee and union relations to the industry. While the new entrants, such as Ryanair and easyJet, were at the forefront of transforming employment and union relations practices, the legacy carriers’ practices were equally challenged. Facing low-cost competition, legacy carriers responded to competitive pressures by either shifting their business model towards a low-cost model or by operating an affiliated low-cost airline (Harvey & Turnbull, 2015). Either way, these moves put employee and union relations under pressure because labour costs, on the one hand, define a high proportion of operating costs in airlines and, on the other hand, belong to the few variable costs that are under direct managerial control (Harvey & Turnbull, 2010).

***The influence of the national institutional context***

Research on employment and union relations in the airline industry has emphasized the importance of national institutional embeddedness (e.g., Turnbull et al*.*, 2004; Bamber et al., 2009a; Barry & Nienhueser, 2010; Harvey & Turnbull, 2012; Harvey & Turnbull, 2015). The comparative institutional framework that is commonly applied in these studies rests on Hall and Soskice’s (2001) varieties of capitalism (VoC) framework. The core notion in the VoC literature is that key institutional complementarities determine the degree to which an economy is, or is not, ‘coordinated’ (Hall & Soskice, 2001). CMEs are characterized by interlocking systems of industrial relations, training and education that, in conjunction, act as barriers against competitive practices such as layoffs. Germany, recognized as an exemplar CME, has a dual system for regulating employment relations that i) provides employment representation through work councils and company boards and ii) is characterized by industry/regional level collective bargaining over wages and conditions provided by industry-based unions and employer associations (Barry & Nienhueser, 2010).

Atypically, in the German civil aviation industry, industrial relations are organized mainly on an enterprise basis (ibid.). At the same time, critical legislation with regard to employment security and codetermination, albeit with some limitations (Barry & Nienhueser, 2010), also applies to Germany’s airline sector. Turnbull et al. (2004) find that these institutional features induce strategies and behaviours that are different from those found in LMEs. There is also evidence that employee and union relations in CME-embedded airlines tend to follow more of a partnership approach, including more consulting and gradual approaches to cost cutting and restructuring (Turnbull et al*.,* 2004; Bamber et al*.,* 2009a).

By contrast, LMEs are characterized by arm’s length competitive relations, formal contracting, and supply-and-demand price signalling (Hall & Gingerich, 2004). Such economies display features that include a pronounced decentralization of bargaining, extensive individualization of employment, and competitive HRM practices that enable organizations to respond swiftly to fluctuations in performance by, for instance, layoffs or poaching of labour to build competencies (Hall & Soskice, 2001). They offer greater flexibility than CMEs for firms to select from alternative modes of employee relations. At the same time, union relations are often seen to be adversarial (Marchington, Goodman & Berridge, 2004), despite some efforts to co-manage employees with unions (e.g., Haynes & Allen, 2001). Atypically, the level of unionization in the aviation industry is relatively high in LMEs such as the UK and the US. Nevertheless, there is evidence to suggest that airlines operating in these economies are inclined to implement employee and union relations that tend to focus more on wage minimization than on productivity enhancement (Bamber et al., 2009a).

In a similar vein, Harvey and Turnbull (2012, 2015) find that LME contexts, such as the UK and Ireland, have more-‘permissive’ labour markets that allow airlines to employ staff on more-flexible contracts. In contrast, CMEs provide airlines with less flexibility in selecting from alternative modes of employee and union relations. It should be noted, however, that recent work has indicated that the national institutional context may matter in more complex ways, as firms are increasingly embedded in different national institutional contexts (Harvey & Turnbull, 2015). As we will further outline below, this may be strongly related to the type of firm. Finally, while there is strong evidence that national institutions remain the dominant institutional influences, there are indications that institutional structures, regulations and laws at the European level will increasingly interact with national institutions in shaping employment and union relations in European airlines (Harvey & Turnbull 2015; Barnard, 2008).

***The influence of the type of firm***

Much of the literature on employee and union relations in the airline industry has emphasized the importance of firm type. These contributions typically distinguish legacy from new entrant carriers (Bamber et al., 2009a/b). Legacy carriers are long-established airlines such as Lufthansa, British Airways and Quantas. Examples of new entrants are Southwest, easyJet and Ryanair. Bamber et al. (2009a/b) argue that while the former were established in regulated market environments, the latter were set up to operate in deregulated market environments that are characterized by low-cost competition.

A range of contributions have emphasized the nexus between firm type and employee relations. Harvey and Turnbull (2012) argue that the “terms and conditions (labour cost) are generally worse at LFAs than legacy airlines” (2012: 21). Harvey and Turnbull also underscore the higher flexibility of LFAs due to their “‘lighter’ and less cumbersome governance structures” (2012: 15). In a similar vein, Bamber et al. (2009a/b) discuss the constraining effect of different types of firms. Distinguishing between legacy and new entrant airlines, they argue that legacy carriers have less scope to shape their employee relations, given their ‘entrenched traditions’ (2009a) and “accumulated work rules that limit work flexibility” (2009b: 10). It could be added that legacy carriers, with their *firm heritage* of state-ownership, are also often vested with a legacy of labour contracts, collective agreements and other obligations that limit the flexibility to change employment and union relations. Overall, there is evidence to suggest that legacy carriers have a firm heritagethat provides them with less flexibility in selecting from alternative modes of employment and union relations compared to new entrants (Bamber et al., 2009a/b). This argument receives additional support from Harvey and Turnbull (2015), who illustrate that LFAs, with their multi-base strategy (i.e., multi-context embeddedness), have a greater flexibility than hub-centred legacy carriers to engage in European regime shopping and to escape more-restrictive national labour markets and industrial relations systems. LFAs have, for instance, more options than legacy carriers to transfer staff to different countries of residence contracts or to transfer the airline’s bases to more-permissive national institutional contexts (Harvey & Turnbull, 2015).

To conclude, while authors largely agree that market deregulation, privatization and increasing cost competition have had a substantial impact on the development of employee and union relations in the European airline industry, findings remain inconclusive on how determining firm-level conditions and national context conditions are in shaping these responses (Harvey, 2009; Harvey & Turnbull, 2010; Barry & Nienhueser, 2010). Rather than contesting findings that emphasize either national institutional or firm-type effects, we side with recent work that acknowledges the interaction of firm variety and national institutional context (Bamber et al., 2009a, Harvey & Turnbull, 2015). More importantly, we extend this interaction perspective by exploring its potentially dynamic nature. The value of such an approach lies in understanding how the influence and interplay of firm-level and institutional-level conditions may vary depending on the changing situation of the firm.

**Methods**

The study adopts a longitudinal comparative case study (Eisenhardt, 1989). The research setting is the passenger airline industry in Germany and the UK. The airlines were theoretically selected based on their initial embeddedness in an LME (the UK) and a CME (Germany) and on their firm heritage, that is, whether they were new entrants or legacy carriers. British Airways (BA), Lufthansa (LH), easyJet (EZY) and AirBerlin (AB) were chosen to explore contrasting results for predictable reasons (Yin, 2003). The study is longitudinal, allowing us to explore the potentially dynamic nature of firm-institutional context interaction over time.

***Data collection***

Our data collection focused on the employee and union relations of pilots. We assume that pilots’ employment relations are less susceptible to country- and firm-level effects given their highly standardized work conditions (i.e., international air safety and training regulations, similar technology and task environments) (Karsh et al., 1984). In a similar vein, their union relations are generally marked by a high degree of unionization and high structural power to wage successful industrial action in comparison to other employee groups, such as cabin crew or ground handling staff. Hence, finding country- and firm-level variance effects in this employee group (i.e., a group that is not very susceptible to contextual variation) can be expected to indicate particularly strong internal validity for our causal conclusions.

We follow earlier approaches of mixed data collection, combining primary and secondary data (for example, Bamber et al., 2009a, Harvey, 2009, Barry & Nienhueser, 2010). We collected our data from four sources: i) extensive media archives (1993[[1]](#endnote-1)-2013 articles in eight English publications and 19 German publications such as the Financial Times, the Economist, Financial Times Deutschland, Taz, and Spiegel; 2005-2010 BBC news); ii) civil aviation information and corporate archives (annual reports, newsletters and company websites of the four airlines); iii) empirical evidence from previous surveys and case studies; and iv) interviews with industry experts, union representatives, managers and pilots of the airlines involved. We conducted, in total, 23 semi-structured interviews between June 2010 and May 2013, which were all taped and transcribed. We selected interviewees with different focuses. At a general level, we selected (A) experts on firm types/business models in the airline industry as well as (B) experts on employment and union relations in the airline industry of the respective countries. More specifically, we selected (C) interviewees with a deep and longstanding expertise on the four companies’ employment and union relations (see table 2). Collecting the additional interview data not only had the purpose of triangulating the secondary data but also of producing additional insights. Specifically, our interviews provided a deeper understanding of the respective firm’s employee and union relations because we accessed key informants who were directly involved in shaping them by, for instance, being directly involved in labour-management negotiations in the companies.

* **Please insert table 1 about here –**

Information was sought on i) the changes in employment and union relations in response to the increasing cost pressures since the early 1990s and ii) whether these responses were influenced by firm heritage and national institutional embeddedness. The documentary evidence was cross-checked with that in interviews to ensure reliability of the data.

***Data analysis***

We conducted a longitudinal media analysis (c.f. Hellgren et al., 2002; Meyer & Höllerer, 2010) to capture changing firm responses in employee and union relations over time. The data analysis followed Eisenhardt (1989) in initially pursuing within-case analysis followed by cross-case analysis. First, we content-analysed primary and secondary data to identify changes in the respective airlines’ employment and union relations in response to the increasing cost pressures since the early 1990s. In a second step, we engaged in a cross-case analysis and explored to what extent differences in responses could be related to firm heritage and/or national institutional context. Third, we identified patterns of similarities and differences in response to the low-cost pressure felt across the four cases. We examined the type of response in terms of the changes in employment and union relations adopted by these airlines.

To distinguishemployee relations, we followed Harvey and Turnbull (2010), who have used the ‘high road’ and ‘low road’ distinction to qualify employee relations in the airline industry, including those of pilots. Drawing on Milkman (1998), they see ‘high road’ employee relations as characterized by “high wage, high skill, high trust systems founded on high performance work systems and a ‘partnership’ with (organized) labour” and ‘low road’ as “regimented jobs, hierarchical systems of managerial control and antagonism between the parties [that] are the order of the day” (2010: 231). However, because the work organization of pilots is standardized in many ways, we focused only on those dimensions of employee relations that were likely to vary for pilots. We therefore coded the ‘high road’ and ‘low road’ distinction in terms of the three relevant dimensions of *compensation, skill development* and *employer-employee commitment*.

Union relations were coded based on Bamber et al.’s (2009) conceptualization of firms’ engagement with trade unions. These comprise: i) *avoidance* through suppression, i.e., undermining the existence of an already established union, or substitution, i.e., paying high wages and benefits and providing a work environment that reduces workers’ incentives (or perception of the need) to unionize, ii) *accommodating* through negotiating with unions at arm’s length, or iii) *partnering* through establishing a deeper relationship than what is contractually required.

We operationalized divergent firm embeddedness in terms of firm type/firm heritage and national institutional context. Drawing on the work of Bamber and others (Bamber et al. 2009a/b), we distinguished legacy carriers from new entrants. We coded *firm type*/*heritage* in terms of their accumulated work rules and entrenched traditions or cultures of union relations. For *national institutional context*, we distinguished between CME and LME contexts, drawing on the work of Hall and Soskice (2001). Our coding focuses on national legislation regulating employment and industrial relations in the airline sector as well as the differences in the structure of industrial relations within. The table below summarizes core constructs, indicators and specific operational definitions for each construct.

* **please insert table 2 about here -**

**Findings**

In the following section, we discuss the four airlines’ responses to low-cost pressure in employment and union relations and the role of (changing) firm heritage and national embeddedness in shaping these responses. The key findings are presented in overview table 3 below.

* **please insert table 3 about here -**

***Response to low-cost pressures in employment and union relations in easyJet (EZY*)**

*Compensation:* EZY is generally regarded as a respectable employer with a good reputation for pay and stable rosters. Over the past few years, pay settlements at the company have been slightly higher than the industry average (TU/UK/1). However, there has been a move by the company to restrict increases in basic pay and to raise the proportion of variable payments.

*Skills development*: EYZ recruits its pilots through three routes: new entrant pilots trained at partnering flight schools, military pilots, and commercial pilots from other airlines (EYZ, 2013). Recruitment and training standards can be considered high, as its partners are leading flight schools. Although the duration of training has been reduced over the years, EZY pilots are still considered calibre pilots (TU/UK/1). However, skill levels are perceived to be lower among the growing number of contract pilots (C/UK/2). While the company covers training costs for regular checks, upgrading and type rating, new entrant pilots pay for most of their training (TU/UK/1; pilotsjobsnetwork, 2014). Since 2013, however, EZY has increased its financial commitment to basic pilot training (BALPA, 2013).

*Employer-employee commitment*: EZY has been trying to foster employee commitment by nurturing what it calls an ‘orange culture’, i.e., being passionate about the work and eager to help and work well in teams (C/UK/5; Wordpress, 2013). However, by the early 2000s, EZY saw many pilots disillusioned. Excessive work load, pilot shortages, flight rosters and lack of respect led to a growing frustration among pilots, manifesting in high turnover and low job satisfaction rates (C/UK/5). Similar frustrations were being aired 10 years later (BALPA, 2011; TU/UK/4). Lack of respect for pilots and a reduction in their operational discretion remains a key concern (pilot 4; C/UK/2). Increasing frustration is also linked to the growing number of contract pilots (TU/UK/1; BALPA, 2013).

*Employee representation and union relations*: In 2001, EZY’s union relations shifted from an initial avoidance (substitution) approach towards an accommodation approach. More than a decade later, EZY’s pilot union relations of are oscillating between accommodation and partnership (TU/UK/1; C/UK/5; BALPA, 2011, 2013).

*Summary:* While EZY’s employee relations lean more towards the low than high road, they cannot be classified as an absolute low road approach. EZY union relations moved, over time, from avoidance to accommodation.

***The role of changing firm heritage and national embeddedness in shaping responses***

As a new entrant, EZY had no *firm heritage* of *accumulated work rules* or an *entrenched culture of union relations.* EZY’s initial firm heritage did not constrain the company’s low-cost orientation and union substitution approach. The company started as a low-cost airline with the intention to build ‘high road’ employee relations (Gittell & Bamber, 2010). A prime vehicle for this was the development of a positive firm culture (TU/UK/4). However, there is little evidence that EZY sustained this approach much beyond its first years of operation. For instance, EZY pilots could not relate to the ‘orange culture’ (TU/UK/3). Instead, the company increasingly built its low-cost orientation on low road employee relations (TU/UK/1; TU/U/4). As a result, pilots sought union representation in the early 2000s. In particular, *company growth and the acquisition* of the airline Go from British Airways in 2002 accelerated the shift from union avoidance to accommodation (Broughton, 2005).

It was a changing landscape for us, I think, at that time as we were getting bigger. The acquisition of Go accelerated that in a way, because Go was fully unionized. [...]. They had a relatively progressive approach to their trade unions. That accelerated our need to recognize the unions and find out how we were going to manage our relationships with our employees. (C/UK/5)

The acquisition-related shift in union relations was crucially supported by a *changing UK legislation* (Employment Relations Act of 1999) on union formation at the time (Harvey, 2009).

While the integration of Go had an effect on EZY’s union relations, there was no reported ‘high road’ effect on its employee relations. Instead, the acquisition of the low-cost airline GB Airways in 2008 appeared to have a ‘low road’ effect on employee relations (Harvey and Turnbull, 2012).

The difficulty EZY pilots had in addressing longstanding concerns in their employee relations is reflective of the *national institutional context* of the UK, that is, of permissive employment laws and pro-employer court rulings (TU/UK/4; TU/UK/1). Also, the ability to employ pilots on short-term/flexible contracts, which makes collective representation for this group very difficult (TU/UK/1), and a low commitment to skills development manifest themselves more easily in an LME, where there are fewer regulatory hurdles than in a CME.

However, although UK employment laws are amongst the most permissive in Europe (Harvey & Turnbull, 2012), BALPA was ultimately able to curb the use of contract pilots at EZY. This is not only related to BALPA’s strong organization and campaign but also EZY’s willingness to embark on better relations with pilots (BALPA, 2013).

***Response to low-cost pressures in employment and union relations in British Airways (BA)***

*Compensation*: BA has a longstanding reputation as a good employer, paying above-average wages in the airline industry. Over time, however, this was the case only for Heathrow-based pilots and pilots on BA’s long-haul flights. At BA’s second hub, Gatwick, employment contracts and salaries were less generous. Pilots working for the Cityflyer subsidiary, founded in 2007, received even lower salaries, and further cuts to all pilot salaries were introduced when BA launched its OpenSkies project in 2008.

*Skill development*: BA has recruited its pilots in basically two ways: the Direct Entry Pilot Scheme and the Future Pilot Programme for new recruits. The first approach focused especially on the recruitment of military pilots as well as pilots from rival airlines. These pilots were able to earn higher salaries at BA, especially when moving up to senior pilot positions (pilotjobsnetwork, 2013). Although BA’s pilot training is shorter than it was in the past, this programme does not compromise on standards (TU/UK/1). BA has stopped, however, paying for new pilot training, but it still supports new recruits in securing funding for pilot training by guaranteeing bank loans (Gubisch, 2012).

*Employer-employee commitment* can be described as shifting from high to moderate. The former high levels of commitment came under pressure when BA started to introduce various restructuring programmes from 1996 onwards to reduce labour costs. It is also important to note that employer-employee commitment differed significantly between the main UK hubs. For instance, employment conditions and pilot discretion at Gatwick, which has historically been used as the test-bed for further cost reductions, were much weaker in comparison to Heathrow.

*Employee representation and union relations:* Union relations between BALPA and BA moved over the years from the constructive to the accommodation mode. Still, BALPA did not see itself so much as a traditional union but rather as a professional service provider for pilots who – despite disputes – are willing to engage in bargaining with BA management (TU/UK/1). Over the years, BALPA adopted a concession bargaining approach and saw BA pilots’ bargaining position increasingly weakened. Key concessions were made regarding salary, holidays and pilot pensions. In 2012, for instance, the union made significant concessions again to prevent management from developing the newly acquired British Midland Airways (BMI) into an LFA (TU/UK/1; TU/UK6). The deterioration of union relations was also manifested in industrial conflict that weakened BALPA. The severe industrial conflict in 2008 over the OpenSkies project indicated that power in union relations had tilted further towards the BA management. Although 86 per cent of BA pilots voted to strike, the strike action was cancelled because of the court’s decision that BA would be able to sue BALPA for ‘unlimited damages’ (Done, 2008).

*Summary:* BA’s employee relations for pilots shifted from a rather high road mode towards a low road mode. Importantly, BA saw the establishment of segmented employee relations for different pilot categories. As BA pilots’ bargaining position weakened, the union relations shifted, over time, from a partnering approach towards an accommodation approach.

***The role of changing firm heritage and national embeddedness in shaping responses***

BA clearly had a *firm heritage* of accumulated work rules and an entrenched history of union relations. These conditions protected senior pilots, who retained high road employee relations. Apart from this group, BA management was not constrained much by *accumulated work rules.*

The *institutional context* of the UK poses substantial legal restrictions on union autonomy and unionrights to take industrial action (Warneck, 2007). These restrictions have made it relatively easy for British firms to block strikes by turning to courts (Turner & Croft, 2010). A case in point was a high court injunction BA won in 2009 against UNITE. The restrictions on industrial action in the UK have been reinforced by a ruling of the European Court of Justice (ECJ) on the Viking and Laval case in 2008. Szyszczak (2009: 167) argues that the ECJ ruling has added “a new layer of restrictions on the ability to take industrial action by imposing the application of EU free movement rules upon the action where there is a real or potential cross-border element to the industrial action” in the UK. The ruling has also been instrumental in putting BALPA under pressure to refrain from striking. Facing union bankruptcy because of massive legal costs in litigation and the threat of being sued for unlimited damages, BALPA called off its planned strike. The increasing threat of legal action, the employer-friendly court rulings and the related financial consequences in case of a strike significantly weakened the bargaining position of unions. The BALPA representative summarized this situation as follows:

They’ve taken BALPA to court on a number of occasions. I’m sure they will continue to do so. So there is this threat coming through of using the courts more to try and beat us. So we are conscious that if we ever got into a dispute with BA, it would be really unpleasant. (TU/UK/1)

Next to cost cutting programmes, BA’s new foundations and acquisitions had lasting effects on BA’s employee and union relations. BA’s acquisitions contributed to the creation of a layered salary structure for pilots. Although BA decided to end its ‘experiment’ to set up its own low-fare airline (Go), it used successive mergers and acquisitions to negotiate new concessions from BALPA. A case in point is a £10 million-saving programme that started in 2012. As part of the programme, BALPA agreed to reductions in annual leave. In return, the BA management dropped its initial plans to develop BMI into a new LFA (TU/UK/6). Similarly, the acquisition of a 91 per cent stake in the Spanish LFA Vueling in April 2013 and the new holding founded after the merger with Iberia triggered a new round of concession bargaining (TU/UK/6). BA’s accumulated work rules and entrenched union relations protected only a small group of privileged pilots and could not be mobilized to maintain high road employee relations for new pilot generations. The UK’s institutional framework together with deregulation policies after privatization and anti-union court-rulings have empowered BA’s management and put increased pressure on unions to make concessions.

***Response to low-cost pressures in employment and union relations in Air Berlin (AB)***

*Compensation:* AB pilots saw a continuous improvement in compensation packages, including the introduction of a pension scheme (C/GER/1; VC news, 2010, 2013). While AB-classic pilots saw a steady upgrade, the company increasingly outsourced its operations to a low-cost subsidiary, NIKI, and another external company, the Luftfahrtgesellschaft Walter GmbH (LWG) (Metzenbauer, 2013). In these affiliated airlines, compensation levels were not only below those of AB-classic but were also based far more on variable pay (Ruff, 2012, [pilotjobsnetwork.com](file:///G:/GUC/Research/IJHRM/pilotjobsnetwork.com), 2014).

*Skills development:* AB recruits its first officers from its own flight school and staffs its captains mainly from within the company. Over the years, AB increased its investment in basic training and type rating for pilots (AB, 2011). Half of the total cost for this training is paid by AB (C/GER/6). AB prides itself in having its own a high-quality training programme for pilots who meet the LH standards (C/GER/1; C/GER/6).

*Employer-employee commitment:* AB offers its pilots long-term contracts and avoids lay-offs during economic downturns (C/GER/1; AB press release, 2009). AB pilots are generally respected by management and face little interference with respect to operational decisions (C/GER/7). However, AB’s commitment to pilots is much lower in its affiliated companies NIKI and LWG (Ruff, 2012). The latter, in particular, is seen among pilots as a ‘cheap box’, marked by low road employee relations and no coverage under AB’s collective agreements (Gruber, 2013; Aero.at, 2013).

*Employee representation and union relations:* In the initial phase (1991-2005), AB was neither unionized nor covered by collective agreements or company-level employee representation (FT Deutschland, 2004; Schulte, 2006; Eberle, 2006; TU/GER/2). However, in 2007, AB recognized the German pilots’ union Vereinigung Cockpit (VC) and signed first collective agreements. AB also agreed to the foundation of an elected employee representation committee (C/GER/1). Although the company saw a few pilot strikes, union-relations were overall rated as ‘constructive’ (C/GER/7; TU/GER/2; C/GER/1). Contentious issues in employer-employee relations mainly involved the harmonization and upgrading of pay and working conditions for all AB pilots (VC press release, 2009, 2010, 2013; C/GER/7). What remains distinctive for AB is that the company never adopted board-level codetermination (C/GER/1), due to its registration as a PLC in the UK.

*Summary:* AB’s employee relations shifted over time towards high road employee relations. Union relations also saw a shift from avoidance to a union accommodation and recently even a partnering approach.

***The role of changing firm heritage and national embeddedness in shaping responses***

As a new entrant company, AB had neither a *firm heritage* of *accumulated work rules* nor an *entrenched culture of union relations.* It therefore faced little constraint in adopting low road employee relations and union avoidance (C/GER/1). AB’s deliberate union avoidance approach was initially sustained by a mix of union substitution and union suppression measures. Specifically, while the company succeeded in creating a positive work environment through an open door and family culture combined with regular salary increases (TU/GER/2), efforts towards employee representation and unionization were suppressed through an ‘autocratic’ leadership style (FT Deutschland, 2004; Schulte, 2006; Eberle, 2006; TU/GER/2). At the same time, German codetermination was deliberately circumvented in the first years of the firm’s establishment by adopting an organizational structure of small decentralized units and by registering the company as a British PLC in 2005 (C/GER/1).

However, as AB shifted from organic growth to growth through *acquisitions* around 2006, the *heritage of the acquired firms*, which were essentially long-established German legacy airlines, made it difficult to maintain a low road approach in employee relations (C/GER/1; TU/GER/2; ITF, 2007, August 08). The pilots of the acquired companies – Lufttransportunternehmen (LTU) pilots in particular – were not only enjoying much better working conditions and compensation packages than their AB colleagues but were also used to an *entrenched tradition of codetermination and union representation* (TU/GER/2). Backed by strong unions in the German CME context, LTU pilots rejected working conditions and pay at the level of a low-cost carrier and defended their status quo (TU/GER/2; VC press release, 2009, 2010, 2013). AB realized that it could not treat its old AB pilots differently from the new ones (C/GER/1). In addition, AB faced the challenge of integrating large acquired units. In this scenario, unionization, collective agreements and company-level codetermination came to be seen as vehicles of governance for the employee relations of a growing company (TU/GER/1, TU/GER/2; C/GER/1). While the acquisitions of legacy carriers and organizational growth rendered it difficult to run small decentralized units below the legal threshold of union representation, AB’s foreign registration in the UK enabled the pursuit of a policy of keeping out board-level codetermination. Interestingly, as company-level codetermination and unions made it increasingly difficult to respond to cost pressures through low road employee relations within AB, the company sought to reduce cost by another firm-level change, that is, shifting AB operations to its subsidiaries NIKI and LWG, which were not unionized and had poorer pay and work conditions.

***Response to low-cost pressures in employment and union relations in Lufthansa (LH)***

*Compensation:* Lufthansa (LH) pilots have continuously received salaries that are amongst the highest in the industry. While Germanwings pilots’ salaries used to be below those of LH pilots, this difference has changed since the inclusion of Germanwings pilots in the general collective agreement, Lufthansa-Konzerntarifvertrag (KTV).

*Skills development:* Pilots are recruited internally from the flight schools of LH; external recruitment is not ruled out but is very rare. LH runs a very selective recruitment process (C/GER/5). The quality of the training is considered to be higher than that of private flight schools, which are used by many competing airlines (Jaeger, 2013). The cost of training is not paid back by the pilots until after they have started working (Lufthansa Flight Training, 2013).

*Employer-employee commitment:* LH guarantees pilot graduates a job as a co-pilot. All pilots are on long-term contracts and are employed by LH. Promotions are strictly based on seniority to avoid competition among pilots (C/GER/5). The favorable financial conditions, job security and substantial discretion have a positive effect on pilots’ commitment to LH (C/GER/5).

*Employee representation and union relations:* The relations between LH management and the pilots’ union VC is described on both sides as professional, despite increasingly tough negotiations (TU/GER/2; C/GER/3). There were several industrial conflicts in which mediators were needed to eventually reach an agreement, particularly in recent years. In 2004, a controversy was sparked over LH’s plan to transfer some of its routes to its low-cost carrier Germanwings, which had been founded two years earlier. VC opposed this plan and referred to the “KTV”, a general collective agreement to which the management and unions signed up in 1992 according to which the company was not allowed to transfer flights with more than 70 passengers to partner companies. Following tough negotiations, VC finally accepted a salary freeze in return for the integration of Germanwings into the collective agreement. The last major conflict was in 2010. LH had acquired various European airlines (Austrian Airlines, Swissair, Air Dolomiti, and British Midlands) whose pilots had significantly lower salaries than those at LH. VC demanded an integration of their pilots into the KTV in the hope of raising salaries to the LH standard and threatened LH with a strike. LH asked the court to declare the strike unlawful but did not succeed. Eventually, management agreed to refrain from shifting routes to subsidiary airlines. In return, VC accepted a modification of the KTV, where it became mandatory for LH pilots to assume flights with more than 95 passengers. Although it cannot be ruled out that German courts block industrial action, this occurs only very rarely.

*Summary:* LH displays strong features of high road employee relations. The nature of union relations is less clear-cut. While important partnership elements are maintained, the increasing need for mediation points to an accomodation approach.

***The role of changing firm heritage and national embeddedness in shaping responses***

Although LH’s *firm heritage* of accumulated work rules constrained the extent to which employee and union relations could be changed, LH management was able to depart from *accumulated work rules* in its low-cost carrier Germanwings (TU/GER/2; C/GER/3). LH tried to use the acquisition of the low-cost carrier to escape from its accumulated work rules and its deeply entrenched union relations. Over time, however, the pilots’ union VC achieved the integration of Germanwing pilots into the general collective agreement (KTV). In return, LH put pressure on VC by acquiring airlines with lower cost structures and achieved a modification of the KTV to a ‘95 passengers’ work rule. However, despite the temporal escape from LH work rules in Germanwings and minor changes in LH work rules, the accumulated work rules and the constructive union relations were largely maintained because of Germany’s CME *institutional framework*. For instance, LH did not succeed in blocking the industrial action of its pilots by a court injunction. The position of LH’s union VC also remained strong because of the German codetermination legislation. The legislation stipulates that 50 per cent of the members of the supervisory board have to be employee representatives. These representatives have access not only to confidential company information but also voting rights. If public companies have more than 20,000 employees, such as Lufthansa, it is further stipulated that the supervisory board has to consist of 20 members, including 10 employee representatives. Furthermore, three out of these ten employee representatives have to be union representatives. This could lead to a situation in which members of the supervisory board who are also union representatives are instrumental in organizing a strike against LH. Attempts of investors to rule out such constellations have not been successful ([Creutzburg](http://www.faz.net/redaktion/dietrich-creutzburg-12237791.html) & [Jahn](http://www.faz.net/redaktion/joachim-jahn-11104018.html), 2013). Given the financial consequences of a strike and the difficulty in blocking industrial action through the courts, management had a strong interest in maintaining constructive relations with the unions. The national institutional framework and the continued existence of several accumulated work rules reinforced each other at LH. They constrained not only the adoption of low road employee relations in LH, but also those at the German subsidiary airline Germanwings.

**Discussion**

The goal of this paper was to explore how firm-level variety and change interact with national institutional variety to influence employment and union relations of firms in the airline industry. We captured firm-level variety and change in terms of firm type/heritage (legacy vs. new entrant) and variety in institutional environments in terms of different types of market economies (CME vs. LME). In particular, we aimed to offer a temporal and dynamic perspective on how firm-level changes interact with the institutional environment in shaping employment and union relations. In the following, we discuss this interaction in our four cases.

At EZY, we found that the new entrant firm heritage and the LME context interacted in a way that provided the company leeway to pursue lower road employee relations and union avoidance strategies. However, the nature of this interaction changed over time as EZY imported different firm heritages through acquisitions. A case in point was the acquisition of Go – a unionized subsidiary with high road employee relations – from British Airways (BA). The acquisition of Go introduced entrenched union relations to EZY, including the links to national industrial relations institutions for British pilots (i.e., BALPA). These imported union relations were supported by changing industrial relations legislation at the time. The change in firm heritage led to a changed interaction with the institutional context and constituted EZY’s shift from union avoidance to accommodation. The same effect was not observed in EZY’s employee relations, however. Although Go was known for its high road approach, EZY management held on to its low road approach in employee relations. This could be realized with little resistance because an LME context is permissive of such relations. It is significant to note that firm-level changes led only to an upgrade, where the new practices introduced through the acquisition were backed by a supporting institutional context. While this was the case for union relations through the initiative of the pilots’ union BALPA and its institutional enforcement, there was no comparable institutional support for an overall upgrade of EZY’s employee relations.

We observed a similar pattern at BA, where the national institutional prescriptions supported low-road employee relations despite a firm heritage of a legacy carrier with accumulated work rules. Despite entrenched union relations at BA, BALPA was unable to halt a continued downgrade and segmentation of employee relations. Although British pilots have similarly high levels of organization (75% are members of BALPA) as German pilots (80-90% are members of VC) (see BAPLA website; Greef & Speth, 2013), they do not necessarily have equally high levels of disruptive power. This is because the pilots’ union in Germany receives support from a more employee-friendly institutional context, as manifested in codetermination legislation and in more union friendly court rulings. In the absence of such additional support, BALPA had a weaker bargaining position and had to agree to a continued reduction of perks and salaries of BA pilots. However, when compared to EZY, BA’s firm heritage constrained its flexibility to extend low road employee relations to all its pilots, as evidenced in the segmentation of employee relations across different pilot categories within BA. The BA case also warrants the adoption of a dynamic perspective that considers the effects of firm-level change. The case shows that changes in firm heritage – through repeated reorganizations, new foundations and acquisitions – served to weaken established high road employee and union relations of pilots. In fact, new foundations and acquisitions were deliberately used to weaken high road employee relations and union power. These firm-level changes were institutionally enabled by an LME context of increasing deregulation policies, permissive employment laws and anti-union court-rulings weakening union power.

The AB case provides further evidence on how firm-level change triggers a shift in the influence of the national institutional contexts, albeit in a different direction. In the initial years of AB, we found a rather weak influence of Germany’s CME context on its employee and union relations. With a firm heritage of a few accumulated work rules, small organizational size and registration as a British PLC, AB was able to circumvent Germany’s codetermination. Avoiding major elements of Germany’s industrial relations institutions, AB followed a low road employee relations and union avoidance approach. This situation, however, has been gradually replaced by high road employee relations and union accommodation. As AB started to grow through acquisitions, it acquired, among others, a long-established German legacy carrier with highly accumulated work rules. Not only did this lead to the import of high road employee relations and union relations of accommodation, it also introduced the influence of an institutional context in support of such relations. The combined effect of firm-level changes, including firm growth, legacy carrier acquisition and the related entry of CME industrial relations institutions, hampered AB’s ability to maintain low road employee relations and union avoidance. Both EZY and AB demonstrate that changing responses in employee and union relations are connected to firm-level changes and related shifts in the influence of institutional contexts. How these changes play out depends on the kind of firm heritage imported (legacy versus new entrant) and the nature of the national institutional context in which the organization is embedded. Compared to EZY, AB faced stronger pressure from the tightly integrated industrial relations system of Germany as it grew more embedded in its home context through acquisitions that carried the prescriptions of the home institutional setting.

The mutual enforcement of a strong firm heritage of accumulated work rules and a CME context was particularly evident in the case of LH. Compared to the other airlines, LH saw a continuous trajectory of high road employee and union relations. While LH also engaged in some firm-level changes in the form of acquisitions and the foundation of new subsidiaries, these had little lasting impact. A case in point was LH’s effort to escape its core brand’s accumulated work rules and supporting institutional context by developing its Germanwings acquisition into a separate low-cost carrier with low road employee relations and union avoidance. However, while LH was able to escape its core brand’s work rules and the CME institutional context for a while, the attempt was rather short-lived. Within a short period of time, the low road employee relations and union avoidance stance were given up, as LH pilots and their strong union were able to extend key elements of LH’s employee and union relations to Germanwings. In other words, in LH, firm-level changes also led to a changed influence (a lock out) of the institutional context for a short while. However, this change did not last due to the spillover of LH’s accumulated work rules into Germanwings, strongly supported by Germany’s CME institutions, which provide unions and employees with strong bargaining power.

**Conclusion**

Recent developments in CIA have challenged the notion of the homogeneity of firms and firm practices embedded in the same national institutional context (Lane & Wood 2009; Wood & Lane 2012). This development found its correspondence in comparative employee and industrial relations (Katz & Darbishire, 2000; Marginson & Sisson, 2006; Mills et al., 2008; Croucher et al., 2011; Bechter et al., 2012; Wilkinson et al., 2014; Brewster et al., 2014a). However, while there is a growing body of work emphasizing the variety and change in institutional settings, we still know little about how the variety and change of firm-level conditions interact with institutional conditions to shape employment and union relations in firms. Despite longstanding calls for more-dynamic perspectives (Streeck & Thelen, 2005; Deeg & Jackson, 2007) and a stronger focus on the firm in comparative institutionalism (e.g., Allen, 2004; Morgan, 2005), we are still missing a dynamic firm-level perspective that can advance our understanding of the variance in firm responses in general and in employee and union relations within national institutional contexts in particular.

Addressing this caveat in both the CIA and comparative employment relations literature, our paper makes three contributions. First, our study illustrates the importance of adopting a more dynamic firm-level perspective that acknowledges the interaction between changing firm heritage and the shifting influence of the national institutional context in shaping employee and union relations*.* Some of these firm-level changes are deliberate actions by the firms to escape the influence of constraining industrial relations institutions, as LH demonstrates. Other firm-level changes are not intended to affect the influence of the national institutional context in shaping employee and union relations but nevertheless do so, as AB exemplarily shows. Overall, our findings indicate the importance of conceptualizing temporality in institutional influence based on the situation of the firm. Our four cases show that a longitudinal analysis enables us to thoroughly understand the reasons for firms’ differential responses to low-cost pressures in employee and union relations. Although the role of temporality in institutional analysis has been acknowledged (Thelen, 2000), an explicit specification of the sequence and processes it constitutes is not yet apparent. Second, by demonstrating the leeway firms have in formulating diverse responses within the same institutional context, we address calls in CIA for a better understanding of institutional heterogeneity and the dynamics of the firm’s interaction with institutional contexts at the micro-level (Deeg & Jackson, 2007). Adding to earlier findings that mainly focused on inter-industry variation (Lane & Wood, 2009; Wood & Lane, 2012; Wilkinson et al., 2014), our cases illustrate that even the same firm may engage with the same institutional environment differently. Our study suggests that key factors for this divergent firm-environment interaction are not only associated with the heterogeneity and changes in the institutional environment itself but also with changes in the nature of firm heritage. This is because firm-related changes co-evolve with changes in firms' relationship with their institutional environment. Thus, even if an institutional context remains stable, a firm’s relationship with it may undergo substantial changes. While our findings emphasize the importance of firm-level changes on the influence of institutional contexts, they do not render the nature of nationally distinct institutional contexts unimportant. How firm level changes play out depends on the nature of the societal context in which the firm is embedded. This is illustrated by the difference between EZY and BA, on the one hand, and AB and LH, on the other. Compared to EZY and BA, AB and LH faced a stronger pressure from the tightly integrated industrial relations system of Germany despite some successful firm-level initiatives to escape these institutional conditions. Third, our study specifies firm-level changes that have a substantial impact on the changing influence of the institutional context. We illustrate that firm growth and, in particular, newly founded subsidiaries and acquisitions play a key role in shifting relations with the institutional environment. This is due to firm-level changes cutting off, circumventing or importing institutional context relations that play a role in shaping employee and union relations. Finally, our study makes a contribution to the literature on how low-cost pressure impacts employee and union relations in the European airline industry. While our work confirms the importance of looking at the interaction of national institutional and firm-level variety to understand diverse employment and union relations in this industry (Bamber et al., 2009a; Harvey & Turnbull, 2015), we add to these insights by pointing to the importance of temporal and dynamic aspects. Our findings show that the dichotomy of new entrants and legacy carriers becomes problematic when the firm heritage undergoes change through firm growth, acquisition or the development of new carriers.

With regard to future research, we believe that the issue of how firm-level dynamics interact with institutions requires further scrutiny in the case of European airlines in general and LFAs in particular. Two aspects appear crucial here. First, we need to better understand how firms dynamically exploit or leverage the different national institutional contexts in Europe to shape their labour and union relations. This points to developing a deeper understanding of the complex interplay of different firm types and strategies with different national institutional contexts. Second, we need to better understand to what extent the EU-level institutions and regulations have an influence on the employment and union relations of European Airlines. In this context, it appears particularly interesting to investigate to what extent EU-level initiatives or developments will institutionalize and, if they are sustained, to what extent they will strengthen or weaken the importance of the national-level institutional embeddedness of firms. Finally, and moving beyond the airline industry, we believe there is substantial scope to ask not only how firm-level choices structure relations with the institutional environment but also how given relations with the institutional environment structure firm choices. This dialectical relationship between firm choices and firm relations with institutional contexts can coevolve over time. We think such a co-evolutionary analysis would allow us to better understand the heterogeneity of firms that are embedded in very similar environmental contexts.

Our study has limitations related to the comparative case study design. The method offers control in case comparison and thereby enables a holistic case-oriented approach to data analysis for more-comprehensive explanations. Because we sought control for comparability and analytical generalizability (see George & Bennett, 2005, for an elaboration), we could not provide rich descriptive data. Rather than providing in-depth and detailed elaborations in employee and union relations in the respective firms, we were interested instead in capturing major shifts within our cases and their association with the interplay of firm heritage and national institutional contexts.

**References**

Aero.at (2013, October 29). Niki-Chef: Ab 2014 keine Leiharbeit mehr. *aero.at.* Retrieved from http://www.aero.de

Air Berlin (2006). Prospectus Investor Relations Airberlin. Retrieved from http://ir.airberlin.com

Air Berlin (2010-2011). Annual Reports. Retrieved from http://www.airberlin.com

Air Berlin Press Release (2009, October 2). Air Berlin: Erfolgreicher Abschluss der Cockpit Tarifverhandlungen. Retrieved from http://www.airberlingroup.com

Allen, M. (2004). The Varieties of Capitalism Paradigm: Not Enough Variety?. *Socio-Economic Review*, 2, 87–108. doi: 10.1093/soceco/2.1.87

BALPA Press releases (various editions including: 2011, May 24, 2011, June 10, 2012, November 20, 2013, June 06). Retrieved from [https://www.balpa.org/](https://www.balpa.org/News-and-campaigns/News/CASUALISATION-BREAKTHROUGH-IN-EASYJET.aspx)

Bean, R. (1994). *Comparative Industrial Relations: An Introduction to Cross-National Perspectives*. London: Routledge.

Bamber, G. J., Gittell, J. H., Kochan, T. A. & Nordenflycht, A. von (2009a). Contrasting management and employment-relations strategies in European airlines. *Journal* *of Industrial Relations*, 51, 635-652. doi: 10.1177/0022185609346185

Bamber, G., Gittell, J. H., Kochan, Y. & von Nordenﬂycht, A. (2009b). *Up in the Air: How Airlines Can Improve Performance by Engaging their Employees*. Ithaca, NY: Cornell University Press.

Barry, M. & Nienhueser, W. (2010). Coordinated market economy/liberal employment relations: low cost competition in the German aviation industry. *The International Journal of Human Resource Management*, 21, 214-229. [doi: 10.1080/09585190903509522](http://dx.doi.org/10.1080/09585190903509522)

Brewster, C., Brookes, M., Johnson, P. & Wood, G. (2014a). Direct involvement, partnership and setting: a study in bounded diversity. *The international Journal of Human Resource Management*, 25, 795-809. doi: [10.1080/09585192.2013.776615](http://dx.doi.org/10.1080/09585192.2013.776615)

Brewster, C., Goergen, M. & Wood, G. (2014b). Ownership rights and employment relations. In A. Wilkinson, G. Wood & R. Deeg (Eds.), *The Oxford Handbook of Employment Relations: Comparative Employment Systems* (pp. 173-189). Oxford: Oxford University Press.

Broughton, A. (2005, September 28). Industrial relations in the airline sector*. Observatory: EurWORK* Retrieved from <http://www.eurofound.europa.eu>

[Creutzburg](http://www.faz.net/redaktion/dietrich-creutzburg-12237791.html), D. & [Jahn](http://www.faz.net/redaktion/joachim-jahn-11104018.html), J. (2013, April 22). Frank Bsirske - Abflug zur Deutschen Bank. *FAZ* Retrieved from <http://www.faz.net>

Crouch, C. (2005). *Capitalist Diversity and Change: Recombinant Governance and Institutional Entrepreneurs.* Oxford: Oxford University Press.

Croucher, R., Brookes, M., Wood, G. & Brewster, C. (2010). Context, strategy and financial participation: A comparative analysis. *Human Relations*, 63, 835-855. doi: 10.1177/0018726709343654

Deeg, R. & Jackson, G. (2007). [Toward a more dynamic theory of capitalist variety](http://ser.oxfordjournals.org/cgi/content/abstract/5/1/149). *Socio-Economic Review*, 5, 149-179. doi: 10.1093/ser/mwl021

Domanico, F. (2007). The European airline industry: Law and economics of low cost carriers. *European Journal of Law Economics*, 23, 199-221. doi:10.1007/s10657-007-9016-8

Done, K. (2008, March 12). BA uses EU law to prevent strike by pilots. *FT*. Retrieved from <http://www.ft.com/>

easyJet (2006-2013). Annual Reports. Retrieved from http://[www.easyjet.com](http://www.easyjet.com)

easyJet (2013, February 1). EasyJet announces 330 new permanent jobs for pilots. Retrieved from http://corporate.easyjet.com

Eberle, M. (2006, January 13). Air Berlin fliegt Gewerkschaft davon. *Handelsblatt*. Retrieved from http://www.handelsblatt.com

Eisenhardt, K. M. (1989). Building theories from case study research. *Academy of Management Review*, 14, 532-550. doi: 10.5465/AMR.1989.4308385

Enre, R. (2008). *European Unions: Labor’s Quest for a Transnational Democracy*. Ithaca, NY: ILR Press.

FT Deutschland (2004, April 05). Air Berlin-Chef hadert mit Aktienrecht. Joachim Hunold erwägt aus Furcht vor Mitbestimmung Börsengang im Ausland. Retrieved from <http://www.genios.de>

George, A. L. & Bennett, A. (2005). *Case Studies and Theory Development in the Social Sciences.* Harvard: MIT Press.

Gittell, J. & Bamber, G. (2010). High-and low-road strategies for competing on costs and their implications for employment relations: International studies in the airline industry. *International Journal of Human Resource Management*, 21, 165-179. Doi: [10.1080/09585190903509464](http://dx.doi.org/10.1080/09585190903509464)

Greef, S. & Speth, R. (2013). Berufsgewerkschaft als lobbyistische Akteure Potenziale, Instrumente und Strategien. *Arbeitspapier 275*, Hans-Böckler-Stiftung.

Gruber, J. (2013, June 26). LGW & Niki - Die "neue Air Berlin"? Air Berlin schrumpft, Niki und LGW wachsen. Retrieved from http://www.austrianaviation.net

Gubisch, M. (2012, Jan 30). In focus: Can pilot training keep pace with demand?. *FlightGlobal*. Retrieved from http://www.flightglobal.com

Hall, P. A. & Gingerich, D. W. (2004). Varieties of capitalism and institutional complementarities in the macro economy: An empirical analysis. *MPIFG Discussion Paper 04/5,* Max Planck Institute for the Study of Societies.

Hall, P. A. & Soskice, D. (2001). *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage.* New York: Oxford University Press.

Hall, P. A. & Thelen, K. (2009). Institutional change in varieties of capitalism. *Socio-Economic Review*, 7, 7-34. doi: 10.1093/ser/mwn020

Harvey, G. (2009). Employment relations in liberal market economy airlines*. Employee Relations*, 31, 168-181. doi: [10.1108/01425450910925319](http://dx.doi.org/10.1108/01425450910925319)

Harvey, G. & Turnbull, P. (2010). On the Go: Walking the high road at a low cost airline. *The International Journal of Human Resource Management*, 21, 230-241. doi: [10.1080/09585190903509548](http://dx.doi.org/10.1080/09585190903509548)

Harvey, G. & Turnbull, P. (2012). *The development of the low cost model in the European*

*civil aviation industry: Report for the European Transport Workers’ Federation.* Brussels:

ETF.

Harvey, G. & Turnbull, P. (2015). [Can labor arrest the “sky pirates”? Transnational trade unionism in the European civil aviation industry](http://www.tandfonline.com/doi/abs/10.1080/0023656X.2015.1042775). *Labor History,* 56, 308-326. doi [10.1080/0023656X.2015.1042775](http://dx.doi.org/10.1080/0023656X.2015.1042775)

Haynes, P. & Allen, M. (2001). Partnership as union strategy: A preliminary evaluation. *Employee Relations,* 23, 164-187. doi: [10.1108/01425450110384697](http://dx.doi.org/10.1108/01425450110384697)

Hellgren, B., Loewstedt, J., Puttonen, L., Tienari, J., Vaara, E. & Werr, A. (2002). How issues become (re)constructed in the media: discursive practices in the AstraZeneca merger. *British Journal of Management*, 13, 123–140. doi: 10.1111/1467-8551.00227

ITF (2007, August 08). Air Berlin seals first collective agreements with pilots, cabin crew. *ITF.* Retrieved from [http://www.itfglobal.org](http://www.itfglobal.org/campaigns/airberlin.cfm)

Jaeger, M. FAZ (2013a, October 18). Nach Ausbildung bei Lufthansa - Junge Piloten warten am Boden. *FAZ.* Retrieved from http://www.faz.net

Karsh, B, Blain, N. & Niheidoi, Y. (1984). Airline Pilot Unions in Australia, Japan and the United States: A Test of Cross-National Convergence. *Journal of Industrial Relations*, 26, 385-404. doi: 10.1177/002218568402600306

Lange, K. (2009). Institutional Embeddedness and the Strategic Leeway of Actors: The Case of the German Therapeutical Biotech Industry. *Socio-Economic Review*, 7, 181– 207. doi: 10.1093/ser/mwn029

Lane, C., & Wood, G. (2009). Diversity in capitalism and capitalist diversity. *Economy and Society*, 8, 531–551. doi: [10.1080/03085140903190300](http://dx.doi.org/10.1080/03085140903190300)

Lufthansa Flight Training (2013). Retrieved from https://www.lufthansa-flight-training.com

Marchington, M., Goodman, J., & Berridge J. (2004). Employment relations in Britain. In G. J. Bamber, R. D. Lansbury & N. Wailes (Eds.), *International and Comparative Employment Relations* (pp. 36-66). London: Sage Publications.

Metzenbauer, M (2012, January 02). Harte Landung: Der Traum vom Fliegen. *Austrianaviation.net.* Retrieved from http://www.austrianaviation.net

Meyer, R. E. & Höllerer, M. A. (2010). Meaning structures in a contested issue field: A topographic map of shareholder value in Austria. *AMJ,*53, 1241–1262. doi: 10.5465/AMJ.2010.57317829

Morgan, G. (2005). Institutional Complementarties, Path Dependency, and the Dynamics of Firms. In G. Morgan, G., R. Whitley, & E. Moen (Eds), *Changing Capitalisms? Institutional Change and Systems of Economic Organization* (pp. 415-446). Oxford: Oxford University Press.

Pilotjobsnetwork (2014). Retrieved from http://www.pilotjobsnetwork.com

Ruff, C. (2012, April 11). Wollen an Personal­-Leasing festhalten. *derStandard*. Retrieved from http://derstandard.at

Schulte, U. (2006, May 05). Schwarzbuch Air Berlin. *TAZ*. Retrieved from http://www.taz .de

Streeck, W. & Thelen, K. (2005). *Beyond Continuity: Explorations in the Dynamics of Advanced Political Economies*. Oxford: Oxford University Press.

Szyszczak, E. (2009). United Kingdom. In R. Blanpain & A. M. Swiatkowski (Eds), *The Laval and Viking Cases: Freedom of Services and Establishment v. Industrial Conflict in the European Economic Area and Russia* (pp. 167-176). Alphen a. d. Rijn: Kluwer Law International.

Thelen, K. (2000). Timing and Temporality in the Analysis of Institutional Evolution and Change. *Studies in American Political Development,* 14, 101-108.

Turnbull, P., Blyton, P. & Harvey, G. (2004). Cleared for take-off? Management-labour partnership in the European civil aviation industry. *European Journal of Industrial Relations,* 10, 281-301. doi: 10.1177/0959680104047022

Turner, D. & Croft, J. (2010, April 02). Employers turn to courts in strike battles. *FT*. Retrieved from <http://www.ft.com/>

Vereinigung Cockpit Press Release (various editions including: 2009, August 11, 2009, August 31, 2010, March 02, 2010, November 22, 2013, June 17, 2013, June 20). *Vereinigung Cockpit*. Retrieved from <http://www.vcockpit.de>

Warneck, W. (2007). *Strike rules in the EU27 and beyond. A comparative overview*. Brussels: European Trade Union Institute for Research, Education and Health and Safety. Retrieved from http://www.etui.org

Wilkinson, A., Wood, G. & Deeg, R. (2014). *The Oxford Handbook of Employment Relations: Comparative Employment Systems*. Oxford: Oxford University Press.

Wood, G., & Lane, C. (2012). Institutions, internal diversity and change. In C. Lane and G. T. Wood (Eds), *Capitalist Diversity and Diversity within Capitalism* (pp. 1–31). London: Routledge.

Wordpress (2013, October 12). Airline Profile easyJet*:* Glorified Bus Driver*.* *Wordpress* Retrieved from [http://futureglorifiedbusdriver.wordpress.com](http://futureglorifiedbusdriver.wordpress.com/2013/10/12/airline-profile-easyjet)

Yin, R. (2003). *Case Study Research, Design and Methods*. Newbury Park: Sage Publications.

**Table 1** *List of conducted interviews*

|  |  |  |  |
| --- | --- | --- | --- |
| **Type of organisation / country** | **Organisation / Position** | **Involvement / area of expertise  (Category A, B or C)** | **Code** |
| Trade Union/GER | UFO/Executive | Directly involved in negotiations with LH (B, C) | TU/GER/1 |
| Trade Union/GER | Verdi/Executive | Directly involved in negotiations with LH (B, C) | TU/GER/2 |
| Trade Union/UK | BALPA/Rep | Principal negotiator for BA (B, C) | TU/UK/1 |
| Trade Union/UK | BASSA/Rep | General BASSA Rep, Main Office, (B) | TU/UK/2 |
| Trade Union/UK | BASSA/Rep | General BASSA Rep, health and safety, (B) | TU/UK/3 |
| Trade Union/UK | BALPA/Rep | Principal negotiator for EZY, (B, C) | TU/UK/4 |
| Trade Union/UK | BALPA/Rep | Principal negotiator for BA (B, C) | TU/UK/5 |
| Company/airline/UK | BA/Executive | Head of Resourcing, Industrial Relations and Strategy at BA, (A, B, C) | C/UK/1 |
| Company/airline/UK | EZY/5 Pilot Reps & Company Council Members | Company Council members are directly involved in negotiations; pilots’ reps voice views of pilots at five different air bases, (C) | C/UK/2 |
| Company/airline/UK | BA/Executive | Head of Resourcing, Industrial Relations and Strategy at BA, (A, B, C) | C/UK/3 |
| Company/airline/GER | AB/Executive HR | Directly involved in negotiations with union (Verdi & Cockpit) / previously HR of LH, (C) | C/GER/1 |
| Company/airline/GER | AB/Executive | General manager, schedules planning, (C) | C/GER/2 |
| Company/airline/GER | LH/Executive IR | Directly involved in negotiations with unions (Verdi, UFO, Cockpit), (C) | C/GER/3 |
| Company/airline/GER | LH/Manager | Involved in strategic planning, particularly regarding low-cost carriers, (A, B, C) | C/GER/4 |
| Company/airline/GER | LH/Manager | Responsible for pilot training of LH, (C) | C/GER/5 |
| Company/airline / GER | AB/Executive | Head of flight operations, former head of pilot training, (C) | C/GER/6 |
| Company/airline/GER | AB/Executive | Head of flight operations, former head of pilot training, (C) | C/GER/7 |
| Association of European Airlines/BEL | General Manager | Expertise in full- and low-cost carrier business models, (A) | A/BEL/1 |
| Company/airline/UK | EZY/Non-executive director | Expertise in FSC/LCC business models, (A) | C/UK/4 |
| Company/consultancy/UK | March Friday/Consultant | Worked previously as HR executive at EZY, union expertise, (C) | C/UK/5 |
| Company/airport/GER | Fraport Executive | Expertise in regulation and pursued strategies in this industry, (A) | C/EGT/1 |
| Trade union/UK | BALPA/Rep | Principal negotiator for BA, (C) | TU/UK/6 |
| Company/airline / UK | BA/Manager | Expert on emissions trading, (A) | C/UK/6 |

**Table 2** *Core constructs and their indicators and operationalization*

|  |  |  |
| --- | --- | --- |
| **Construct** | **Indicator** | **Operationalization** |
| **Employment relations:**  **High road vs. Low road** | High/low compensation  High/low skills development  High/low employer-employee commitment | High/low salary level and benefits  Comprehensive, limited or no training provided (e.g., selection rigor, investment and type of training)  Long-term/short-term contracts; high/low employee turnover; investment in / fin. support for employee training; outsourcing (e.g., staff leasing through third parties)  High/low employee involvement and voice (e.g., employee discretion, flexible job boundaries)  (Bamber et al*.* 2009b, Harvey and Turnbull 2010) |
| **Union relations:**  **Avoidance**  **Accommodation**  **Partnership** | Union suppression / union substitution  Negotiating with unions at arm’s length  Establishing deeper relationship than what is contractually required | No collective agreements between unions and employer; lack of union recognition; dismissal of employees involved with unions; positive measures (e.g., create a ‘family/open culture’, high wages/benefits, good work environment) to prevent unionization  Existence of collective agreements between unions and employer, at least one union is recognized; high number of strike days; mediators are important for reaching a compromise; frequent legal conflicts; negotiation partners try to push through their objectives by going to court; low level of trust; limited exchange of information between union representatives and management  Existence of collective agreements between unions and employer; all unions are recognized; low number of strike days; employers and unions are able to reach a compromise without turning to mediators; legal conflicts are rare; negotiation partners usually do not try to push through their objectives by going to court; continuous exchange of information; high level of trust; frequent communication between union/employee representatives and management, unions/employee reps; involved in firm governance (formal: ownerships stakes, representation on board of directors, formal consultation process; informal: involvement through consultation or problem-solving processes)  (Bamber et al. 2009b) |
| **Firm type /inst. heritage:**  **Legacy carrier vs. New entrant** | High/low accumulated work rules  Entrenched tradition or culture of union relations | Firm-specific policies, obligations (e.g., high wage structures, pension cost, retiree health care benefits related to age of employees, seniority) and collective agreements (e.g., to which year collective agreements date back) that limit flexibility in changing employment and union relations  Legacy and kind of union relations (e.g., adversarial vs. constructive) that limit flexibility in changing employment and union relations (Bamber *et al*. 2009, Harvey and Turnbull 2010) |
| **National context:**  **LME vs. CME** | Legislation regulating employee and union relations  Structure of industrial relations system, union relations and power in particular | Nation-specific legislation in general and/or for the sector (e.g., on employment security, social benefits, industrial relations or industrial action, firm level employment representation) that limits flexibility in changing employment and union relations  Nation-specific structure of industrial relations in general and/or for the sector that limits flexibility in changing employment and union relations (e.g., Bean, 1994)  Court rulings that limit flexibility in changing employment and union relations |

Source: Compiled from Bamber et al. 2009a/b, Johnson (2006) and Harvey and Turnbull 2010

**Table 3** *Changes in ER/UR and the role of firm heritage and national institutional context*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Airline** | **EZY** | **BA** | **AB** | **LH** |
| **Changes in employment & union relations** | | | | |
| **Compensation\*** | Above industry standard but downgrade tendency through introd. of variable pay  Range in 2013 in Euro:  55,738 (base FO) to 112,855 (top Cpt)  Substantially lower for contract pilots | Well above industry standard but downgrade tendency through layering in BA core  Range in 2013 in Euro:  61,109 (base FO) to 182,236 (top Cpt)  Segmented within BA and substantially lower at Cityflyer, BMI and Vueling | Below industry average with upgrade tendency towards legacy standard in Germany  Range in 2013 in Euro:  50,000 (base FO) to 140,000 (top Cpt)  Subst. lower at subsidiary NIKI & LWG | Continuously well above industry standard but?  Range in 2013 in Euro:  64,600 (base FO) to 225,000 (top Cpt)  Substantially lower at foreign subsidiaries |
| **Skill development** | High standard, lower among new flexicrew contract pilots | High standard, some limited downgrading tendency | High standard with upgrading tendency | High standard continued |
| **Employer-employee commitment** | Moderate with fluctuations, lower for contract pilots | From high to moderate with fluctuations, increasingly segmented | High for AB classic, increasingly segmented | High in both LH classic and subsidiary airlines |
| **Employee representation and union relations** | From union avoidance (substitution) to oscillating between accommodation and partnership | Form partnership towards accommodation | From union avoidance (substitution plus suppression) towards accommodation and even partnership | Form partnership towards a mix of partnership and accommodation |
| **Changing firm heritage & the influence of the national institutional context** | | | | |
| **Role of firm heritage and its change** | No accumulated work rules constraining low road ER.  No entrenched firm tradition or culture of union relations undermining low road employee relations and union avoidance  Acquisition of LFAs Go (high road) and GB does not trigger change/upgrade in employee relations  Acquisition of LFA GO instrumental for change/upgrade of union relations | Accumulated work rules constraining downgrade of ER for small core of pilots  Entrenched firm tradition of union relations unable to resist change/downgrade of employee and union relations  Reorganisations, new foundations & acquisitions instrumental to change/downgrade in employee relations  Reorganisations, new foundations & acquisitions force BALPA into concession bargaining and support change/downgrade in union relations | No accumulated work rules constraining low road ER.  No entrenched firm tradition or culture of union relations undermining low road employee relations and union avoidance  Acquisition of German legacy carrier LTU instrumental for change/upgrade of employee and union relations | Accumulated work rules constraining downgrade of employee relations for most LH pilots  Entrenched firm tradition of union relations able to resist change/downgrade of employee and union relations  New foundations & acquisitions instrumental for (temporal) change/downgrade in employee and union relations at subsidiary airline GW |
| **Role of institutional context** | Acquisition of GO introduces institutional context influence of BALPA  Restrictions on industrial action, permissive labour market and deregulation policies of LME context support unchanged/no upgrade of employee relations  Change in union formation legislation supports BALPA’s entry and change /upgrade of union relations | Reorganisations, new foundations & acquisitions weaken the institutional context influence of BALPA  Restrictions on industrial action, permissive labour market and deregulation policies of LME context support unchanged/no upgrade of employee relations  ECJ ruling reinforces restrictions on industrial action in UK  Anti-union court rulings weaken union power and support change/downgrade of employee and union relations | Firm growth and acquisition of DBA and LTU introduces codetermination and institutional context influence of VC  VC entry and codetermination legislation of CME context support change/upgrade of union and employee relations  Registration in LME context as British PLC allows circumvention of board-level codetermination | New foundations & acquisitions, GW in particular, allow escape from CME context influence of VC for a while  Strong VC and full application of codetermination legislation of CME context in LH support continuation of union and employee relations at LH and change/upgrade at GW  Pro-union court rulings strengthen union and support continuation of extant union and employee relations at LH and change/upgrade at GW |

\* Salary scales from pilotjobsnetwork.com

1. We started data collection in 1993 because a major deregulation package was adopted then. [↑](#endnote-ref-1)