The diffusion of multinationals´ policies and local response: an international comparison of Germany, France and the U.S.A.

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I. Introduction

This paper examines programs conceived and developed at the central headquarters of multinational companies and their implementation process at local sites in different international settings. It first looks at the program content, and then how the program gets translated into measures that are undertaken in selected sites. In a second step, it considers the potential for local response to the demands coming from central headquarters, either through formal systems of employment regulation or through informal, but concerted efforts (Ram et al. 2001).

Surveying the literature on the role of MNC´s in the process of globalization can be likened to entering a jungle of entangled causes, effects, levels of analysis and interactions. The various findings have pointed to convergence (Berger and Dore1996; Reich 1993), regional differentiation or local determination (Storper 1997; Dörre 1996, Flecker 2000), corporate isomorphism (Ferner 1997), regime types (Boyer 1992; Hollingsworth 1998, Hall and Soskice 2001), institutional governance (Marginson et al. 1995), institutional decline (Beck 1998; 2002; Schmierl 1998), host country effects (Kotthof 2001; Ferner 2004) as drivers or explanations for the effects of globalization.

Initially, as the general streams of convergence vs. local determination in the discussions on the effects of globalization on workplace practice and relations crystallized, the two different lines of argumentation became more and more polarized. On the one side, convergence proponents posited an increasing standardization of company policy, divorced from considerations of national specificity and traditions (Reich 1993; Berger, Dore 1996). The internationalization strategies of multinational companies were attributed with an economic logic that washes nationally specific differences away, moving them toward a single world economy.
and world society (Narr, Schubert 1994). The reasons offered for the ongoing trend toward convergence, as well as the inclination to view it as either a positive or negative trend differed greatly. Some views on convergence saw it as deriving from the dissemination of best practice (Ohmae 1996; Womack et al. 1991). Others were “negative” scenarios, in which multinationals force their subsidiaries to implement particular work forms or structures without consideration of local specificities or problems.

Local diversity arguments tended to counter the convergence positions by looking at the enterprise level and pointing out how forms of best practice tend to adapt to local conditions or how attempts to force unitary structures simply fail. Thus, in contrast to convergence theses, local diversity perspectives questioned to what extent international companies can pursue their strategies and be unhindered by the need to adapt to local contingencies. Research in this area led to a decisive revision of the approaches that assumed the existence of “footloose” global enterprises (Dörre 1996; Marginson et al. 1995). For instance, it was shown that the ability of local institutions and actors to exercise influence in global companies is linked to the type of internationalization strategy the company is pursuing and how that meshes with the factors that the local site offers, including infrastructure, access to markets, qualifications, unemployment rate, wage levels and taxes, etc. (Flecker 2000). In this type of argumentation, for companies which are pursuing strategies in which the local development of products and the use of differing production conditions are important (i.e. transnational companies), a comparatively strong regional reference and the development of differentiated product and production strategies will lead to high levels of autonomy (Hirsch-Kreinsen 1998). In this scenario, the power that individual sites can wield depends in large part on their resources and attractiveness as production sites. Studies in this genre argue that product type plays a large role in how autonomous local sites can remain. If product complexity is high, use of local conditions is more necessary and therefore divergent strategies are endured by the global company (v. Behr 1999; v. Behr, Hirsch-Kreinsen 1998).

Nevertheless, there are indications that even when so-called autonomy for local sites is permitted, it comes under conditions of high risk to the local site. Goals are set or negotiated and the path to reaching them is left to the discretion of the local site. However, failure to achieve them leads to consequences such as a return to centralized controls, or quite possibly, closure. Thus, local autonomy, or even the recognition of necessary variations in product markets and processes by the international company headquarters, does not automatically mean that local
companies will remain untouched by strategies of “coercive comparison” (Flecker 2000). Goal setting, benchmarking and competition for contracts and investment funds are control mechanisms that can be implemented regardless of the level of standardization or integration of production. Nonetheless, some researchers take the position that exactly how such control mechanisms get played out at the local level is not necessarily as straightforward or predictable as, perhaps, intended by the companies. They argue that behind a surface of standardization and aggregate information systems, very disparate processes and structures actually exist in the majority of multinational companies (Dörrenbacher 1999). Another line of discussion puts forth that management and workers at a local site may have similar interests in their response to unpopular directives from the central corporate level. This alliance further facilitates the maintenance of their diversity.

II. Point of Departure

As can be seen in the analyses and studies that have been carried out, there continues to be a persisting diversity in the findings and also growing evidence that a polarization of positions does not fully capture the picture of what is occurring in global companies at the local level. This paper does not presume to offer a synthesis of the various theoretical and conceptual directions offered up to now. It does, however, recognize the difficulty of presenting a well-balanced and accurate picture of the role of MNC’s in the globalization process and their effects on local sites given that the necessary objects of study are different actors with a variety of interests, diverse institutional settings and national contexts, and changes over time.

More recent studies of the role of MNC’s in globalization have attempted to deal with some of these problems by integrating more than one level of analysis–macro, meso and micro - in the research process to get a more complete explanatory picture. (Meil et al. 2003; Ferner et al. 2004) One outcome is a more contradictory and complex view of multinationals and globalization in which simultaneous tendencies of centralization and decentralization, control and autonomy, convergence and local determination are apparent. These trends are not arbitrary, but also have a certain strategic logic behind them.

This study follows in this path. It first takes a close look at the practices of MNCs and then attempts to link micro level processes with meso level institutional systems. In taking different levels of analysis into account, it tries to explain, not a single trajectory of development, but a complex and partly contradictory one. We posited that large multinationals will in fact
try to impose convergent structures or workplace conditions on their subsidiaries. This is the case because, for one, the need for central headquarters to control their subsidiaries and engage in benchmarking leads to principles of uniformity and, for another, because central headquarters generally view the methods that they have developed as being the “best” ones for the strategic orientation of the company. However, we argued that these central convergent strategies will meet with resistance as well as difficulty and will be transformed by local contingencies in their implementation process at the local site. In addition to local effects through varying institutional systems and labor traditions, we also expected host country effects: The thesis was that the content of the programs and the way the MNC’s approach implementation will be effected by the home country in which the programs were developed. Both MNCs in the study were of German origin with strong traditions in their home country and a strong German center. Given that in their home country, a strong labor voice and high levels of participation were common operating principles, we expected greater attention to local concerns. Furthermore, German companies, with traditionally less orientation to purely financially driven goals and more long-term perspectives (Jürgens et al. 2000), should pursue less purely financially motivated policies and should exhibit less centralized and unitary control of local sites than for instance U.S. MNCs (Ferner et al 2004).

The main focus of our study is, however, not to determine if local conditions matter, but rather to examine exactly how local actors, either formally (through existing institutional structures) or informally, contribute to the changes in central company practices when being implemented at the local level, or when applicable, what forms of resistance arise in response to centrally mandated policies from headquarters. Therefore a second aspect of the study is to see and understand how local actors respond to the measures coming from the MNC headquarters. Our assumption was that the institutional framework, for instance in the form of industrial relations systems, would be relevant in the transformation process and that the response would vary according to the strength and coordination of the institutionalized system of industrial relations. (Albert 1993; Ebbinghaus, Manow 2001)

III. Methods

Our empirical research centered on an examination of a comprehensive policy initiative being launched by a multinational electronics company (Company A), which was intended to be implemented at all of its (nearly 200) international sites. Company A seemed a logical choice as a case study. It is a traditional German company with a long history, a strong center and a
reputation for hierarchical organizational structures. However, it also has long term experience with international production sites, which have existed over a long time period at their individual national sites and therefore have established practices and traditions of their own.

Another incentive for choosing Company A was that it was in the process of disseminating a comprehensive company-wide optimization program at all of its sites. Such „explicit“ (see Marginson et al. 1995) are not that common. Many companies pursue „implicit“ programs - best practice, employee involvement, personnel strategies, etc. These programs are often vague or are not comprehensive – that is they are geared to one department, one assessment measure, one procedure. Global programs with centralized methods, facilitators, training, backing by top management, a special department to carry them out, and lots of publicity are much less common.

For comparative purposes we also decided to examine the implementation of a program in a company that was not an industrial production enterprise, but rather in the increasingly dominant service sector. We chose an insurance company (Company B) because of its economic importance and its German headquarters: it had sites in all countries relevant to our project and like Company A was in the process of launching a program to be disseminated at all of its sites. We examined the direct implementation process of the two programs at the local company level in three different countries and, for the highly diversified Company A, at different business units. In this case, we were able to keep one division constant for all three countries, and another for two of the countries. The national contexts- Germany, France and the U.S. - were chosen for their variation in institutionalized arrangements of industrial relations.

We conducted intensive interviews based on a pre-formulated list of questions with company managers, works councilors, and when possible, regular employees. We also spoke with union and works council representatives in France and Germany. Altogether 26 in-depth interviews were carried out in the three countries with individuals and groups in the time period between 2000 and 2002. Additionally literature from or about the companies, both from the intra/internet and published documents was analyzed, and an extensive review of the secondary literature was carried out.

IV. Summary of findings

This section summarizes the study’s findings regarding the dissemination of the MNC’s programs looking at what kinds of projects or practices were actually implemented at local sites.
At the level of strategic program goals, the attempt to achieve standardization across the entire company versus the extent to which local specificity was permitted or even systematically encouraged is examined. At the level of practice, for instance in the use of tools and instruments, it is asked to what extent local and nationally specific flexibility is permitted or whether directives from the central headquarters have to be followed and are monitored accordingly. At a third level, the adaptation processes at the local or national levels are described, revealing potential regional differences across the multinational. Also considered are changes in orientation from previous company programs, the relationship to the center in the diffusion process, the general attitudes to the program and implementation strategies by the individual sites, the effects for the site (for instance in terms of organizational changes, pay, job security), the reaction at the local site to the central HQ initiatives, and finally the effects on autonomy and control for the local sites. From these findings, more general observations in terms of the interplay between convergence and local diversity are made.

(1) Company A – Traditional manufacturing industry

According to interview partners in Company A, including the CEO of the U.S. holding, the main and explicit goal of the program is the clear orientation of all the units toward company success (economic success) and an increase in competitiveness. The program is geared to change what is seen as the insufficient profit orientation of unit managers and make the company results more transparent (and thus more comparable). At the individual site level, the main goal is the increase in the contribution to value added and „an orientation to economic results in all areas, down to the smallest unit.“ (German works councilor)

The responsibility for the planning and implementation of the program lies at the German headquarters. There, a program manager, head of the program office, is responsible for all of the world-wide sites. The service of the program office is the development of a toolkit containing instruments that should help the world-wide sites develop programs to reduce costs and waste and improve quality. The tools are a range of the current state of the art on management and financial methods to optimize, improve, and monitor company processes in a number of different categories (for example, cost reduction, innovation, boosting sales, etc.) In each category there are a number of modules offered to help define and direct projects that are appropriate for a particular unit or problem. So with cost reduction, for example, the emphasis may be on structural change or on lowering purchasing costs or on optimizing processes. Within these sub-categories are other sub-categories of more refined modules. The
tools are thus a means of information, a form of training, an impetus to get projects off the ground. Since the program’s inception in 1998, the number of individual tools has exploded to about 2000.

The **control function** of the program office is reflected in the motto of the program: “clear goals, concrete measures, rigorous consequences.” (Company A 2001) Clear goals means reaching EVA (economic value added) targets; concrete measures means using the catalog of tools geared toward portfolio optimization, earnings-oriented sales growth, asset management, cost reduction, quality and innovation as defined by the company headquarters. Finally, by rigorous consequences is meant: reviews every three months to monitor results. When there is “persistent” deviation from targets the Corporate Executive Committee decides between four options: buy, cooperate, sell or close.

This type of program heralds a clear break with those introduced in the ‘80s and early ‘90s whose goals were tapping productivity gains through employee participation (Dörre 2001; Applebaum, Batt 1994). The difference is clearly evident in the change in orientation between the earlier program launched by Company A and the current one. The program’s forerunner at Company A had originally been launched at the beginning of the 90’s at the initiative of the corporation’s board of directors. The goals were to identify and improve the company culture and to create a vision for the future development of the enterprise. The central focus of the program was a reengineering process, intended to lead to an optimization of time and process use in response to what was seen as an overly bureaucratic organization and long development cycles. The goal was to disseminate the program worldwide, in the 193 countries in which the company was active. The program was geared toward an increased participation of employees in continuous improvement and more efficient design of work and production processes. In Germany 105 sites participated in the first program. The works councils, from the central HQ to each of the sites, were involved in the implementation and strongly supported the program. The general tenor of the interview partners at the local German sites was the strong emphasis on participation and improvement of company work processes in the first program. In France, the first program was apparently also received positively, although it was admitted that a number of existing initiatives were placed under the program label to fulfill program requirements. Also, the program was not as widespread in France as in Germany. Interestingly, in the U.S., the first program never really got off the ground. Moreover, for those familiar with it, it had an extremely negative connotation of being completely oriented
toward cost cutting measures, which is exactly opposite to the impression in Germany and France.

At some point in the mid 90’s, the first program began to fizzle out and a new program generation was re-launched (beginning in 1998). It was linked in name to the first, but with a new orientation geared to designing projects that achieved concrete and measurable economic results, and an overall increase in the transparency of economic performance. Individual practices at the company level in the new program launched in Europe in late 1998 and worldwide (after some initial problems) in 2001 may still evidence the participatory practices found in the initial program. However, more and more the message from the center being transmitted to the companies, and in particular their management, is that financial results are the ultimate goal; and they must be visible immediately. The consequences of not heeding this message are looming in the form of sell-off or closure. The pressure for immediate gratification naturally invites the introduction of short-term cost cutting measures to achieve the results without thinking about the long term consequences of such measures.

At the German sites that were investigated, there was knowledge of the programs and tools at the management and works council level, but less actively at the employee level. The introduction of the program usually occurred through regional presentations in the form of large formal assemblies at which high ranking officials from the central HQ – the chairman of the board in some cases – presented the program and its goals. In Germany, this meeting was received quite critically; the impression being that the program was too abstract with no attempt to link the program to the specific problems or situation of the individual site. (In fact, the standardized presentation was a strategy of the center, which intended to give the same presentation to all of their sites around the world, thereby transmitting a signal of central company cohesion. In all three countries, this strategy was met with a negative response.) Additional information on the program was provided on the intranet – the main means of dissemination. The relationship with the center was otherwise very distant. It took place in the form of reporting of economic results. Intervention from the center only came about if the economic value-added targets were not met or in cases in which the sites asked for help for program implementation (which happened rarely).

Although the information for the program in Company A came from the center and it was central HQ goals that were being communicated, the implementation process itself proceeded
at the local level. Tools and instruments were selected that met the requirements of the projects being launched, and which were perceived as being appropriate for the particular needs of the site. The programs tend to be directed toward cost reduction, quality improvement and other internal company processes. The practice of placing already running programs under the banner of the program to meet the demands set by the center was also used.

At the U.S. sites of Company A which were investigated, the emphasis was also on quality improvement and waste reduction, but also on customer integration and meeting customer needs (to be visible in improved sales figures). As in Germany, the introduction to the program occurred through a media presentation at which the U.S. CEO (a German) and members of the German board of directors launched the program goals and tools. This assembly was geared for management, so the knowledge of the program at the employee level was quite marginal. The program was officially launched in 1998-99, but was mainly ignored by the U.S. sites, so it got underway very slowly. The actual introduction (under greater pressure to comply) took place in 2001. For most of the sites, the response to the program was negative: the tools were perceived as being overly complex, thus requiring a large staff to interpret and implement which the U.S. sites did not have available. This led to the impression that the German sites, and of course the central HQ in particular, had much more manpower available for such activities, leading to further bad feelings. Other criticisms were that the program was too geared to inner company processes and incremental change rather than the larger picture, which would in the end not help the sites to perform well in a difficult economic climate. Most U.S. sites felt that they already had introduced programs with similar goals and orientations (to improve business performance) before this particular program was imposed upon them by the Germans. Thus the centralized program implementation also created negative feelings in that the existing programs were not valued or recognized unless they were put under the rubric and label of the program initiated by central HQ.

Other than the kick-off meeting and pressure from their senior management to develop projects and the economic results to go with them, communication with HQ was rare and reduced to a reporting function. Information about the program was available on intranet, but it appeared in English rather late, and except in rare cases\(^1\) was not utilized. The practice of using existing programs and „selling“ them under the program banner was widespread.

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\(^1\) In one case, an individual engineer used the information from the Intranet to launch a highly successful project in his company. The group involved described the process as almost accidental. They were looking for information to start a waste reduction project and stumbled across the information which was partly in German.
In general, the program, although centrally launched, does assume that the actual measures will be designed locally with local contingencies in mind. However, the pressure to report results in terms of economic value added in shorter and shorter intervals has intensified over the last couple of years for the U.S sites. This has led to concerns at the sites that the orientation to short term financial results will affect their overall ability to grow and innovate. The strict reporting schedules and procedures and the consequences lingering behind unmet economic targets has clearly impinged on the previously very high levels of autonomy enjoyed at the U.S. sites.

In France the program in Company A led to practices mainly centered around quality improvement, although there had been a shift away from a focus on the production area toward service departments and customer service oriented projects. As at the other sites, the program specifics were introduced through a large meeting from representatives of the central HQ. Once again this method was criticized as being too abstract and the message as having little relevance since it came from board members with whom the employees were unfamiliar. At one unit that was performing poorly, the presentation came off as a type of threat which immediately gave the program negative connotations. Also, the very financially technical presentation gave the impression that the program was geared mainly to management and was not relevant for the working situation of individual employees. As for the other international sites, the other information channel was the intranet. Actual implementation in practice was, as in Germany and the U.S., left up to the individual sites. In the French cases under study, a great deal of emphasis was placed on group development and using employee suggestions to develop measures to achieve the desired economic effects. This worked relatively well and offered a high level of continuity with the forerunner program. France was in fact one of the few countries in which the personnel from the 1st program were often allowed to remain in their positions for the relaunched program. One problem mentioned, however, was whether funding to develop the projects from the suggestions made by the employees would be sufficient in light of the tight economic framework. Evaluation was also seen as problematic since the financial impact of many of the measures would occur later than the requirements for reporting results. In fact, the French sites stated that a major difference with earlier programs was the evaluation of the practices undertaken in conjunction with the program according to their contribution to short-term economic goals. Although the means of reporting differed across

Through individual initiative and getting their local management to agree (at first only haltingly), the group designed one of the most successful projects in the U.S.
plant: at one, productivity increases of 7-8% were targeted; at another savings of 15 Mio € in 1-2 years, the time intervals of reporting were getting shorter everywhere. Best practice sharing between sites of a unit – one of the expressed goals in the program – occurred through individual initiative, but not on an organized basis. Help from the center in the form of training or aiding communication between sites did not exist. Communication was reduced to reporting on economic results.

(2) Company B: Insurance and Investments

Company B headquarters in Germany also initiated a program that was meant to be disseminated world-wide and was unmistakable in its orientation through its name: EVA (Economic Value Added). Generally, however, the program was much less structured and also less directed from the center than the program in Company A. There was no central department formed solely for the purpose of developing or controlling EVA. An international task force was formed to design appropriate measures for financial reporting: an interesting difference with Company A in which guidelines and procedures were developed at the central German headquarters. It was expected that the various sites utilize the reporting system so that each site’s contribution could be monitored. If a site exhibited poor results in succession and became a problem site, a troubleshooter from the center might be sent in. Continued poor performance could result in a change of management, a merger or a different arrangement of responsibility areas, or closure. Besides reporting and its possible effects in negative cases, there was little interference from the center. Exceptions were the coordination of projects that made sense to disseminate and standardize internationally, for example IT systems. In these cases international teams were usually formed. The head of controlling in Germany pointed out that going onto the U.S. stock market demanded a stricter reporting for financial targets and increased disclosure of financial assets, one of the motivations to more closely monitor results in a standardized manner.

At the German site of Company B, the works council supported the EVA program since it led to transparency in areas that were costly to the company without an accompanying contribution. The background of this support was that at the time of the interviews (2002), there appeared to be little risk of personnel reduction. Moreover, the local sites enjoyed a very high level of autonomy in day to day operations, largely due to the business structure in which knowledge of the local market and local regulations was extremely important to the HQ.
direct effects of the program for local sites were limited: organizationally there was virtually no effect; consequences for pay were felt mainly at the middle management level. At the German sites there was an increase in performance based premiums, but this did not affect base pay which was negotiated with the union. In the U.S., performance pay systems and bonus packages which were negotiated directly between the employees and the personnel department did affect employees by creating „winners“ and „losers.“ As a result of profit sharing, the employees at sites with negative economic developments had wage decreases to the benefit of employees at sites with good economic performance. This could even occur between different departments within sites. In terms of more severe effects of EVA reporting, the U.S. chief of finance remarked that „company B is slow at giving consequences to underperformers.“

V. Response

In the program’s implementation in both companies, the two sides of centralization and decentralization are clearly recognizable. The program and its goal are directed toward convergence to the extent that it is targeted for every company unit and subsidiary worldwide with fixed and centrally set goals. It also serves to strengthen and especially to systematize company restructuring and optimization measures. This means that all participation and rationalization measures that exist at the sites are made more transparent, and those which do not conform to the central program’s goals and orientations are targeted for possible elimination. Thus, the company’s control program does serve to bring all of the sites of the MNC in line. On the other hand, each site has autonomy to decide how to meet the centrally set goals. In fact, it is more or less accepted that existing rationalization measures, as long as they are successful, can be defined into the program, even though they were not specifically designed for, and may even be precursors to it.

There were positive responses to the programs of the MNCs in terms of using the opportunity in Company A to initiate a change process or to increase transparency in Company B. However, most of the responses tended to be negative, especially in Company A. Expressed were a feeling of increased pressure from the center without accompanying support, feeling threatened from HQ, and the impression that the program from Company A might not necessarily hurt them, but it would not necessarily help them to improve performance either. Yet, because of the accountability tied to the program, which was marketed as a comprehensive company
strategy for optimization, the sites would be held personally responsible for economic downturns over which they might have little control.

Any organized reactions, either through formal institutional mechanisms, or informal means were not evident. In Germany, the works council could intervene in the case of personnel reduction with agreements on settlement packages if the reductions were due to benchmarking or best practice activities. However, when there was no direct outsourcing or displacement, it was easy for the company to get around these rules, which were in any case not preventative. By introducing measures for increased flexibility, the company could use temporary or contract workers, thus making permanent jobs obsolete. Collective agreements at the union and employer level protect wage levels. However, personal evaluation systems and performance agreements bypass regular negotiations. For middle level management, pay and career opportunities are increasingly determined by their site’s performance.

In France, many of the projects undertaken in conjunction with the program in Company A were seen as participatory measures that had been on the increase in French companies after the implementation of the Auroux laws in the early 80’s in any case. There was no organized response either by company level representation or the union level. Many of the effects on remuneration for individual employees and managers were similar to those in Germany.

In the U.S. only one site of Company A had union representation which limited its activities to formal issues. Company B had no union in the U.S. At the local level the U.S. sites seemed to follow a strategy to ignore the demands from the center for as long as possible. In any case, any organized response was bound to be limited because knowledge of the program at the employee level was limited. Most information remained at management level and was only translated to operative levels in the form of concrete and local optimization projects. Among regular employees there was little awareness of the central HQ’s initiatives, except in very abstract terms.

VI. A shift in orientation

As we proceeded with the empiry, we discovered that some of our initial premises were being called into question. The reason for this was that for the multinationals in our study, in particular Company A, a major shift in orientation for company policy had taken place. The direction of change was not so surprising (DiMaggio 2001; Hall, Soskice 2001). However, that
the shift could be so visible even in a traditional German company was unexpected. In fact, the German literature expressly argued that German companies, due to bank and financial configurations and goals, as well as low levels of private stock ownership, were not characterized by strong shareholder value strategies found in other industrialized countries. (Jürgens et al. 2000; Vitols 2001)

Also, the literature on the effects of globalization in company practice did not adequately recognize the importance of the shifts in company policy for local sites. It became apparent, for instance, that the dichotomy between local autonomy and centralization as clear alternatives for company strategy that is often portrayed in the literature on globalization is misleading. The programs at the two multinationals in our study whose implementation we were investigating were the perfect manifestation of this change. Such programs are geared to utilize two strategies that were previously thought to be in contradiction to one another. The benefits of local autonomy are reaped by utilizing the positive attributes of the local setting – skills, costs, expertise, experience, market, resources. Therefore companies are encouraged to make use of the general, often diffuse, tools and methods defined by the company headquarters to custom-make and implement a project or measure at the local company level: autonomy is in this regard welcomed. However, the reporting and benchmarking tools available to measure “success” are determined using centralized financial monitoring systems and the accountability (or control) linked to this process is very high. This is not merely a formalistic process; it has very concrete effects on work and work practice. ²

Especially for the multinational Company A, this reorientation represents a fundamental shift in ideology: away from an “engineering” product-driven company to one driven by financial results. Thus the central identity of the company is no longer based on its technological superiority, but rather on its financial performance, the same standard applied to any other multinational in any other industrial branch. The other major change, also deriving from the strong orientation to financial results, represents a shift in philosophy concerning the ties between the various business units, or in other words, what does the company as a whole mean? Does the corporation as such, which is divided into a number of units by product type, have significance for the individual companies? In the past, the practice of the very solvent company, which had large capital reserves, was to move capital between units to temporarily help out in periods of financial difficulty. This policy has changed so that individual business units are

² Harrison (1994) called this type of company strategy, “centralization without concentration”
held responsible for their individual results. In fact, poor performance on the part of a company or business unit is seen as a strain on the corporation as a whole: a kind of malignant tumor that is eating away at the good health of the corporate entity. The shareholder value orientations are apparent in both MNCs in terms of central reporting, transparency, hard consequences for performance, but most profoundly in the case of Company A.

Both of the MNCs in this study have made their debuts on the U.S. stock market quite recently: in 2000 and in 2001. The fact that this happened did not automatically set off a change in company policy that, in a deterministic fashion, effected activities at the local level overnight. In the industrial multinational, the program in Company A had been initiated as early as 1998. In both cases, it is difficult to draw a simple one-to-one connection between the stock market introduction and the changes in company orientation. However, it is clear that following notation on the U.S. stock market, company success became measured by stock price. What stock price responds to is earnings results and capital reserves – on a quarterly basis. Thus the pressure to show good results every quarter is intense.

Yet stock market trading as we know it has existed since the first half of the 20th century (Roy 1997). Also, both multinationals in this study have been listed on the German stock exchange for years. Why do we have the impression that something is different? Specifically we observe that the pressure for constantly positive financial results has been stepped up and that orientation to the U.S. stock market has gotten stronger, thus leading companies to pursue policies that deliver these results even when it designates a shift in their previous operating philosophy.

One answer potentially lies in a change that has been occurring in the defining features of corporate governance. The post war period, particularly in American capitalism, has been characterized as the era of “managerial capitalism” (Useem 1996). The developments on the stock market in the ‘20s and again after the war were distinguished by lots of small stockholders who did not have a say in the daily operations of an enterprise. Selling or buying of stock among these types of stockholders did not have a major impact on the value or destiny of the company. Without owners as in the days of major capitalists or family run enterprises, managers took over the running of companies and were given a lot of freedom in doing so. “Work was organized within corporations in ways that ensured that managers were the key insiders... “ (O’Sullivan 2000, p. 71) Having no clearly definable owners to answer to, man-
agers found themselves with a lot of autonomy and power to run multinationals. This did not mean a complete absence of accountability. There was a separation between beneficial ownership of corporate stock and strategic control over the allocation of corporate resources. (O’Sullivan 2000) It meant that daily decisions and even long term strategies were much less coupled to instant financial results than seems to be the case today. If managers argued for a certain strategic course in the era of managerial capitalism, they were credited with being most familiar with the needs of the company until proven otherwise.

In Germany, there was also a strong historical tradition of managerial control of enterprises before the war (O’Sullivan 2000). In post war Germany, the industrial landscape has been characterized by a complex system of interlocking shareholding networks including a strong formal presence of bank control in corporations. Labor, represented on the boards of corporations, also has a voice through co-determination. The absence of small shareholders, and the role that financial institutions were willing to play in company processes, has led to a system in which industry was largely insulated from strict market forces. Additionally, the high level managers of industrial enterprises tended to have engineering backgrounds, giving them a different orientation from enterprises run by financial specialists. Together this constellation created a system characterized by the term “patient capital” – a financial orientation supporting Germany’s high quality niche product strategies with a long term perspective. (Deutschmann 2002)

What has changed and seems to be having severe consequences for companies listed on the stock exchanges today is that the market is no longer made up of lots of small nameless stockholders. At present, large fund managers, with extremely large numbers of shares in particular companies in investment, money market or pension funds, have restructured the balance of power between those who run the companies and those who “own” them. Such “investor capitalism” (Useem 1996) is characterized by institutional stockholders who are identifiable actors and can exercise power in influencing the activities of multinationals, especially when financial performance is not leading to the desired stock price performance. Investor capitalism creates a situation in which top management – under pressure themselves – puts extreme pressure on their individual site managements to achieve positive financial results on a regular basis (Dörrenbacher, Plehwe 2000; Kühl 2002). Thus management decisions are now influenced or even controlled by shareholder considerations in a way that did not exist previously. Some authors argue that local management is sometimes pressured into making
decisions that are against their own inclinations or will. One example is being induced to raise dividend shares after a good performance (i.e. distributing profits) rather than saving the money for a “rainy day” fund, which many managers in industrial enterprises will be inclined to do in order to weather the almost certain downturns in business cycles.

As we know, the logic of the market dictates that a poor financial performance has to be met with a fairly immediate response. The response is not pre-determined, but “restructuring” is one of the common answers. Simply cutting personnel won’t necessarily have an effect, but rather has to be part of a larger plan which might involve some form of reorganization (for instance, outsourcing to a supplier, resettlement to a cheaper site, i.e. regime shopping (Streeck 1998; 2001), outplacement, creating a subsidiary, etc.). Although it would be unfair to portray every restructuring measure brought about by financial performance pressure as only being short term and cost motivated, it is true that the extreme orientation to financial outcomes can result in measures that are either cosmetic and not really structural improvements, or even destructive because of their limited horizon. Examples are using external contractors for former in-house tasks, which takes the costs out of the internal accounts even though the costs still exist. Another is selling off segments that are doing temporarily badly, but have a vital importance for product innovation. It has even been implied that one of the strategies of investor capitalism is to pay extremely high settlements or financial packages to top management as an incentive to side with shareholder rather than internal company interests when a conflict between the two could arise. (O’Sullivan 2000)

Obviously the reach of financial orientations embodied in the programs that were described here, affects the working relationship of the employee as well as management. The regular employee possibly feels the direct effects of the programs only marginally in the form of a variety of measures introduced at the company to improve quality, improve productivity, streamline company processes, and potentially in cost cutting measures and job redundancy. The ultimate consequence is of course massive job cuts, sell-off or closure. Given companies’ new orientation to financial results even at the cost of long term considerations, it is not that surprising that employees at local sites are willing to participate in measures that are designed to achieve economic value added targets to save their jobs. However, it is actually local management who will first feel the effects in terms of compensation cuts or removal. Local management is in the unpleasant situation of being obligated to represent central company interests which might include short term goals and measures, yet being oriented to a position
which tends to believe that ultimately a company’s health will, in the long run, be evaluated by its products.

Our study revealed that the programs being implemented by the companies we investigated are geared very much toward the principles compatible with the financial orientations of the “era of investor capitalism.” The programs place the various sites of the multinational companies under severe pressure to achieve set financial targets within fixed time frames. Especially for the German multinationals in this study, this policy represents a break with past practice in which a product-driven strategy was pursued and in which individual divisions were supported through periods of difficulty. What has changed is a much more pronounced short-term orientation to achieve results and a harsher exposure of individual units to economic consequences. A loss of autonomy has taken place to the extent that units at different national sites are more controlled from the central headquarters with regard to transparency in financial outcomes and with regard to meeting established results. Autonomy remains to the extent that the means to improve performance is not prescribed; only suggested, at least up to now.

VII. Governance functions at the local level: the role of systems of employment regulation

Our initial assumption in examining the relationship between global company strategies and industrial relations was that the response at the local level would be affected by the characteristics of the various systems of industrial relations that are found in the three countries in our study. We expected an effect on the implementation process as well as on the specific character that the program would take at the different sites. We set out to investigate these assumptions by asking if the particular architecture of the various systems of industrial relations could predict the responses of industrial relations actors to the implemented programs at the local level? And if there was no clear institutional response from traditional organizations of interest representation, were there nevertheless identifiable reactions at the company level which could be classified as “controls” and could be considered to constitute a form of industrial relations, although not in the sense of national level systems of work regulation? Finally, we wanted to determine if interaction with the programs implemented by the global companies, which were meant to be instituted universally at all of the sites, resulted in identifiable alterations to the industrial relations practices at the local level.
We found that the subtle connection between the strategies being pursued by global companies in the form of optimization programs and the effects on employees makes it difficult for systems of employment regulation to exercise a governance function, even when they are strong. Moreover, most of the effects occur within individual companies, so that only company interest representatives have direct knowledge of the programs. However, they do not have the capacity or the means to respond at a level of regulation. In Germany, for example, codetermination rights are traditionally strong with respect to social and personnel matters but weak in relation to financial and strategic issues (Müller-Jentsch 2000). In France, comité d’entreprise possess expertise for inner company restructuring practices, but not for strategic issues. In all three of our cases, the potential for active response by local actors of industrial relations to program implementation or program results was revealed as being very low.

From the point of view of the systems of employment regulation, it is extremely difficult to respond conflictually to a program that appears so rational and objective. The rules of interaction laid down by the company central headquarters are to improve your products and processes as you see fit, so that your company makes a profit and contributes to good market results. This sounds very reasonable. The measures of performance seem extremely rational and apply to everyone. Thus every unit, every individual becomes a financial optimizer. The implicit agreement between labor and capital shifts from promises of security and a piece of the pie in return for productivity and labor peace to openness to risk from market fluctuations in return for a piece of a faster growing pie, and possibly greater autonomy, flexibility and participation in the direct work process.

The operating principles of “investor capitalism” weaken the governance potential of existing systems of employment regulation whose catalogue of topics for negotiation was determined in the fordistic/tayloristic production era. Program implementation such as those in Companies A and B as well as other shareholder value oriented initiatives in companies, fall outside of established negotiating arenas even in strong systems such as that in Germany. This is even more glaring in the German case in which the works councils were involved in the implementation of the previous program in company A because the management hoped for productivity effects through higher levels of participation. The overwhelming financial thrust of the second program made the inclusion of the work councils irrelevant in the eyes of management. In the U.S. such issues were almost always the providence of management in the form of „welfare capitalism“ and unions rarely played a role. (Jacoby 1997) Thus the content of
negotiation falls completely outside the range of issues regulated in these systems. In fact, negotiation not only takes place more and more at the company level, it is carried out at the individual level. Employees’ performance and agreements on future performance get negotiated with their direct supervisor or the personnel department (in German: Zielvereinbarungen). Thus, the issues that affect their working life directly are less and less subjects regulated by union agreement.

Differences have not been wiped out between systems of employment regulation as a result of financial strategies of MNCs. Diversity remains in the form and strength of the three industrial relations systems in Germany, France, and the U.S. examined here. Nonetheless in „investor capitalism“ new developments in industrial relations are taking place in which areas potentially relevant for negotiation because they strongly affect the working life and conditions of employees, are simply „not occupied“ in the field of bargaining. That is, they are missed completely in the catalogue of negotiated topics of traditional industrial relations actors, regardless of how coherent the system is. This study shows that although there is no convergence in the systems of industrial relations in Germany, France and the U.S. in the sense that their institutional systems are becoming more and more alike, there is the similarity that, when it comes to issues raised through optimization programs and financial control measures, none of the systems display an institutionalized governance function until perhaps the consequences reach the severity of dismissal or closure.

In summary, although the systems of employment regulation vary, there was little possibility for local actors to carry out a governance function in response to the pressure imposed on them by the central headquarters in the form of restructuring programs oriented to financial performance. Informal types of response could be defined as taking control of the restructuring process at a local level to as great an extent as possible, which did indeed occur. However, an organized informal response to counter the pressure from the center was not recognizable. This does not mean that the sites do not have autonomy, nor does it mean that they do not enact participatory measures which give individual employees a voice in the restructuring process. However, the level of autonomy, the ability to actively respond, not to mention their survival, depends on their economic performance. In all cases, the individual sites were exposed to market contingencies over which they do not have complete control. At the same time, their ability to engage in long term strategies for survival was being called into question.
A shift in employment relations has taken place toward a market mediated work relationship which requires a corresponding shift away from employment regulation based on the fordistic production model. (Bechtle, Düll 1988; Meil et al. 2003) At the same time, given the state of the stock market, the present period also has to be seen as a time of flux for the multinationals in terms of defining their strategies for the future. Former positions which presume the extreme rationality of strategies led by financial considerations do not seem to hold up to the arbitrariness on today’s financial markets. Although the old social contract based on principles deriving from the fordistic era will most likely continue to disappear, it is still unclear what will replace it. Perhaps this situation can also be understood as an opportunity for systems of employment regulation to regain a governance function.

**Literatur**


