

**Paper to be presented at the International Conference:
'Multinationals and the International Diffusion of
Organizational Forms and Practices-Convergence and
Divergence within the Global Economy'
IESE Business School, Barcelona, Spain
15th - 18th of July 2004**

First Draft

**Employment Relations as a Resource in the Socio-
Political Construction of Transnational Social Spaces
by Multinational Companies and their Subsidiaries in
Germany and the UK**

Karen Williams

European Business Management School
University of Wales Swansea
Singleton Park
Swansea SA2 8PP
United Kingdom

Tel. +44 (0) 1792 295578

Fax. +44 (0) 1792 295626

E-mail k.williams@swan.ac.uk

Mike Geppert

Centre for Business Management
Queen, University of London
Mile End Road
London E1 4NS
United Kingdom

Tel. +44 (0)7882 7441

Fax +44 (0)20 7882 3615

Email m.geppert@qmul.ac.uk

1. Introduction

This paper discusses the influence of multinational company (MNC) strategies on host country subsidiaries and shows that the German system of employment relations, compared to the British, not just hinders the 'outflanking' of local resistance, but also provides the local actors, managers and employee representatives with resources to actively and passively resist strategies of MNCs directed towards the rationalisation of global business activities. Compared to traditional structuralist and economic studies on MNCs, we apply a more actor centred approach and discuss MNCs as transnational social spaces which are structured by powerful actors' strategies based on resources provided by more or less institutionalised business systems in Germany and the UK. On the basis of recent empirical studies and examples built on our own research, we will show how local actors use employment relations resources as a power source in the social construction of transnational social space.

2. MNCs as a Form of Transnational Social Space

Multinational companies (MNCs) can be seen as a form of transnational social space, a type of transnational community according to Morgan (2001, p.10). They are organizations established to achieve certain goals, which may or may not be purely economic, and the rational management aim is to set up coordination and control mechanisms to achieve those goals. However, they are also human communities made up of a myriad of different actor groups, which are interacting across national boundaries and within these boundaries (ibid, p.11).

Management literature and much academic literature tends to focus on MNCs as rational organizations of economic goal achievement and management as the key actors controlling and coordinating the MNCs to meet the specified targets, increasingly expressed in terms of shareholder value. Theories of universal best practice and benchmarking in structuring organizations and in management practices generally are propounded in the literature, often based

on the MNCs currently achieving the highest levels of shareholder value for the owners or the so-called 'high performers'. These models are transmitted via consultancy firms, MBA programmes and other forms of management training as well as by academic writings. They do, however, provide a simplified view of MNCs, which, at least on the surface, may facilitate management decision-making by providing forms of legitimation of 'rational' decision-making and 'empowering' management, who are seen as the key actors inside the MNCs, acting in the interests of the owners. In terms of subsidiaries, Kristensen and Zeitlin point out that the academic discourse tends to concentrate on the coordination and control of foreign subsidiaries and ways and means to improve this managerial control (2001, p.175).

The sociological view of MNCs, in contrast, looks more at the complex and problematic process of MNC building as extensive transnational communities of actors (ibid, p.192). The myriad of interactions taking place at all levels within the MNC and between it and external actors make the task of management far more complex than just a question of getting headquarter coordination and control right (Morgan et al, 2001, p.18) in terms of operating 'a cohesive and largely hierarchical organization structure' (Kristensen/Zeitlin, 2001, p.172).

The more simplified view of MNCs is carried over into management conceptions about the environment in which MNCs operate. This is reflected in the presentation of the forces of globalization as compelling forces said to drive particular courses of action such as the transfer of manufacturing to the Far East or specific structural changes to the MNC itself. These ideas are discussed below.

3. Structural Determinism and the Construction of Transnational Social Spaces

Global Economic and Technological Forces

There has been a shift in the goals pursued by MNCs from earlier technological imperatives centred on the modernization goal of MNCs in

societies to more financial imperatives in recent years (Kristensen and Zeitlin, 2001, p.193). This, they argue, has led to a lack of coherency in that there is now no clear business logic acceptable to all actors in MNCs (2001, p.193). The concept of shareholder value is being presented as the new business logic for MNCs but there is evidence of different interpretations of what this means in practice even among senior management, as in the numerous interpretations of profit by management in UK large companies (Child, 1997, p.62) and inconsistencies in German management thinking about the liberal market (Lane, 2003, p.98). However, the idea of shareholder value has led to the propagation of competitive and market thinking not just between the MNC and its competitors but also within the MNC between its different business units. Even if the new financial imperatives are commonly understood and accepted, they tend to lead to conflict rather than cooperation within the MNC as in the case of subsidiary management seeking to exploit their own unit's advantages rather than pursuing cooperative knowledge-building behaviour with other subsidiaries and the headquarters (HQ).

These new financial imperatives are communicated to subsidiaries in terms of the forces of globalization, whether in the form of international capital markets or the new global division of labour, necessitating a restructuring of the MNC, its policies and practices by HQ management, to create the best model for meeting the new challenges. This best model is seen as the 'global enterprise', detached from its home base and operating globally in response to the pressures of market forces and technological developments (Mueller, 1994; Parker, 1998).

These views can be seen as part of the internationally dominant 'neo-classical paradigm', which assumes that individuals are driven only by economic self interest and that firms are sovereign, the social context of decision making is ignored (Hollingsworth, 2002, p.14). Indeed, both Hollingsworth and Graham point to the fact that a belief in the unassailable 'invisible hand' of the market is leading governments (often at the behest of MNCs) to destroy the social context or social institutions, which are seen as impeding the free play of market forces (Graham, 1997; Hollingsworth, 1997 & 2002).

Graham points to the dangers of this deterministic view of international market forces for national societies in his essay on Conservative capitalism in the UK (1997, p.127), where he looks at areas of long-term failure. The dangers are also evident for MNCs too if they fail to acknowledge that individuals are embedded in complex institutional environments both inside and outside the organization and are not just rational self-interested calculators of their own utility (Graham, 1997, p.127; Hollingsworth, 2002, p.6). Kristensen and Zeitlin's point to some of the unintended consequences of MNC managers following the 'generalized idioms' of MBA programmes and 'rationalized myths about globalization', which include the fact that HQ management action often bears little relation to what is actually happening in the subsidiaries themselves (2001, p.173-5). Attempts to overcome these problems of control in networked organizations in the form of a common unitary corporate culture often fail since, again, they ignore the effects of the national cultures and regional contexts in which their subsidiaries operate on the actors within the MNC.

3. The National Business Systems Approach: Strengths and Limits

Compared to leading scholars of 'North-American Institutionalism' (see e.g. DiMaggio and Powell, 1983 and Meyer, 2000), who focus on global institutional isomorphism on the American model, 'European Institutionalism' stresses the influence of the macro institutions in the different national business systems (NBS), in which both the MNC HQ and its subsidiaries are based (see e.g. Geppert et al., 2004 and Tempel and Walgenbach, 2003). These are said to lead to differences in structures, policies and practices of both MNC HQ and their subsidiaries (Lane, 2000; Morgan et al., 2001; Whitley, 1992).

The concept of the NBS, or the social embeddedness of the MNC, opens up the construction of MNCs to greater complexities than the sole focus on meeting the demands of global market forces as it points to the need to adapt to different national contexts, indeed to different forms of capitalism itself (c.f.

Crouch/ Streeck, 1997), as well as promoting an awareness of the effect of the MNC's home base system on its operations.

A differentiation is made in the NBS literature between tightly integrated or embedded NBSs, such as the German NBS, and more loosely integrated systems such as that in the UK. The former promote conformity in the operation of firms within their national borders, whilst the latter give MNCs, for example, more autonomy to develop their own strategies (Lane, 2000, p.195).

However, the NBS literature, similar to the American institutionalists, can promote a deterministic view of MNCs as passively exposed to or constrained by the different NBSs as opposed to global contingencies (Lane, 2000, p.71). This leaves little space for the strategic choice of actors and tends to focus on continuity on a national level rather than change. It also provides an incomplete picture of the complexity of MNC operations and sidelines the role of actors in actually shaping their environment.

This paper's focus on the construction of transnational social spaces, however, underlines the key roles played by the actors, including management at all levels of the MNC as well as labour representatives and external actors such as associations and consultancy firms, among many others. Structural features, including global capital and consumer markets as well as national macro-institutions, are socially constructed and open to both stability and change; they are not static objective forces. Although national hegemonic states can, for a time, shape the rules of trade to favour their own industrial sectors and firms, seeking to transfer aspects of their own specific NBS (Hollingsworth, (2002, p.20; Djelic,1998, p.273), they are only partially successful due to the fact that the economic sphere is embedded in historic, legal, political and cultural systems both in the dominant model and in the different economies they seek to influence. Both Hollingsworth and Djelic argue that major restructuring of a society's institutional arrangements are likely to be limited as this requires a major redistribution of power in that society (Hollingsworth, 2002, p.20).

Lane's latest work on changes to the German business system point to the possibility of just such a restructuring on the US model as key political and economic actors in Germany have begun to support such a shift in her view (2003, 92-96). Lane sees a hybrid solution as insufficient to meet what she sees as the irreversible pressure of global capital markets towards shareholder value as the measure of company performance (ibid). There is some support for this view in Djelic's study, where powerful national constraints are said to limit individuals' sphere of action but individuals cooperating in close-knit networks can disrupt and redefine pre-existing institutional constraints (1998, p.278-279). New transnational relationships can disrupt the political balance in a country and lead to change. However, Djelic's conclusions on the attempt by a hegemonic power to redefine Western European economic space in 1945 in the aftermath of a world war show a mixture of convergence with the dominant model of production but also 'persistent differentiation' (ibid, p.271), which raises doubts on the causality between economic and technological/ industry structures and the idea of one efficient model of production.

Tanio et al's work on the Americanisation of Finnish MNCs investigates the impact of a shareholder value orientation on management groups in Finland via relational investing with close relationships between local managers and foreign investors (2001, p.169). Finland is further down the road in terms of 'Americanisation' of its economy than Germany yet divergences are expected to continue despite current turbulent effects on the NBS. Foreign owners were only able to exert a strong influence on Finnish companies in circumstances such as the early 1990s, when Finnish firms were in trouble due to world recession (ibid, p.168). However, locally and nationally distinct ways of governing and structuring Finnish companies continue. Tanio et al. point to a dynamic two-way relationship between local management and foreign owners, in which both sides learn about each others' different rationales-local managers learn about the demands of shareholder value, whilst the owners learn about what is possible in the local product market and the Finnish social and economic context (ibid, p. 169). In the latter case, local managers have the opportunity to articulate their views of the possibilities and limits they are faced with in the home NBS. However, there are constraints to this process

and Ferner et al. point to the importance of 'acceptable rationales' being developed by local management (2004, p.382). Developments in the Finnish NBS indicate that the size of the home country market is positively linked with the strength country of origin effects (see e.g. Noorderhaven and Harzing, 2003).

Structural institutional features can, however, also be seen as resources, which actors are able to make use of to support their own particular rationales and interests in the construction of transnational social spaces. The current paper investigates this process in the case of national employment relations legislation, which can serve as a resource for subsidiary level actors to resist, either actively or passively, MNC globalization strategies.

4. The Socio-political Construction of Transnational Social Spaces

In the study of MNCs we need to link environment and actors to explain some of the complexities of MNC construction. We have outlined examples above of how environment is socially constructed by dominant groups; Child points to the importance of not treating environment as a range of deterministic forces actors must respond to in a given way but to focus on the perception of the environment by dominant actors and how this perception shapes their actions (1997, p.72) i.e. the organizational environment is socially structured not an external determinant of organizational action (p.56). Significant interpretations are made about the environment of organizations by dominant groups and then about the choices of how to respond. This reflects the fact that MNCs as organizations are socio-political systems made up of communities of actors, who occupy transnational social spaces. Different definitions are made about environment and choices by different groups of actors. The mainstream management literature often just focuses on the promotion of one dominant definition, the HQ management definition, but this usually fails to reflect the complex reality within MNCs even at HQ management level, where there are often different definitions of the challenges and the way forward. An example is found in the Finnish MNC we investigated, which had adopted an aggressive global strategy to which managers at all levels were expected to

conform, yet subsidiary managers had found little evidence of a global outlook when they had participated in HQ level meetings.

In micro level studies of MNCs we see some of the political processes involved in the construction of transnational social space in MNCs and the struggles between different groups of actors to decide the social space that they occupy (Kristensen/Zeitlin, 2001, p.173). Human actors are reflective, they have their own interests and rationales and, if strategically aware, may make use of resources to bolster their position; they are not just passively 'acted upon' by either structural forces or senior management edicts (ibid). There is now a considerable amount of literature on how and when subsidiary management seek to extend the mandate given them by MNC HQ managers (see e.g. Birkinshaw and Fry, 1998; Birkinshaw and Hood, 1998). There were clear examples of this in our own research, where the UK subsidiaries promoted the virtues of a customer service based operation in the UK and sought to argue its rationale for the German subsidiaries too as the progressive way ahead. The German subsidiaries in both the US and Finnish MNCs, on the other hand, promoted themselves, and were accepted as such by the MNC HQ, as the manufacturing and R & D high performers for the MNC as a whole.

More actor centred micro-level studies also reveal the limits to HQ management views of their role in a 'rational top down process of institution building' (Kristensen/Zeitlin, 2001, p.191). In their case studies, senior management appeared to buy into 'globalization mythology' but showed a weaker international focus than their subsidiary managers, spending less time abroad and more time watching their own backs in the HQ and promoting their own careers (ibid, p.173). In addition, their focus on purely financial and accounting concerns led to irrational decisions about the role of subsidiaries and a gulf between what the HQ assumed was happening and what was actually happening in the subsidiaries.

5. Power and politics in the construction of transnational social spaces

The examples above give insight into the political processes involved in constructing transnational social spaces at all levels of the MNC and external to the MNC too. MNCs are not homogeneous social actors but communities with a multiplicity of actors (Morgan, 2001, p.2), each with their own particular perceptions of how transnational space should be constructed.

However, not all actors are equally powerful. Many studies single out top management as the strategic actors in organizations, with the capability to interpret the environment and translate it into structures by their decisions (Daft and Weick, 1984; Child, 1997). Their beliefs, goals and political awareness are seen as important in this interpretative process and they may adopt a range of responses from passive acceptance of environmental pressures to active approaches to interpret the environment (Daft and Weick; Oliver, 1991). Even just focusing on the role played by strategic managers in a standard organization, their task is described as 'an awesomely complex human activity' (Daft and Weick, p.294). This is multiplied manifold when we consider the true complexity of MNCs and the wide range of actor groups involved in interpretative behaviour. Child points to the importance of other groups in relation to strategic managers since there are mutual dependencies between groups and management has to preserve features valued by other groups of actors and be aware of what is collectively acceptable (Child, 1997, p.51).

Micro-level studies of MNCs bring to light the importance of other groups of actors apart from strategic management at HQ level: for example, the interaction between different types of management in MNCs: HQ management-expatriates and local management (Moore, 2004; Morgan, 2001, p.18), although the same individuals may occupy a variety of managerial positions over time. Morgan makes the point that relations in MNCs are neither cohesive nor hierarchical but show 'conflicting and distinctive patterns of alliance, cooperation and conflict with others' (both inside and outside the MNC itself) (ibid, p.18). This is evident in the struggles subsidiaries engage in with each other and with the HQ to decide the social

space they will occupy (Kristensen/Zeitlin, 2001, p.182). Subsidiary managers have their own reflections about the future of their units and often develop their own programmes independent of the HQ, which reflect their different outlooks and languages (Morgan, 2001, p.14). This is obvious when we reflect on the social embeddedness of firms in their respective NBSs and the different goals and values of actors socialised in different national settings. However, the strength of the national institutional environment varies so that some actors have more scope to adopt goals and values other than those of the national system-we found this to be the case in the UK, whereas the German subsidiaries investigated were still very much embedded in the German system, which strongly influenced their definitions of the roles they should play in the MNCs i.e. high skill customised manufacturing and R & D functions.

In contrast to the UK subsidiaries, the German subsidiaries in addition revealed the strong roles played by labour representatives at supervisory board and plant levels. They too entered into the decision making process, which is characterised by political bargaining and negotiation (Morgan, 2001, p.10; Child, 1997, p.43-46). We want to show in this paper how the German national institutional environment furnishes labour representatives and subsidiary management with additional power resources to be able to resist MNC HQ edicts. They have the potential to make strategic choices and more power to negotiate at the subsidiary level because of a combination of factors (see Child, 1997, p.57), which include:

- **the possession of critical resources** including engineering design and manufacturing skills, R & D skills, which enable them to achieve high levels of performance and meet MNC HQ targets, as well as employment relations legislation, which mandates their role in the decision making process i.e. certain crucial decisions cannot be taken against their will
- **the ability to appeal to national regulatory bodies** on both technical and employment relations issues
- **attributes of both local management and labour representatives, which enable them to be skilful negotiators**

Just as Djelic points to the fact that social systems are not designed by powerful actors but are the by-product of actors seeking different goals, so the construction of MNCs is not the design of HQ managers, however much they may argue this is the case, but the by-product of myriads of interactions by groups of actors often with very different perceptions and goals. Kristensen and Zeitlin go so far as to say that MNCs are 'an unintended consequence of the very process of globalization and strategic interaction among many agents, each following distinct local logics of action' (2001, p.189). This process leads to accumulated shared misinterpretations, they argue, as each player follows their own logic, which is often not understood or accepted by the others (ibid).

These arguments fit well with Streeck's critique of economic voluntarism, which downplays the role of social institutions for organisational performance. He develops the idea of 'beneficial constraints' of dense institutional arrangement as in Germany (Streeck, 1997), which are not only the restraining forces of economists, but also enable strategic choices of local companies.

6. Employment Relations as a Resource in the Construction of Transnational Social Spaces

National Institutions as resource for local actors

Previous sections have described MNCs as transnational social spaces, which are emergent and subject to both continuities and change. One area of continuity, at least in the short to medium term, is related to the institutional environment in which organizations and the people that constitute them operate. We have shown how institutional environments vary in the strength of influence they exert over actors (Hollingsworth, 2002, p.19) and therefore action is more or less deeply embedded depending on the society in question (Lane, 2000). Companies in Germany are subject to high social embeddedness as they are tightly integrated into associational and industrial networks with strong values and norms derived from the 'craft and

bureaucratic tradition in Germany's industrial legacy' (Lane, p.195). The greater institutional rigidity of the German system means companies operate in a stable and predictable environment (Ferner et al., 2004, p.385). In the UK, in contrast, firms are subject to a lesser degree of institutional embeddedness and have greater autonomy to determine their own structures and policies, although the downside is that they have fewer supports and resources from institutions (ibid) and are less able to engage in collaboration and cooperation compared to a highly coordinated business system (Saka, 2004, p.221). The issue of embeddedness has influenced the production paradigm in both societies, with Germany pursuing a diversified quality production model, whilst low cost, standardized production is favoured in the UK (Lane, p.196).

The national institutional environment can thus provide both resources and dependencies. This helps us understand the dilemma faced by German companies tempted to disembed themselves from the German NBS (Lane, 2000, p205 and Lane, 2003) i.e. they seek to break loose from the 'restrictions' of the NBS or the dependencies and go 'international' but in the process may forfeit the resources which the system provides and on which their high performance has depended in the past, such as cooperative and peaceful industrial relations with low strike levels and a highly skilled and flexible workforce (see Schmidt/Williams for further debate on different attitudes of German managers to this issue).

Kristensen and Zeitlin (2001, p.191) illustrate the importance of context in providing resource possibilities or tools for strategically aware managers of subsidiaries. Our own research provides examples of such managers in Germany making use of their technological and innovation expertise and key links with external actors such as universities to argue their case for the MNC situating their international R & D centre in Germany rather than in the US. Resources made possible by the German institutional context gave these actors not only a strong influence on MNC global strategy formulation, but also hindered the implementation of short term financially driven measures, as we have witnessed British subsidiaries. Management in the UK subsidiaries similarly made the best of the limited resources their national institutional

context provided by arguing for the transition from manufacturing to customer service centres in the UK and even promoting this as the way forward for the German operations too (Geppert et al., 2003).

Below we want to explore the resources national systems of employment relations can provide for subsidiary management and workplace representatives in arguing their case in the development of transnational social space in the MNC.

7. Employment Relations as a Resource for Subsidiary Level Actors

Employment Relations in Transnational Social Spaces

Employment relations may be more tightly embedded in a NBS and thus an area where there are more likely to be constraints on MNCs than institutions such as the financial system since transnational employment institutions including the ILO and International Trade Union Federations are so much weaker than the institutions of transnational capital (Tempel and Walgenbach, 2003; Ferner et al., 2004, p.387). There is limited evidence of a global inter-organizational network of actors capable of regulating employment relations to date and the European Union example of efforts to create a Social Dimension to the Single European Market show limited shaping of the transnational employment relations space so far. Although European Works Councils have been introduced by EU legislation, their actual influence on constructing transnational social space in Europe is limited up to now due to their predominantly information-only based rights. Even this limited influence is undermined by the fact that many MNCs have not established a European Works Councils or, if they do, they strictly limit their role in MNC decision-making. Hanke (2000) argues that the lack of a wider coordinated and strategic response from trade unions means that management is able to use the European works councils as a management tool to restructure their industry.

This lack of effective international institutions to shape employment relations helps to explain why global capital is increasingly dictating the terms of

employment and this is increasing with a disembedding of newly internationalised companies from their national bases as in the German case (Lane, 2003), often in a bid to avoid restrictive employment regulations in the home base. Crouch and Streeck investigate the process of MNCs seeking more autarchy from their home social and political environments and their attempts to turn themselves into 'institutional firms' (1997, p.16). This process has been longstanding in US MNCs, where the low level of collective identities in the US population has facilitated the development of social engineering in the form of HRM inside large companies (ibid, p.9). Companies seek to internalise and privatise social infrastructures into social relations inside the company to serve company objectives. Examples include the fostering of company identity and loyalty and the concept of HRM itself, which sublimates the management of the workforce to the service of company goals and seeks to exclude all external collective identities. American MNCs, it is argued, have helped to destroy the social fabric and social institutions in the US (ibid, p.17-18, note 4) and, since the demise of Communism, now exhibit a low tolerance of economic and institutional autonomy in other countries too (ibid, p.18). Increasingly, MNCs are removing themselves from public governance at national level and there are few signs of the development of public governance of MNCs at international levels to replace it (ibid, p.17).

Notwithstanding this, some countries still exhibit strong public governance of companies at national levels and Germany is a good example of this. Streeck provides a detailed summary of the main institutions of German capitalism and the strong position, which labour holds within it (1997, p.36). German capitalism has itself been socially reconstructed since 1945 and is the outcome of political negotiations, taking a legally constitutionalized form, in which companies are viewed as social institutions (ibid, p.37).

8. The Social Construction of Employment Relations in Germany and the UK

Employment Relations in Germany

The 'German model' of capitalism and, in particular, its system of industrial relations based on 'Mitbestimmung' has come under pressure from academics and management elites as a 'disruptive element' in the globalisation of markets and 'location disadvantage' for FDI (see e.g. Discussion Paper by the Hans-Boeckler Foundation, 2004 for an overview). Streeck, however, sees 'beneficial constraints' resulting from the strong position of labour in the German system of capitalism based on a number of factors, which include (Streeck, 1997, p.37-39):

- legal codetermination rights for labour exercised through works councils at plant and company levels and through worker representatives on companies' supervisory boards
- near universal collective bargaining coverage via legally based industry level agreements, which can be extended by law
- extensive legal regulation of working conditions
- labour being treated as a fixed asset, which has encouraged employer investment in skills
- joint governance of labour markets and a post-war settlement between capital and labour, which has legal foundations and is still intact
- an economic culture which prefers quality and has promoted diversified quality production (DQP)
- the importance of professional competence (ibid, p.40) with many German managers having engineering qualifications and their authority is based on their superior technical knowledge
- an extensive and high quality vocational training system, which institutionalises work-related knowledge

All these factors from the German social context provide resources that both labour representatives and subsidiary managers can use to make their

interests count in the construction of transnational social spaces in MNCs. They are particularly powerful resources where MNCs decide they need local responsiveness rather than global integration in their subsidiaries (Morgan, 2001, p.7). German diversified quality production may act as a buffer against the global tendency towards shareholder value orientation since it is the key component of German manufacturing competitive advantage and is based on a strong labour role in shaping employment relations both inside and outside the companies (see Lane, 2002, p.98).

Employment Relations in the UK

The UK employment relations context is much less regulated than in Germany and less unified (Lane, 2000, p.195; Geppert et al., 2003). Traditionally, the UK has operated a 'voluntarist' system of employment regulation, where regulation is left to 'gentlemen's agreements' between unions and management. This system of regulation has been weakened by the decentralisation of bargaining to company and plant levels and the adoption by management of a variety of employer-dominated strategies, which have often gone under the heading of 'human resource management' but rarely reflect the type of intensive social engineering adopted by large US companies mentioned earlier. The UK business system itself is less integrated and firms are much less embedded in the UK NBS than in Germany. This gives firms more autonomy to formulate their own practices but equally provides fewer resources for them in managing the business and labour is in a much weaker position, being forced to rely on managerial good will rather than legal safeguards of their role. Lane argues this makes the UK NBS much more vulnerable to the undermining influence of domestic and foreign-owned MNCs. However, although UK institutions and institutional arrangements have been weakened since 1979 and labour has few legal resources to use in making collective worker interests count in the construction of transnational social spaces, studies show ongoing obstacles to the actual implementation and effective operation of management techniques at individual and group levels within companies (Elger/Smith 1995; Saka (2002); Sharpe 1997; Graham, 1997, p.130-132 on low morale problems). Thus, weak institutional embeddedness of British subsidiaries does not appear to support high

commitment and trust relations between management and workers, a core element of employment relations in Germany.

Subsidiaries' Use of Employment Relations as a Resource

In our research into the UK and German subsidiaries of three MNCs in the Lifts and Escalator manufacturing sector we found only a few examples of resistance from either management or labour representatives to the globalization strategies of the MNCs in the UK subsidiaries. Only one UK subsidiary was still involved in manufacturing, others had been transformed into customer service centres only. Interestingly, the one UK manufacturing plant continued to benefit from its close links with its former German parent company, which had since been acquired by a large Finnish MNC and now operated as the lead manufacturing and R & D centre for the whole MNC. The only other resource UK labour representatives referred to was links with German works councillors in the German MNC, who communicated information from their meetings with management at supervisory board level in Germany about the MNC's operations and plans to their UK counterparts. UK labour representatives referred to the indignation of UK management at the fact that labour representatives were better informed than they were about company plans. There was as yet no indication that UK representatives were able to use the information to represent the interests of UK employees in the company. Closure of the MNC's UK manufacturing operations had gone ahead with the blessing of UK management, which saw it as a progressive move as value added was to be made in customer services not manufacturing in their view. They saw the UK employment relations climate as a positive resource since it facilitated the speedy closure of the plants with the minimum amount of fuss, which had surprised HQ management.

In the German subsidiaries of the three MNCs, however, we found examples of the use by local management and labour representatives of the power resources afforded them by the German NBS to put forward their own views on the future development of the MNCs, examples of subsidiary actors' involvement in the socio-political construction of transnational social spaces.

In this paper we want to concentrate on their use of employment relations as a power resource. Elsewhere we have discussed the use made of other resources such as engineering and R & D prowess and the high level of plant performance compared to other subsidiaries in the MNCs to shape the role played by the German subsidiaries (Matten and Geppert, 2003).

Our research shows that the dynamics of the relationship between the Finnish HQ and subsidiary management and labour representatives in Germany was the strongest case of the local use of employment relations resources to resist a MNC HQ strategy of global standardization. In the other subsidiaries, there was no focussed HQ attack on the role of the German subsidiaries in DQP to call forth the open use of this resource by local representatives. However, recent news that one of the American MNC's German subsidiaries is to close and manufacturing is to be transferred to China is already calling forth strategic appeals from labour representatives to external regulators in Germany to seek to halt the process or force negotiation of the process. This illustrates the pressures on the German industrial relations system from a neo-Fordist production model based on low wage and skills and limited worker participation.

In the German subsidiary of our Finnish MNC there was a full use of the rights accorded works councillors in the Works Constitution Act to resist the imposition of a new MNC model based on the global manufacture of a standardized escalator. This took place after plant level management resistance had been overcome by the replacement of the German management team by Finnish expatriate managers from the Finnish HQ. Resistance from middle management was being overcome by replacement of those engineers viewed by the HQ as 'too German' in their outlook towards research and development. The works council, no doubt with middle management support, was taking what seemed to be the last stand of the plant against the programme of standardization.

The works council used its codetermination rights to block all changes to the system of wages and working hours and also resisted any changes in work organization towards a more standardized and automated system of

production. Surveillance and closer monitoring of the workforce by the implementation of a new software controlling system (SAP) were blocked by the works council resisting the transfer of personal data under the Federal Data Protection Act and thus preventing management from measuring productivity levels. Management commented:

‘ It’s normal for the works council to be very obstructive...certain things planned could therefore not be introduced here...we have to look for new solutions’.

Contrary to the globalising ethos of the MNC, local Finnish management will be forced to implement local solutions in many areas in the German subsidiary. They accepted that existing agreements with the works council ‘are hard to change’ so they will have to think of another solution. It is little wonder that one manager talks about the ‘Scheissbetriebsrat’ (‘bloody works council’) as a thorn in the flesh of management and a serious obstacle to the implementation of a global controlling system. This strategy of the works council had been successful thus far in blocking the imposition of the new model of production and its organizational supports, which had been developed at HQ level over a number of years. The German subsidiary was the last one in the MNC to roll out the programme and it had effectively blocked its successful implementation in what was the lead manufacturing and R & D centre in the Finnish MNC. These problems were documented in a company report, which made reference to the issue that the German subsidiary was not the ‘hotbed’ of the company’s culture.

9. Concluding Discussion: Employment relations as a resource for local autonomy and to impede of global strategies of outflanking resistance

In this section we come back to our initial discussion about why we see evidence that employment relations in cooperative business systems such as Germany are still ‘beneficial’ in the age of globalisation. Our discussion has shown that MNCs operating in Germany compared to the UK face greater restraints on strategies directed towards greater integration and that the German system of employment relations provides resources for local actors to

make their own strategic choices and hinder global strategies directed towards the 'outflanking' local of resistance (Clegg, 1994). Interestingly, Hancke's study of the operation of European works councils in the car industry found that Germany was the only country investigated with formal agreements negotiated by management and works councils across all car companies to secure employment and production location across all German plants and to discuss training, retraining, career development and investment guarantees (2000, pp.41-42).

Child argues, in line with resource dependency approaches (see e.g. Pfeffer and Salancik, 1978), that the 'command of critical resources', 'resources that are vital for the operations of an organization', is the basis for interorganizational power (1997, p.57). We found examples of the use of all Child's power resources, which facilitate strategic choice in organizations, in the Finnish MNC's German subsidiary:

- **critical resources** e.g. strong legal rights in the area of employment relations as well as engineering and R & D expertise and advanced manufacturing skills
- **achievement of expected performance** e.g. evidence given in the fact the German company was made the lead manufacturing and R & D centre for the MNC
- **skilful negotiators** e.g. labour representatives exercised their legal rights effectively in order to safeguard skills, employment (see Lane, 2003, p.86)
- **ability to appeal to external regulatory bodies** e.g. on technical standards, works council rights (labour courts and arbitration bodies could be referred to if need be)
- **actors' own attributes** e.g. individuals skilled in reflecting on and discovering possibilities in new situations and able to win the support of local stakeholders, they see the room for manoeuvre and can exploit it (Kristensen/Zeitlin, 2001, p.191)

Lane points in addition to the importance of the local strength of labour in order to be able to effectively use their legal rights (2003, p.86). This is linked

to the degree of dispensability of workforce technical skills and activists' social and political resources and capabilities. This is needed even where regional and national contexts are favourable to labour but in turn, certain contexts are more favourable for producing potential strategists as they provide tools for strategic experimentation (Kristensen/ Zeitlin, 2001, p.191).

An additional factor mentioned by Kristensen/ Zeitlin (*ibid*), and one important in the context of the Finnish MNC, is that 'long established independent firms have their own narratives', which they bring into the MNC. The German subsidiary was a long established, successful specialist producer of escalators, which the Finnish MNC had acquired to learn from as it had only lift manufacturing expertise itself. The German local actors resisted attempts by the MNC to take away what they regard as the skills underlying their success and they were supported in this by the German institutional context, which underpins DQP not standardized production. The tight integration between the different components of the German NBS, particularly the tight nexus of manufacturing, R & D expertise and customer service as well as the supporting elements of the employment relations context, make it difficult for the Finnish MNC to alter the manufacturing process in isolation. Local actors presented the plant as an integrated package and this may make it difficult for the MNC to detach manufacturing and transfer it to the Far East whilst still retaining the German R & D skills it prizes.

This example illustrates some of the limits to MNC HQ imposition of new global systems of standardized production in tightly integrated NBSs. There was no evidence of a common corporate culture, the subsidiary instead used values and language derived from its own NBS to present its own picture of how the MNC should develop (Geppert, 2003, p. 327; Hollingsworth, 2002, p.14). Instead of a unified transnational community, the evidence was more in line with Kristensen and Zeitlin's findings that MNC HQs are orchestrating competition not cooperation among their subsidiaries and relations resemble more a battlefield than an integrated community (2001, p.193), where it is rational to exploit other units for the benefit of your own local aspirations: The MNC, rather than imposing an ethnocentric logic on subsidiaries...becomes instead a battlefield among subsidiaries representing and mobilising their own

regional capabilities and national institutional means against the rest.' (ibid, p.192)

Highly institutionalised employment relations systems such as in Germany have a powerful influence on national systems of production and are tightly bound up with them. Hollingsworth argues, for example, that the US 'rules, norms and arrangements, which influence practices of industrial relations' limit its national production strategy so it is unable to produce high quality goods in traditional industry sectors (1997, p.145). The coercive power of the German regulatory system (Morgan, 2001, p.19), which, in contrast, presents an institutional environment rich in collective goods, favours flexible systems of production in traditional industries (Hollingsworth, 1997, p.146).

Lane can detect no changes in employment relations legislation and employee stakeholders still exert some degree of control in companies in Germany but she argues it is becoming more difficult for employees to voice their demands as the competitive environment intensifies (2003, p.91). There is also evidence that German MNCs may be moving new investment in production to other countries with weaker legal requirements (2000, p.195), whilst employing coercive comparisons to force down wages and working conditions in German itself (ibid).

However, NBSs will continue to 'provide actors with vocabularies and logics for pursuing their (own) goals' within MNCs (Hollingsworth, 2002, p.14) and organizations are not sovereign but reflect the outcomes of a variety of needs, preferences and choices of actors within and external to them (ibid). This leads to conflicting patterns of alliances, cooperation and conflict in the socio-political construction of transnational social space (Morgan, 2001, p.18).

Kristensen and Zeitlin (p. 192) point out that it is open to debate whether such activity is good or bad-this depends on the commentator's own rationale. Powerful interest groups within societies and operating in transnational social spaces are seeking to subordinate diverse regional national business and technical logics into a common project focused on shareholder value orientations as Lane has demonstrated (2003). However, micro-level

investigation of actual social practices in MNCs and their subsidiaries would appear to indicate the problematic and transitory nature of such a quest.

References:

- Bartlett, C./Ghoshal, S., (1989): *Managing across borders: the transnational solution*, Harvard Business School: Boston.
- Birkinshaw, J./Fry, N., (1998): *Subsidiary to develop new markets*, *Sloan Management Review*, pp. 51-61.
- Birkinshaw, J./Hood, N., (1998): *Multinational subsidiary evolution: capabilities and charter change in foreign-owned companies*. *Academy of Management Review* 23/4, pp. 773-795.
- Child, J. (1997), *Strategic choice in the analysis of action, structure, organizations and environment*. *Organization Studies* 18/1, pp.43-76.
- Clegg, S.R., (1994): *Power relations and the constitution of the resistant subject*. In: Jermier, J./Knights, D./Nord, W. (eds.), *Resistance and power in organizations*. Routledge: London, pp. 274-325.
- Crouch, C./Streeck, W. (eds) (1997): *Political economy of modern capitalism: mapping convergence and diversity*, Sage Publications, London
- Daft R.L./Weick K.E., (1984), *Towards a model of organizations as interpretation systems*, *Academy of Management Review* 9/2, pp.284-295.
- DiMaggio, P. J./Powell, W.W., (1983): *The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields*. *American Sociological Review* 48, pp. 147-160.
- Djelic, M.-L., (1998): *Exporting the American model: the postwar transformation of European Business*, OUP, Oxford.
- Elger, T./Smith, C. (1995), *Global Japanization?*, In: Elger, T./Smith, C. (eds), *Global Japanization? The transnational transfer of the labour process.*, pp. 31-59.
- Ferner, A., et al., (2004), *The Dynamics of Central Control and Subsidiary Autonomy in the Management of Human Resources: Case Study Evidence from US MNCs in the UK*, *Organization Studies*, 25 (3), pp.363-391.
- Geppert, M., (2003), *Sensemaking and politics in MNCs*, *Journal of Management Inquiry*, 12/4, pp.312-329.
- Geppert, M./Williams, K./Matten, D., (2003): *The social construction of contextual rationalities in MNCs: An Anglo-German comparison of subsidiary choice*. In: *Journal of Management Studies* 40/3, pp. 617-641.
- Graham, A., (1997): *The UK 1979-1995: myths and realities of conservative capitalism*, In: Crouch, C./Streeck, W. (eds), *Political Economy of modern capitalism: mapping convergence and diversity*, pp.117-132
- Hans-Böckler-Stiftung. *Zur Kritik der Mitbestimmung im Aufsichtsrat. Fakten für eine faire Arbeitswelt*. Discussion Paper, February 2004.

- Hancke, B., (2000), European Works Councils and Industrial Restructuring in the European Motor Industry, *European Journal of industrial relations*, 6 (1), pp 35-59.
- Hollingsworth J.R., (2002): Some reflections on how institutions influence styles of innovation, Paper presented to Swedish colloquium for advanced study in the social sciences, 26.9.02.
- Hollingsworth, J.R., (1997): The institutional embeddedness of American capitalism, In: Crouch, C./Streeck, W. (eds), *Political Economy of modern capitalism: mapping convergence and diversity*, pp.133-147.
- Kristensen, P-H/Zeitlin, J., (2001): The Making of a global firm: local pathways to multinational enterprise, In: Morgan, G./Kristensen, P.H./Whitley, R. (eds), *The multinational firm*, OUP, Oxford, pp172-195.
- Lane, C., (2000): Understanding globalization strategies of German and British MNCs: Is a 'societal effects' approach still useful?, In: Maurice, M., Sorge, A. (eds), *Embedding Organizations*, John Benjamins Publishing Company, Amsterdam, pp189-208.
- Lane, C., (2003): Changes in corporate governance of German corporations: convergence to the Anglo-American model? *Competition and Change*, 7/2-3, pp.79-100.
- Matten, D./Geppert, M. (2002): Institutional Foundations of Manufacturing Strategies in Multinational Corporations: Evidence from Britain and Germany. Paper presented at the 18th EGOS Colloquium, Standing Working Group 1: Comparative Study of Economic Organizations, Barcelona.
- Maurice, M./Sorge, A., (eds) (2000): *Embedding organizations*, John Benjamins Publishing company, Amsterdam.
- Meyer, John W., (2000): Globalization: sources and effects on national states and societies. *International Sociology* 15, pp.233-248.
- Moore, F., (2004), *Governing the Outposts? Exploring the role of Expatriate Managers in a German MNC*, 4th Annual EURAM Conference, St. Andrews, Scotland.
- Morgan, G./Kristensen, P-H./Whitley, R., (eds) (2001): *The Multinational firm: organizing across institutional and national divides*, OUP, Oxford.
- Morgan, G., (2001): The multinational firm: organizing across institutional and national divides. In: Morgan, G./Kristensen, P.H./Whitley, R. (eds), *The multinational firm*, OUP, Oxford, pp. 1-24.
- Mueller, F., (1994): Societal effect, organisational effect and globalization, *Organization Studies*, 15/3, pp. 407-428.
- Noorderhaven, N. G./Harzing, A-W., (2003): The "country-of-origin-effect" in multinational corporations: sources, mechanisms and moderating conditions." *Management International Review* 42/2: pp.47-66.
- Oliver, C., (1991): Strategic responses to institutional processes, *Academy of Management Review*, 16, pp. 145-179.
- Parker, B., (1998): *Globalization and business practice: managing across boundaries*, Sage, London.
- Pfeffer, J./Salancik, G.R., (1978), *The external control of organizations: a resource dependence perspective*, Harper&Row: New York.

- Saka, A., (2002): Institutional limits to the internalisation of work systems-a comparative study of three Japanese MNCs in the UK, *European Journal of Industrial Relations*, 8/3, pp.251-275.
- Saka, A., (2004), *The Cross-National Diffusion of Work Systems: Translation of Japanese Operations in the UK*, *Organization Studies*, 25 (2), pp.209-228.
- Sharpe, D. (2000), *A Japanese multinational in the UK* In: Morgan, G./Kristensen, P.H/Whitley, R. (eds), *The multinational firm*, OUP, Oxford, pp.196-221.
- Sharpe, D. (1997), *Compromise solutions-a Japanese MNC comes to the UK*, In Whitley, R. et al (1997) 'Governance at work-the social regulation of economic relations', pp.
- Streeck, W. *German system German capitalism: does it exist? can it survive?*, In: Crouch, C./Streeck, W. (eds), *Political Economy of modern capitalism: mapping convergence and diversity*, Sage , London, pp.33-54.
- Streeck, W., (1996), *Lean production in the German automobile industry: a test case for convergence theory*, In Berger, S./Dore, R., (eds), *National Diversity and Global Capitalism*, Cornell University Press, New York, pp. 138-170.
- Streeck, W., (1997): *Beneficial constraints: On the economic limits of rational voluntarism*, In: Hollingsworth, J.R./Boyer, R. (eds), *Contemporary Capitalism: The embeddedness of institutions*, Cambridge University Press: Cambridge, pp. 197-219.
- Tanio, R./Huolman, M./Pulkkinen, M., (2001): *The internationalization of capital markets: how international institutional investors are restructuring Finnish Companies*, In: Morgan, G./Kristensen, P.H/Whitley, R. (eds), *The multinational firm*, OUP, Oxford, pp.153-171.
- Tempel, A./Walgenbach, P., (2003): *Global standardization of organisational forms and management practices?: combining American and European institutionalism*. Paper presented at the 3rd Conference of the European Academy of Management, Milan.
- Whitley, R. (ed): (1992): *European business systems*, Sage, London.