

# Globalization and Financialization as Triggers for Enterprise Reorganisation and the Impact on Industrial Relations\*

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## 1. Introduction

It is indisputable that the industrial relations system plays a crucial part in sustaining the model of post war capitalism in Germany that many scholars have analyzed under various headings, such as “Model Germany” (Schlupp 1979; Schroeder 2000; Schroeder/Esser 1999), “Rhenish Capitalism” (Albert 1991) or a variant of Mesocorporatism (Amable/Barré/Boyer 1997). It is equally uncontroversial that both - German industrial relations and “Model Germany” - have come under pressure in the wake of the decline of the “Golden Age” of Fordist regulation (Marglin/Schor 1990). Taking serious one of Regulation Theory’s central contentions, namely that that perfect match between societal subsystems should in fact be taken as the outcome of a highly contingent historical instance (“trouville”) and as limited in time, we argue, that the question of whether and how a constellation of comparable coherence and stability could be recaptured, should not be taken as the leading question for an analysis of the actual developments and perspectives in industrial relations. The pertinent question is rather, in what way actors and organizations maintain their room for maneuver and capacity to act under the conditions of continued contradictions and uncertainty, and on what resources they can draw while doing so. For this reason we will not take into consideration all those aspects of the crisis of industrial relations in Germany that result from the disintegration of the Fordist regulation regime, especially from outcomes of general mass unemployment on union strategies that

are strongly linked to full employment as their precondition (Kädtler 1986). Instead, we focus on particular bargaining constellations and ask for the resources that might enable trade unions and employee representatives to gain power and use it in these constellations.

We will concentrate on one particular aspect of this question, namely the significance of locally embedded positions and thus power resources in bargaining situations that works councils in large companies, and especially within companies that reorient themselves transnationally, may have. One consequence of this increasing transnational orientation is a widespread loss of significance and autonomy on the part of individual production sites or national societies, at least as far as the formal organizational structures in these large transnational companies go. In view of the decisive role that large companies have always played for the shape of industrial relations in Germany and, we submit, will continue to play, studying the distribution of power within large transnational companies will capture central aspects of possible future developments in the area of industrial relations. We would like to emphasize, though, that this leaves out other important aspects of the ongoing transformation of company and industry structures.

We will proceed in three steps. In the following section we will briefly outline the connection between institutional arrangements and locally based power positions in the context of German industrial relations. We will also describe the possible repercussions of organizatio-

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nal globalization in this context. In the third and fourth section we will present some evidence on restructuring in the chemical and pharmaceutical industry and in the automobile industry. The final section of this paper presents our tentative conclusions about future developments in industrial relations in the emerging field of tension between the production side of the economy and the increasing weight of financial markets.

## **2. Industrial Relations between Local Embeddedness and Organizational Globalization**

The regulatory effects of the German system of industrial relations are essentially a function of their deep-seated basis in local bargaining constellations, even though statutory and organizational structures on the national level or the organizational capacities of employers' associations are constitutive preconditions. The extent to which employee representatives can use their statutory rights of participation in company decisions or their veto powers, crucially depends on the support that works councils can obtain and maintain while trying to utilize the venues of influence at their disposal. As the vast majority of works councils are union members, the reputation that works councils build when using their statutory codetermination rights then becomes a key determinant of union attempts at recruiting and mobilizing members.

One important aspect in this is the proximity to relevant decision-makers in the local context. The significance of local power positions depends strongly on the room for maneuver and decision scope of their counterparts in the management-camp. At the same time permanent personal contact between employee representatives and representatives of the company management becomes an important additional avenue of influence, which may go much further than all statutory regulation of participation rights. The presence of employee representatives, usually works councilors and union members, on the supervisory boards of large companies is equally im-

portant. The way in which these different arenas are related and linked to one another (often by means of personal contacts) determines the kind and the extent of effective influence as well as the balance of power in companies.

Within this syndrome of statutory codetermination rights, company-internal power positions, and informal relationships of communication and trust, emphasis can be on different aspects. In some companies employee representatives hold strong primary power positions on the shop-floor, but only marginal positions on supervisory boards, while in others both levels are complementary to one another and strengthen each other. Still others concentrate on intense and highly informal contacts to the board of directors, and the results that can be reached on this level play a crucial role in legitimizing works councils members in the eyes of a rather passive work force. In the following we will demonstrate that the established configurations of power and influence strongly affect the development of bargaining constellations once companies start becoming active on a global scale.

By referring to globalization of companies, instead of globalization of markets, or even globalization without further specification we seek to take into account the fact that company strategies are more than direct reflections of market conditions. The elimination of barriers of trade, the falling costs of transportation, the dynamic development of information and communication technologies, etc. all generate new options on the bargaining agenda that cannot simply be ignored in a competitive environment. They remain the background for behavior under the conditions of bounded rationality (Simon 1949, 1995, 1982). This means that they are at the same time the limits and the backdrop for decision-makers' assumptions about the certainty they face when devising their corporate strategy. The effect of a changing environment for the companies then becomes a function of companies' choice of strategy (Child 1972, 1997). Things like given product and market conditions, existing skills and opportunities, the influence of different

actors and maybe even their guiding ideas are all important factors of influence in these choices. The result of the process is - in the best case - feasible business strategies, but by no means inevitable or irreplaceable ones. Other strategies in their place would have been possible in principle. As far as there is indeed some degree of pressure toward unambiguous best practices of business models and corporate strategies, this pressure has its sources not in imperatives of the production economy, but in guiding principles and fads of the financial markets.

Financial markets in this context must not be seen as markets, but as an institutionalized public. Large publicly traded companies do not finance their business by issuing shares, but instead heavily buy back their own shares in the 1990s. Therefore the power of financial markets on business strategies is not the outcome of financial dependency. Instead it derives from the financial community's ability to define norms, visions, and even fashions, that become decisive for business strategies (Kädtler/Sperling 2002; Orléan 1999). These become effective in companies, when top management refers to them in order to develop and/or to legitimize business strategies. And there is no simple answer to the question, to what extent top managers must be seen as driven by or as actively promoting those requirements of financial markets. The more these become current opinion, the more it becomes difficult for individual managers, not to follow them. On the other hand, as shareholder-value-management is strongly connected to rising management income, there is no really strong motivation for managers to dissent at this point. In any case, financial markets do not provide unambiguous and binding guidelines that only must be implemented by business strategies.

Actually there is one general trend in the development of large German industrial companies within this new business environment, for the time being: Business strategies solely relating to the national context, i.e. to the export of domestically made products, are becoming less and less important (Beyer 2001). Moreover, trans-

national organizations and governance structures are increasingly replacing (multi)national ones. In the formal organization of companies particular locations in national contexts are meanwhile nothing more than intersections, or local suppliers within business areas that operate internationally, optimize costs and revenues autonomously on this global scale, and make investment decisions solely on the basis of this kind of optimization, rather than taking into account certain national or local interests. We are referring to "organizational globalization" to characterize this trend.

The challenge for the significance of specific locales, as it is manifest in the formal organizational structures of companies in fact implies a declining role of locally based bargaining positions. However the magnitude of this effect depends on how important certain locally specific resources and skills still are - or should be - for the firm, and whether such resources can be used to the advantage of employees of the company. There is a broad range of possible scenarios:

- local power positions are eroding, because the resources on which they rely are losing their importance or can be obtained more inexpensively elsewhere within the firm.
- local power positions are losing their influence, in spite of the fact that the resources on which they are based remain very important, because global organizational structures and decision making prerogatives are restricting the scope of local influence;
- local power positions are losing their significance, even though the respective location remains very important, because other resources of that location are becoming more and more important, and these new resources, unlike the ones that use to be crucial, are no basis for the collective representation of employee interests;

- local power positions maintain and even extend their importance, because the complexity of global production networks implies increasing vulnerability to disruptions of the flow of production, and the smooth operation of every single production location is becoming more and more important for the overarching scheme;
- local power positions remain intact, because employee representatives play an important role in the 'dominant coalition' (Child 1972) that makes the decisions about business strategies, or local power positions are lost, because the influence of employee representatives was based solely on their membership in that dominant coalition and due to a lack of primary mobilization resources they could not prevent losing or compensating for the loss of that membership.

One could imagine other constellations or a number of combinations between the constellations listed here. In the following we will analyze the development of employee representation in a few large companies, whose significance extends beyond the singular instance, because of their position as core companies of the two largest industrial sectors, which also stand for alternative models of German industrial relations. The metal-working industries can be taken as the archetype of "conflictual partnership", which is often used as a concept for German industrial relations in general. The chemical and pharmaceutical industries in contrast stand for a more cooperative model, labeled as "chemical partnership" by the union and the employers organization themselves. We will identify the factors that governed and may still govern the evolution of local positions of influence, on the part of employee representatives, in each case respectively. All the firms under scrutiny are companies that have been operating on a global scale for a long time.

### **3. Organizational Globalization - Erosion or Realignment of Partnership in the Chemical Industry**

For decades the three large chemical companies Hoechst, Bayer, and BASF have already been among the German companies farthest advanced in their global operations. At the same time, established relationships of cooperation and bargaining have profoundly influenced industrial relations in the German chemical and pharmaceutical industry. The co-optation of the works council leadership into the dominant coalitions as well as substantial company-internal margins for redistribution have traditionally curbed the ambition of most works councilors in the field of collective bargaining and as a result also put limits on the mobilizing capacity of the labor union as a whole. At the same time the breadth of the fields of operation in the large companies in the chemical industry as well as their regional scope have generated an extremely unified and firmly institutionalized industrial relations system in an industry that is extremely heterogeneous in the size of its companies and the areas of operation. The realignment of business strategies on a global scale and its repercussions for the company-internal bargaining constellations are affecting this model with the programmatic title "partnership in the chemical industry" at its core.

The Hoechst AG was completely split off. Its former main site has been replaced by the 'Industrial park Höchst' with employees scattered across several dozens of independent firms, most of which are small and medium sized companies. The only large firm that has its headquarters there is a service and infrastructure provider with more than 4000 employees, which had been the repository of most of Hoechst's service functions when the company was divided up, and based on a preliminary agreement it remains in its current form until the end of 2002. The chemicals and pharmaceuticals plants in the domestic location are all parts of global companies with their headquarters abroad. The works council of Hoechst's immediate successor firm Aventis-Pharma Germany GmbH now represents around 5000

employees, within a global company with 75,000 employees worldwide. Moreover, since all important enterprise functions are governed on a global scale and merely the domestic Marketing is still the immediate task of the national holding, the works council finds itself negotiating with a "king without a country".

Until 2001 Bayer's top management maintained the profile of an integrated chemical-pharmaceutical firm. It is organized in largely autonomous global business areas, with the corporation's board of directors not intervening in their business in principle. But being responsible for coordination and synergies, the board ultimately decides about business locations and some single cases ruled out the decisions of business areas' top management. The traditional constellation of exclusive agreements at peak level remains in place for all German production sites, albeit under severely deteriorating terms of trade for employee representatives. Top management can and really does use synergies across business areas while at the same time emphasizing, vis-a-vis the employees of the whole sites, the unfavorable bargaining position of one local production unit within its global business area. So an agreement for the main site in 1997, the business year with the best result ever, included cutbacks in fringe benefits in the amount of DM 320 million, in return for a certain minimal amount of domestic investment and promising to do without forced layoffs being guaranteed for the duration of the agreement. It is not clear up to now, whether the reorganization of Bayer as a Strategic Management Holding, that started in 2002, will be - as with Hoechst - a mere intermediate step on the way to a complete split off, or just a further reconfiguration of the chemical-pharmaceutical conglomerate structure. In any case, it will lead to a further weakening of the workers representation, at least within the traditional bargaining context.

In both cases, the deterioration of former influence of workers representatives does not result from a lack or weakening of the companies' dependence on territorialized or localized assets, caused by intensified globalization. So during the restructuring of Hoechst p. e.,

employees in the R&D at Frankfurt had demonstrated a considerable amount of power, when they faced a rigid schedule of cutbacks, devised by the new management. They not only opposed this, and encouraged the highly unionized laboratory personnel to do the same. This put management of both the national unit and the entire company under massive pressure, particularly as the production staff became involved too and the conflict was deliberately brought to the public. Since the internal institutions of conflict resolution such as bargaining structures were already missing in this case, this conflict became widely conceived as a stiff confrontation between top management, important parts of the workforce, and the general public. Without this conflict, as union officials openly admit, the comparatively far-reaching transitional agreements for the whole company that could be reached in addition to certain modifications of the cutback plans in R&D that initially sparked the conflict would not have been possible. But it is important to recognize, that this conflict is not an episode in which employee representatives could rely on strongly organized parts of the workforce, but instead they were used by these poorly organized, but strategically important groups of employees and could benefit from the conflict to some extent.

The argument not only holds for this single case, but some generalisation is possible. There are strong indications, that local power resources of the large R&D locations and their employees have not declined but instead grown by becoming part of globally governed networks, and in a similar way, the employees of the strategic production sites have a considerable amount of power within global production networks. These networks in principle provide the preconditions for internal competition as a means of global governance, but this does not set in motion a sweeping race to the bottom. Taking into account that such local power resources and the bargaining position of works councils based on them had not played any role in the traditional constellation, but instead was the result of a new development, then the weight of this locally-based power position certainly becomes even more remarkable.

The real losers of restructuring processes in both companies are those areas that are left out of the global company. At Hoechst, this means the majority of former employees, but particularly those of now small and medium sized service providers. At Bayer up to now this mainly concerns the logistics areas, for which a company agreement was concluded during the outsourcing process. As local service providers, they are still part of the global production networks of the respective companies, but as external service providers among other ones. Instead of the margins for distribution of the chemical industry, these employees now have to deal with the profit margins in the local service sector. From the perspective of workers representation in global chemicals and pharmaceuticals firms, on the other hand, these traditionally highly organized parts of the workforce are not available as a potential power base any more. At least for the Hoechst case we would nevertheless argue, that there are indications of new forms of workers representation, which in fact are the standard forms in German industrial relations in general.

So the dramatic loss of influence of former powerful employee representatives on the tide of global restructuring at Bayer and Hoechst stands for the impossibility to defend a general level of wages and working standards within the traditional configuration of industrial relations. It does not demonstrate a decreasing significance of locally-based power positions within global companies, nor the end of workers representation in those areas, which are the localized losers of global restructuring.

The BASF AG is - or used to be - different from Hoechst and Bayer in two crucial respects: a very strong union presence in the company and a clear concentration on industrial chemistry based on the "Verbundchemie", where not cost efficiency of single products is the strategic focus, but producing an extremely broad range of products with high efficiency; a technological option, defined as core competence by the company. Particularly at the site of the headquarters and the main production units this union strength is based on close ties

between the company internal structures of employee representation and the industrial union. In addition, by defining "Verbundchemie" as its core competency the company commits itself to large and highly complex industrial systems which need constant improvement and further development. They depend on the collective competence of a highly qualified workforce of workers and technicians needed to operate and continually optimize this complex technology. About 75% of the workforce are unionized, and unions are present in an all-embracing system of communication and representation maintained by an army of shop stewards and works council members. This strong presence creates the basis for a power position of the employees that is very potent politically.

While the practical business of company-internal social partnership at BASF hardly differed from the one at Hoechst and Bayer, there was a stark contrast to the other two firms in the reaction when management challenged the traditional modes of interaction. At Hoechst and Bayer rather far-reaching changes could be implemented without major disruptions. Beginning in the second half of the 1990s BASF workforce, by contrast, staged massive protest demonstrations and thus reacted quite strongly to relatively minor infractions, and management did take the forewarning expressed by this strong reaction seriously. The abolition of a seniority benefit, originally planned in 1994, was revoked and is considered taboo ever since, the attempt of implementing the cutback in sick pay had to be abandoned quickly in 1996, and when management recently attempted to reduce an extra benefit that used to be linked to the development of dividend, even though in that very year dividends were extraordinarily high, massive protests were the result as well. All these incidences brought about attempts to readjust the internal relationship of cooperation and exchange that went far beyond the scope of the initial event triggering the conflicts. In the most recent conflict this attempt at readjustment takes the form of major negotiations with the CEO of the production site about the strategic further development of this main business site in Ludwigshafen. Creating this

position of the head Ludwigshafen-site, filling it with a member of the company board of directors, as well as the negotiations initiated recently have long been demands raised by the employee representatives. Moreover, a new global organizational and governance structure was introduced, in which global or regional business areas and systems and locations with their continental orientation are put side by side as bargaining partners. All these processes entail increasing influence of the production sites and by this - at least potentially - and a very strong union presence in the company persistent influence of locally based primary power positions of workers. It is also in this company, that we find a European Works Council of practical relevance as well as similar institutions developing for Latin America and Asia as parts of a world wide network of employees' representation.

In contrast, the case of the German tire manufacturer Continental shows, that even strong positions of union fade, where local employee representatives cannot rely on a power base of locally embedded resources and skills on which the company would depend. With over 90% of all its employees in Germany union members, Continental used to be the stronghold of union representation in the rubber industry. But to this day the industry is a classical repository for semi-skilled workers. In standard production training times have become, if anything, even shorter than they used to be, and in the areas of higher quality production no relevant increase in the skill-requirement has occurred. As a consequence, transnational locational competition is a pervasive and permanently threatening governance principle. The traditional high-wage locations do not compete with the low-wage locations in this, but they compete with one another over the volume of production remaining in their sector, causing a continuous downward spiral in wage and labor standards.

#### **4. Global Realignments in the Automobile Industry - Stability of Conflictual Partnership?**

German automotive companies are the core companies of the German metalworking industries, also dominating the industrial relations in these industries. They can be seen as textbook cases of "conflictual partnership" (Müller-Jentsch 1993), combining continuous cooperation between employees representatives and management with conflictual encounters in the realm of wage bargaining, but also in exceptional situations on the company level. This "conflictual partnership" is based on statutory rights of codetermination, including representation in the advisory board, and on company specific power resources of a highly unionized workforce and its representative institutions on the other. The outcome are established and reliable bargaining arenas, as well as implicit and sometimes explicit productivity pacts. In these pacts high productivity gains combine with wages and social benefits strongly above average standards.

This constellation of "conflictual partnership" developed under conditions, where into the 1980s, partly even as late as into the 1990s, strong international engagement of the companies was largely limited to export business. This applies for both the German manufacturers and European subsidiaries of US-manufacturers. It was only during the last ten years that the three large German car-makers started to restructure their operative and their strategic business activities with global perspectives beyond home based export business. At the same time the two German subsidiaries of US car manufacturers, which had always been parts of global systems of production and development, were kept on a much shorter lead. This organisational realignments caused pressure on employees representatives in the majority of these companies, but they did not really jeopardize the established model of industrial relations. There is a generalisation and intensification of concession bargaining, but framed by respective reconfiguration of bargaining arenas, with intensified interaction between the local or national and the European level as

an important innovation. We would summarize this outcome as “negotiated globalisation”.

As the most spectacular example for this we would see the German subsidiary of General Motors. All the way until the 1980s Opel, and similarly Vauxhall in Great Britain, could be considered paradigmatic examples of the classical pattern of the multinational company. From the perspective of the Detroit headquarters of General Motors “these overseas operations largely functioned as independent, parallel industries, rather than integrated divisions of the US parent” (Flynn 1998, p. 181). The result was that the European production systems had “far-reaching autonomy in technological and organizational respects.” (Jürgens/Malsch/Dohse 1989, p. 75). This was true for the patterns of labor relations and the room for maneuver in these systems, which have always adapted to the respective regulatory frameworks and the conventions in the respective countries. With respect to all practical terms, industrial relations included, Opel was one German automotive company among others.

This constellation changed significantly not before the early 1990s, when a famous shareholder revolt brought a new management, strongly committed to financial markets requirements, to the top of GM. The new management implemented a new global governance structure, with the single subsidiaries and sites integrated in a highly centralized global network. The main thrust of this strategic realignment of the company’s global activities was informed by cost-driven restructuring. In North America this strategy led to plant shutdowns and redundancies and caused a dramatic deterioration of labor relations in the company, which escalated in the Flint-Strikes at the end of the decade.

In Europe, the new strategy resulted in an economic disaster. The low cost strategy caused severe quality problems per se. And giving the Opel development center at the German main site worldwide responsibilities outside the US without adequately increasing resources, made that specialized skills in engineering and production were not available for the planning of products and

processes in their original regional markets and brands. In view of a national and European market on which standard products increasingly lose ground, customized products are becoming increasingly popular and on which competitors frequently present innovative products, this strategy turned out to be a disaster. Market share declined due to innovation deficits and quality deficiencies documented by spectacular recall actions. All this caused heavy conflicts between local (American) and global Management, focussed precisely on the role of locally embedded positions of competence and power within a global company. Defining these positions and roles was the subject of struggles on many different levels.

The crucial point with respect to industrial relations is, that at least at three points employees representatives’ intervention had lasting effects on the outcome of these struggles and on the strategy of reorganisation:

- The employees representatives in the advisory board used their position to wield some influence on management positions and strategic planning and to get an agreement on “Guidelines for the Cooperation between the Adam Opel AG and General Motors Europe”, which establish the autonomous responsibility of the German management for the activities of Opel, by taking the desired unanimity for the election of a new CEO as their lever;
- They also played an important role in the early resignation of this new CEO and the appointment of his successor. The nomination and election of the new CEO Forster, a former BMW manager with a distinctive background in production management, underscores the strategic emphasis on engineering and production competence;
- When GM and FIAT made a joint venture on purchasing parts, engines and transmission systems, a local strike at the mostly affected German site at Bochum led to a campaign on the European level, that resulted in a binding contract between Euro-



pean management and the European works council, securing the employment status of the employees that would be subject to outsourcing.

- When the local management at Luton/UK withdraw guarantees given to the employees at Luton in exchange for concessions they had made some months before in a plant centred restructuring contract, a local mobilization campaign was taken up by employees of other European sites with final result of a day of strikes and demonstrations all across Europe in January 2001. An important side effect of this was the stopping of a competitive downward spiral, that had been set off by the first of those plant centred pacts in Germany in 1998.

When at least in summer 2001 the Opel management announced an ambitious restructuring program with a reduction of 15 % capacity or 13.000 jobs, among a lot of other measures to increase productivity and efficiency, the striking point was that top management and employee representatives on the European level could come to an understanding about a framework agreement within a very short period of time, even though briefly before rumors about plant shutdowns and mass layoffs had been floating around. The framework agreement, which will be valid for all of GM's 16 European sites of the brands Opel, Vauxhall, and Saab, essentially states that plant shutdowns and redundancies in the wake of restructuring will be ruled out, and that the measures, which will have to be specified in detail on company level, national level, or plant level, cannot be imposed by management unilaterally, but instead must be devised in consultation and agreement with the employee representatives in charge. An European level agreement of that scope, embodying the prerequisite for all negotiations in the respective national contexts, is a completely new feature of industrial relations. However, this upgrading of the European bargaining arena does by no means make local power of employees and their delegates less important. On the contrary: It is only possible because of this local power and because of the ability

and the willingness of local actors to use it with an European perspective.

This is even more obvious in the case of the indigenous German car manufacturer Volkswagen, an extraordinary 'showcase' of the German styled "co-operative conflict solution" model of labor relations, but where bargaining conditions changed significantly, when the management built up a "global-breathing production network" starting in the late eighties, early nineties with the acquisition of Seat und Skoda and the establishment of new production capacities all over Europe and beyond. Integrating different brands under the roof of a large holding and introducing the strategy of a unified brand-overlapping product platform, enlarged the options of production decisions and changed the balance of power between company and labor. Continuous internal competition and routinized benchmarking as permanent tools of governance provided cost and performance targets, put local production sites under permanent pressure and increased competition between them mainly within Europe (including increasingly Eastern Europe) but also to a certain extent with non-European sites; as well as intensified competition between parts and component suppliers inside and outside the Group, at home and abroad.

On the other hand, locational competition within the company is framed by a system of complex social exchanges, interest arrangements and new bargaining arenas, that become even more important. As units are becoming increasingly integrated and intertwined within production networks, there is increasing need to react to new problems, and extensions and supplements of the institutions and procedures of bargaining are the result. The emerging patterns of a bargained globalisation within the Volkswagen Group are rooted in firmly established power and bargaining positions of the general works council at the company's headquarter, emanating from a highly unionized workforce, strong statutory co-determination rights and long-standing informal contacts within the dominant coalition. With the creation of a European Works Council in the early and a world-

wide works council in the late 1990s Volkswagen enlarged the scope of negotiations on decision-making processes. These institutions provide at least a relative balance between different interests with regard to issues like investment, new models and volume capacities, and general standards for social protection and working conditions.

This kind of interest mediation is locally supported by annual “production site symposia”, which provide forums for information and consultation between the local management and the employee representatives and often lead to site-specific alliances concerning investment priorities, volume specifications and cost and productivity measures, strengthening local influence on central decisions, on the part of the employee representation as well as on the part of the local management. Actually management’s potential to exert pressure through transnational mobility options may be regulated, but is not suspended. But so far these plant-level arrangements at different sites of the Volkswagen Group do not cause a downward spiral, deteriorating working and social standards. The established and proved channels of information and consultation between the local employee representatives at European (and increasingly world-wide) works councils enables a relatively efficient coordination of interests between different locations, which bring into play their respective locally specific resources and skills as part of an integrated production network that is depending on these competencies.

## 5. The Future of the Local Basis of Industrial Relations in Global Companies

Two general conclusions about our initial question of what the future weight of local bargaining positions in globally active firms might be can be drawn from the developments of corporate strategies discussed here.

- Organizational globalization does not automatically lead to a decline of the significance of locally embedded collective skills and cooperation ar-

rangements that could constitute the power basis of employee representation. Instead, the fate of employees’ bargaining positions differs across business areas, and the most serious consequences of increasingly global forms of organization and activity can be found not in structural changes within global companies, but instead in areas that fell victim to outsourcing activities.

- Whether and to what extent the influence and the leverage of local bargaining position is lost within global corporate structures, can be defended, or even becomes more important, depends on the actors and structures of industrial relations. There is a considerable room for maneuver in the design and the emphasis of the different kinds of bargaining arenas within the German system of industrial relations, beyond it even on the level of European industrial relations, and in the way in which these different arenas are connected to one another. How this room for maneuver is used will affect the possibility and the extent scale on which local power positions can be consolidated and used in the context of global company structures.

The first one of these two points would require us to distinguish the different arrangements of locally embedded skills and cooperative relationships, which will then shape the significance of particular production sites with their locally embedded skills. In this context we draw on Robert Salais and Michael Storper (Storper 2000; Storper/Salais 1997) and their analysis of the role of conventions in economic life. Based on the categories in their analysis we can identify three ideal-typical constellations of products and production strategies that characterize the position of individual plants as well as the position of certain corporate functions and business areas in the context of large companies:

- The production of customer-specific specialty products, based on highly specific, but at the same time broadly employable skills and resources, as well as industrial standard production on the basis

of complex and capital intensive machinery and competence which is being developed over long periods of time. In the industries discussed here this constellation can be found in the R&D areas, the manufacturing of the essential part of automobiles in the car industry, “Verbundchemie” with its complex production systems, other parts of the production of chemicals, in which technologically advanced aggregates are central parts of the production process, as well as high-tech products in the tire industry

- The production of industrial standard products for particular customers or for anonymous markets, where the demanding requirements described for the first constellation are missing; areas that fall into this category are simple, non-critical products in the automobile supplier industry, the production of simple pharmaceutical goods, standard products and standardized machinery in the chemical industry, as well as the standard products of the tire industry.
- Finally maintenance, infrastructure, and supplier services that are specific to the production site; examples of this are large parts of the logistics functions, but also traditional centers of competence, such as centralized R&D in the chemical industry in companies that concentrate on one or a few core business areas and thus lose the connection with this broad resource.

In the first constellation one can find a concentration of high wage locations to the disadvantage of peripheral locations, unless specific regional wage differentials between economic zones can be used, as it is the case in Mexico or Eastern Europe. The second constellation is the league of business areas in which production is indeed moved around on a global scale. Locational competition is important within each one of these leagues, and but hardly between them. The third league finally emerges where - and to the extent to which - the neces-

sary skills and resources per se can be defined as non-specific standard products.

Two aspects are important about this distinction between ideal-typical constellation. The constellations do not describe objective features of production sites and market segments, as becomes obvious when examining examples such as the different position of maintenance functions at BASF, as opposed to the same functions at Hoechst/Aventis and Bayer, or the decline of the former centralized R&D capacities at Hoechst. Instead of objective characterizations, the constellations capture the role ascribed to certain functions and business areas in the context of corporate strategies. Accordingly, the distinctions between the constellations are not only quite fluid, but shifts in these distinctions are an important part of the evolution of firms. Many of the current industrial restructuring activities, for instance, are geared toward separating large parts of the central high-wage segment and transfer them into the other two “leagues”. To what extent this can in fact be realized and restructuring strategies can be built around this pattern depends on whether this kind of product strategy will ultimately be successful on the market. To take the example of Opel/GM, a low cost strategy for GM’s European subsidiaries will only be successful if such low cost products can be sold on the European car market at all. Corresponding contingencies seem to loom behind different maintenance and logistics strategies in the chemical and pharmaceutical industry.

The second important point about the three constellations is that here too structures of employee representation play an influential role in the strategy choices of corporate management. The influence of employee representatives hits its ultimate limit where descending from the high-wage league into the constellation of locational competition is at issue, and where escaping this fate by offering a high technology alternative is no option. Insofar as the statutory participation rights and other power position in the firm can be used in this context, this can only help alleviate the social consequences. However, there is nothing new to this, as it is a

constant thread of union politics in Germany that unions not prevent rationalisation, but instead support it and ensure socially acceptable conditions for the employees along the way (Kädtler 1986).

In restructuring initiatives where core units of the company do not drift into the low-cost area but firms try to consolidate them in the context of a global scheme of centers of excellence - and the vast majority of the cases presented here are of that kind - it is not the lack of power resources in general that poses the challenge to employee representatives. Instead, the main problem is to consolidate and employ these power resources effectively within global companies. This is even more important as the ability to draw on locally-based power resources is becoming more and more important. Our examples have demonstrated how decade-old stable and influential positions of employee representatives at the top of enterprises can quickly become worthless if the informal consensus on which they were based is withdrawn unilaterally by management, and employee representatives then do not have effective ties to local power resources. At the same time, other examples demonstrated that and how demonstrations of local power can be used to push forward the development of durable structures of employee representation and bargaining even beyond the national scope.

Developments in this last vein require very traditional forms of support in the local workforce. Mobilizing and including groups of employees that were traditionally only weakly unionized, poses a challenge in the sense that the position of people with crucial skills more and more shifts into the area of highly qualified white collar workers. How far this can succeed in companies in which a strong union presence and a sound power position of works councils is not part of the firm's tradition is an open question, but it is also a decisive one. That local interests play a big role in any mobilization of local power resources is self-evident. At the same time, however, our examples also indicate that practices of representation that reach beyond the individual production site, maybe in the form of trying to regulate loca-

tional competition, are more likely where the influence of works councils is not solely based on their privileged access to informal relationships of consultation and negotiation but is also backed up by a workforce that can be mobilized. This is particularly true for transnational level. Where we find rather efficient coordination in European Works Councils, it is always based on such localized strength at important sites, especially the main sites of corporations, and on the opinion of respective local actors, that investing part of this local strength in transnational structures might serve their own well defined interests.

In conclusion we should emphasize that it is not the companies' global operations per se, but instead the instability of global operations that poses the central problem for employee representation within the new global enterprise structures. Strategic management of the company challenge the realm of production by defending the rationality of financial markets, or, to use Dahrendorf's words, representatives of a new "global class" challenge the traditional local actors

The shared understanding and thus the basis for company-internal bargaining is becoming more unstable as employee representatives increasingly face the members of this new "global class" who challenge the traditional orientation toward long-term growth and company-internal synergies by consistently taking the criteria of portfolio management as the standards for their decisions. This situation in which the bargaining arena itself is unreliable, since the operating routines and the code of behavior for company internal labor relations have to be renegotiated anew all the time puts employee representatives under heavy strain. And where management itself does not know how the company will look like two years from now, and individual managers have no idea where in the company will be their own position in the future, then relationships of trust lose their foundations.

At the same time, such instabilities can also entail new opportunities for exerting influence. The greater the

distance between strategic top management and the operative areas, the closer is often the relationship between operative management and employee representatives. And since financial management in principle never provides any specific directives for the operative business, the question of what financial indicators entail is often a contested issue even among top managers. This situation sometimes opens up chances of forging alliances across the usual lines of conflict in industrial relations. The main issue even in these favorable constellations is the problem that poses itself anew time after time, namely the problem of consolidating such selective and situation-specific power resources.

The question of what the consequences of the developments discussed here are for German industrial relations in general must remain open at this point. What should have become clear is that it is not so much local bargaining constellations within global companies that get under pressure, but rather the ones outside the large firms. This finding then spurs the question of what the future role of the large companies - hitherto decisive for German industrial relations - will be in the national contexts after their global restructuring.

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