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Global Structures and Governance of National Systems of Employment Regulation

Report

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1. Introduction

The study presented here deals with the types of governance that national systems of employment regulation demonstrate in response to the challenges presented to them through the operations of global companies. This topic is part of a larger debate that, simply put, revolves around the effects of globalization on labor. The issue is a complex one, in part because globalization itself is a slippery concept: it is difficult to find a definition with which everyone agrees. Does it involve the increasing exchange between technology and markets? (Kerr et al. 1973; Hall, Soskice 2001; Pries 2000) The disembedding of financial capital from national contexts? (Dörre 2001; Deutschmann 2002) An increasing transnational orientation of multinational corporations? (Porter 1998; Bartlett, Ghoshal 1990; Hirsch-Kreinsen 1998; Ghoshal 1987) Another problem is the immediate value-laden response to globalization: is it "good" or is it "bad?" (Krugman 1994; 1999; Micklethwait, Wooldridge 2001; Storper 1997)

Labor is also difficult to operationalize because it can be understood at a number of different levels: individual workers; categories of workers; the value embodied in labor; the organizations representing workers in different national contexts, i.e. unions or works councils. Many analyses of the issue focus on the consequences of globalization for existing formal systems of industrial relations since these institutionalized forms of labor representation are seen to have the most potential to influence, shape, or respond to challenges that derive from globalization (Tilly 1995; Marginson et al. 1995). In this line of research, the weakening of national societal institutions (Beck 1998; Streeck 1998) is often credited to globalization because it has a particularly intense effect on national systems of industrial relations given the specific national boundedness of industrial relations and the actors represented by the industrial relations system. Other studies which look at the micro company level, rather than the institutionally based organizations of labor, often take the HRM side of globalization effects on individual labor into account such as the role of multinational corporations' business strategies on workplace organization and relations, levels of participation, empowerment, or work intensification, job loss, etc. (Frenkel 1999; Applebaum, Batt 1994; Caligiuri, Stroh 1995). These types of studies can also consider informal, as well as formal, responses to globalization (Edwards 1995; Ram et al. 2001).

In the general discussion on the effects of globalization on workplace relations, two very different lines of argument have crystallized, which have been getting more and more polarized. On the one side, convergence arguments posit an increasing standardization of company policy, divorced from considerations of national specificity and traditions (Reich 1993; Berger, Dore 1996). The internationalization strategies of multinational companies are attributed with an economic logic that washes nationally specific differences away, moving them toward a single world economy and world society

(Narr, Schubert 1994). The reasons offered for the ongoing trend toward convergence, as well as the inclination to view it as either a positive or negative trend can differ greatly. Some views on convergence see it as deriving from the dissemination of best practice, that is, the convergence is based on necessary organizational adaptation or learning effects from the methods or structures that worked the best or achieved the best results (Ohmae 1996; Womack et al. 1991). However, convergence arguments can also be "negative" scenarios, in the sense that multinationals force their subsidiaries to implement particular work forms or structures without consideration of local specificities or problems. Another strategy of global companies to disseminate their desired structures and to achieve high levels of control is the practice of creating home-based cultures at their foreign subsidiaries by filling key management positions with nationals or ex-patriots from the home country (Kotthoff 2001; Huber, Kotthoff 1994). This may have a convergence effect, but can also be seen as a type of post-colonialist strategy.

Local diversity arguments tend to counter these positions by looking at practice at the enterprise level and pointing out how forms of best practice tend to adapt to local conditions or how attempts to force unitary structures simply fail. Thus, in contrast to convergence theses, local diversity perspectives question to what extent international companies can pursue their strategies and be unhindered by the need to adapt to local contingencies. A number of extremely interesting research results have arisen from the local diversity perspective, demonstrating the significance of the home base with its local contacts and ties for global markets and exchange relations. The result is a decisive revision of the approaches that assume the existence of "footloose" global enterprises (Dörre 1996; Marginson et al. 1995).

For instance, it has been shown that the ability of local institutions and actors to exercise influence in international companies is linked to the type of internationalization strategy the company is pursuing and how that meshes with the factors that the local site offers, including infrastructure, access to markets, qualifications, unemployment rate, wage levels and taxes, etc. (Flecker 2000). In this type of argumentation, for companies which are pursuing strategies in which the local development of products and the use of differing production conditions are important (i.e. transnational companies), a comparatively strong regional reference and the development of differentiated product and production strategies will lead to high levels of autonomy (Hirsch-Kreinsen 1998). In this scenario, the power that individual sites can wield depends in large part on their resources and attractiveness as production sites. Some studies seem to indicate that product type plays a large role in how autonomous local sites can remain. If product complexity is high, use of local conditions is more necessary and therefore divergent strategies are endured by the global company (v. Behr 1999; v. Behr, Hirsch-Kreinsen 1998). This literature emphasizes the importance of local diversity and counters best practice arguments by saying that the use of local strengths, such as skills or resources, is necessary for corporate success and therefore the headquarters often utilize, or at least accept, local diversity.

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

1.1 Project Goals and Research Questions

Our initial assumption in this project was linked to the local diversity tradition in the debate on the effects of globalization. We posited that large multinationals will in fact try to impose convergent structures or workplace conditions on their subsidiaries. This is the case because, for one, the need for central headquarters to control their subsidiaries leads to principles of uniformity and, for another, because central headquarters generally view the methods that they have developed as being the "best" ones for the strategic orientation of the company. However, we argued that these central convergent strategies will meet with resistance as well as difficulty and will be transformed by local contingencies in their implementation process at the local site. The main focus of our study was to examine exactly *how* local actors, either formally (through existing institutional structures) or informally, contribute to the changes in central company practices when they are implemented at the local level, or when applicable, what forms of resistance arise in response to centrally mandated policies from headquarters. In particular, we wanted to see and understand how local actors of industrial relations respond. Our assumption was that industrial relations systems could be expected to play a role in the transformation process and that the response would vary according to the strength and coordination of the institutionalized system of industrial relations. However, we viewed the relationship between the systems of industrial relations and the global strategies of companies as being a reflexive rather than a linear process. That is, both get transformed through their interaction with one another.

The general position was, of course, based on a long tradition of research dealing with the response of labor to various challenges of globalization, including the effects on production regimes and workplace organization (Hollingsworth 1998; Schmierl 1998; Crouch 2001). The outcomes are often assumed to be influenced by the nature of the regulatory regime (Waddington 1999), including the industrial relations system. For instance, union articulation (Crouch 1993) which refers to the relations between different levels of union organization, is posited to effect the ability of labor to respond to changes in workplace activities brought about by globalization. Another distinction is in the so-called neo-liberal models of regulation versus the so-called Rhine model (Albert 1993). The well coordinated and corporatist Rhine model is said to emphasize long-term calculations on issues of investment, jobs and economic growth as opposed to the neo-American model which is more short-term oriented. This would lead to the assumption that German institutions of interest representation would be better equipped to strategically deal with the issues arising as a result of global company practices as opposed to the U.S. institutions which concentrate on "bread and butter" issues (Dore 1996; Wheeler 1990). Naturally, this leads to the expectation that well-coordinated industrial relations systems with different levels of organization, such as that found in Germany, should have a more direct and active impact on the policy implementation of global companies at the local level.

In industrial sociological research, the interrelationship between globalization strategies and industrial relations centers mainly around investigations on the automobile industry (Jürgens et al. 1989; Dombois 1987). An international comparative study conducted at the Science Center Berlin of three globally active companies with 18 production sites in the U.S., Great Britain and Germany found three different models of company strategy in dealing with systems of industrial relations: neutralization, direct confrontation, and integration. The strategy of neutralization can be observed in the concept of the "world car:" next to goals to achieve economies of scale, there is also an attempt to defuse the effects of labor conflicts through the transfer of production to other countries or regions (Jürgens et al. 1989).

In the '90s this research orientation was no longer pursued. Instead the focus of interest for social scientists in Germany veered toward the issue of what effect the globalization process had on the national system of industrial relations, in particular the process of erosion of basic foundations and principles. As mentioned above, central findings were that national systems of employment regulation are not equipped to deal with the increasing globalization of the economy. The position is that globalization strategies destroy the foundation upon which national regulations are based, and in this way make historically formed national standards superfluous (Beck 1999; Streeck 1998).

Although our approach is influenced by research traditions on industrial relations, it is less normative in orientation. That is, we were not interested in demonstrating how more strongly institutionalized industrial relations systems are better equipped to respond to globalization challenges, nor were we interested in showing how national systems erode as a result of globalization. Our orientation was rather to examine how both the global company policies and the industrial relations systems undergo processes of transformation in interaction with one another. Moreover, we wanted to consider theses in which the potential to govern and steer globalization effects on work activities is not so clearly linked to formal institutionalized systems of interest representation or traditional corporatist arrangements, but which also take informal, but coordinated responses into account (Edwards 1995; Kelly 1998). We did not assume that in contexts with weak formal systems such as the U.S. there is simply no control or transformation process between the center and the local site, giving the center free reign without resistance.

What we found at the level of company practice deviated from our initial assumptions in a number of ways. In fact, it indicated that the polarization between convergence and local diversity is in many ways a spurious one. Naturally, these results also had consequences for the assumption of variation in response based on industrial relations systems types. Before going more deeply into the implications of our findings, however, we will first provide some details on the empirical design and methods of the project.

1.2 Methods

We investigated the issues elaborated above by conducting interviews with company managers, works councilors, and when possible, regular employees in a German electronic multinational, and then as a comparative case, at a German insurance multinational in Germany, France and the U.S. We also spoke with union representatives in France and Germany. In the U.S. several attempts were made to speak to representatives from the SEIU (the Service Employees International Union), generally believed to be one of the most innovative and active unions in the U.S., but they were not interested in arranging an interview. Altogether 26 in-depth interviews were carried out in the three countries in the time period between 2000 and 2002. Additionally literature from or about the companies, both from the intra/internet and published documents was analyzed, and an extensive review of the secondary literature was carried out.

Our empirical research centered on an examination of a comprehensive policy initiative being launched by the multinational electronics company (Company A), which was intended to be implemented at all of its international sites. One of our original hypotheses was that the orientation of globalization strategies as well as the attitude toward industrial relations actors was influenced by the institutions and regulations found in the country of origin. Thus, Company A seemed a logical choice as a case study. Company A is a traditional German company with a long history, a strong center and a reputation for hierarchical organizational structures. However, it also has long term experience with international production sites, which have existed over a long period at their individual national sites and therefore have established practices and traditions of their own. Another incentive for choosing Company A was that it was in the process of implementing a comprehensive program at all of its sites. The program's forerunner had originally been launched in the early '90s, and a new program generation was being relaunched to improve economic results. The differences between the two programs and their relationship to one another turned out to be a relevant finding of the project and is discussed in more detail in chapter 2.

The second stage of the company's program, and the focus of our research, is a project called opt2. Although in many ways diffuse, it was selected because it represented a so-called "explicit" company program (Marginson, Sisson 1996). So many "implicit" programs exist in companies. Programs targeted for a particular department, action or measure such as continuous improvement, ISO 9000, personnel evaluations, bonus and performance incentives, etc. are found in every company in innumerable variations. However, corporate wide programs designed to embrace all of these program types, and intended to be launched and implemented in a comprehensive and coherent form at all of the company's sites under the control of the center, with a special department, budget, special positions and methods are not that common. Other examples are General Electric's 6 Sigma and Ford's Employee Involvement Program from the '80s.

Opt2 is a set of tools and methods offered to help individual sites develop programs to increase their competitiveness and increase company success. Altogether the number of individual tools has exploded to about 2000. The tools are a range of the current state of the art on business economic and financial methods to optimize, improve, and manage company processes.

The main tool categories are:

- Cost reduction
- Quality
- Boosting Sales
- Innovation
- Benchmarking
- Asset Management (= management of equipment, production lines, real estate, etc.)
- E-Business
- Best Practice Sharing
- Scorecards
- Management and Cooperation

In each category there are a number of modules offered to help define and direct projects that are appropriate for a particular unit or problem. So with cost reduction, for example, the emphasis may be on structural change or on lowering purchasing costs or on optimizing processes. Within these sub-categories are other sub-categories of more refined modules. Also, best practice examples from other units are offered to help project start-ups. The tools are thus a means of information, a form of training, an impetus to get projects off the ground.

The motto of the opt2 program is: “clear goals, concrete measures, rigorous consequences.” What is meant by each of these phrases? Clear goals means reaching EVA (economic value added) targets; concrete measures means a catalog of measures encompassing portfolio optimization, earnings-oriented sales growth, asset management, cost reduction, quality and innovation as defined by the company headquarters. Implementation is supported by best practice sharing and balanced scorecards. The goal is to reach pre-determined EVA targets. Finally, by rigorous consequences is meant: reviews every three months to monitor results. When there is “persistent” deviation from targets the Corporate Executive Committee decides between four options: buy, cooperate, sell or close. Opt2 also includes considerations for management compensation which is more closely linked to the attainment of EVA targets, another aspect of “rigorous consequences” (cf. Siemens AG, Ten Point Program, June 20, 2001). Thus one sees that the tools are perhaps an offer, a support from the center. However, the individual sites will face serious consequences if the desired results are not met on the basis of using the tools.

One of the problems we met in our study was that our investigation fell in a transition phase between the forerunner program and the new program of Company A. The previous program, which had begun at the beginning of the ‘90s, had basically fizzled out by the mid ‘90s. In 1998, the activities linked to the new program were launched in Germany, but they just began to get off the ground in 1999 and in the international sites, the first real push for implementation began in 2000 or even 2001. This means that there were new actors, and little experience in the use of the instruments at the time that we began our research. This presented some practical problems for the empiry, since the various international sites were at different stages of implementation.

Nonetheless, in the end we were able to examine the direct implementation process of an extremely important restructuring program being carried out by a worldwide active multinational concern in international comparison. Furthermore, an important comparative aspect of the empirical design was being able to carry out interviews in companies from the same business unit in all three of the countries. We accomplished this at a unit which resulted from a merger between an area of Company A with a worldwide operating competitor that took place in 2000. The fusion resulted in a unit with a sales turnover of about 7 mio. Euro, and 50,000 employees worldwide in over 34 countries.

For comparative purposes we also decided to examine the implementation of a program in a company that was not an industrial production enterprise, but rather in the increasingly dominant service sector. We chose an insurance company because of its economic importance and its German headquarters: it had sites in all countries relevant to our project and like Company A it was in the process of launching a program to be disseminated at all of its sites. This program was also based on EVA – it was geared toward attaining economic value added targets and was also referred to as EVA. It should, however, be pointed out that it did not have the same level of coherence or preparation found in the opt2 program.

We examined the direct implementation process of the opt2 and EVA programs at the local company level in three different countries and, for the highly diversified Company A, at different business units. As mentioned, we were able to keep one division constant for all three countries, and another for two of the countries. We were also able to compare the service sector case in all three countries. Given that our main interest initially lay in looking at the interaction between industrial relations actors, or in the absence of formal structures, simply in local actors' responses to the global company programs, we chose national sites that would offer variation in institutionalized arrangements of industrial relations: Germany, France and the U.S.

1.3 Industrial relations types

A number of classification schemes exists to differentiate industrial relations types. They either explicitly or implicitly expect variation in their potential response to challenges of globalization (Jacoby 1995; Crouch 1993; Albert 1993; Ebbinghaus, Manow 2001). Germany's Rhine or corporatist model is characterized by highly sophisticated levels of interest intermediation between the State, employers, and unions which "emphasizes long-term calculations regarding issues such as investment, jobs and economic growth" (Waddington 1999). The neo-American or "voluntaristic" model of industrial relations, in contrast, "relies on short-term market transactions between employers and unions," decentralized company-level bargaining, with the State distanced from both parties. Where does France fit in? Crouch (1993) identifies French industrial relations as "bargaining/contestation with incipient regional neo-corporatism in limited areas." France's industrial relations system is portrayed as concentrating more and more at the company level through comités d'entreprise and having less and less connection to national union activity (Lallement 2000). Interestingly, however, the State plays an important role in passing legislation such as on training expenditure or working time which the companies and local levels of interest representation then have to negotiate and implement. Thus the "neo-corporatist" element in French industrial relations involves a strong, although non-continuous, role of the State with a simultaneous trend toward decentralization.

Such schemes naturally lead to assumptions of what kinds of responses can be expected, or even if there is the ability to respond at all to global company programs which have consequences for work processes and employment security. Strong well-coordinated systems, such as those found in Germany, are expected to have the most voice in the implementation of the programs and the outcome of consequences for such programs. French workers could be expected to have a voice at the company level, but one that is neither strengthened by union support nor one that involves a coordinated company-wide, rather than an individual site, response. The U.S. would be expected to have the least coordinated formal response potential, since unions tend to concentrate on standardized issues and have little say on new working arrangements or implications for job conditions or security resulting from programs launched at the global headquarters.

Apart from expectations of types of response to company programs based on formal systems of regulation, we were also interested in examining whether or not other forms of regulation – the role of informal networks, alliances, opposition – could offer a response to global company strategies. Were there signs that a new era in industrial relations was emerging in which a variety of institutions, settings and practices could regulate the employment relationship? These sorts of responses might be particularly observable when the issues in question fell outside of traditional regulatory frameworks such as in the U.S.

Finally we considered the effects of these new global company programs on the systems of industrial relations themselves. Did the new challenges presented by global strategies lead to new strategies for governance on the part of actors of industrial relations? Were the traditional mechanisms sufficient? What form did potential new measures take and what influence did the larger institutional framework in which the actors of industrial relations systems were embedded have on the variety of or possibility for change?

We pursued these issues by conducting intensive interviews based on a pre-formulated list of questions with union representatives, works council representatives, company management and, when possible, individual employees in the two companies in Germany, France, and the U.S. In **Germany** we spoke to a representative from IG Metall, who specializes in issues involving Company A and three members of the Gesamtbetriebsrat (company works council) of Company A who were able to give an overview of the program initiatives in their company for the last decade. We spoke to the works councilors from the two companies visited for company A in Germany, the director of opt2 operations for one of the business units worldwide, and the company manager from the other business unit. Another interview partner in Germany was a training coordinator in the training division, who had also spent five years working in plants of company A in the U.S. In addition, we spoke to the head of the works council from company B who sat on the multinational's advisory board, and in counterpart, to the director of corporate finance for company B worldwide.

In the **U.S**. we conducted interviews or group discussions with: the new CEO of company A's USA office, who had been a major promoter of opt2 in Germany; five managers from five different corporate divisions of company A in the U.S. One was responsible for opt2 quality, a specific project within the opt2 program, for his division worldwide, and another was the opt2 "champion" for her company in the U.S. Since it was not possible to speak with works council representatives, it was especially important to speak with employees directly in the U.S. This occurred at the only unionized plant of this division in the U.S. at which we spoke to a group of managers and employees making up a opt2 project team at the plant. We also interviewed a senior business consultant for a support division of Company A, who had been involved in the forerunner program as well as the current one. Finally, for company B, we spoke with the chief financial officer for the American operations.

For the **French** case, we spoke with several representatives from Company A in a variety of functions at the French headquarters, who had been (and are) involved in both the opt and opt2 programs. One partner was the personnel director, who is reponsible for the personnel policy at all of the French sites, including the implementation of the opt2 program. Another interview partner at the French central headquarters was the director of the area "Qualification and Training," who had gathered experience in the implementation of the earlier program, opt. Also at the central headquarters in Paris, an interview was held with the representative of the comité d'entreprise, who, through his long term experience working at company A, was familiar with the implementation process of both programs. At one of the regional production sites of a business unit of company

A (the same unit as those examined in the U.S. and Germany), we spoke with the director of manufacturing who was responsible for both opt and opt2 at his site. At a second French site of Company A in another business unit, we spoke with the head of the quality assurance department, who was the opt2 “champion” for that plant. We were also able to speak to the head of the comité d’entreprise at the same site, who through her many years of experience at the company was able to provide an overview of both programs. Finally, we carried out an interview with a member of the comité d’entreprise from Company B at the French central headquarters.

1.4 A shift in orientation

As mentioned previously, as we proceeded with the empiry, we discovered that some of our initial premises were being called into question. The reason for this was that for many companies, and for the multinationals in our study in particular, a major shift in orientation for company policy had taken place. The signs for the change had been evident for some time, especially in U.S. companies (DiMaggio 2001; Hall, Soskice 2001). However, that the shift could be so visible even in a traditional German company was surprising. Also, the literature on the effects of globalization in company practice did not adequately recognize the importance of the shifts in company policy for local sites. It became apparent, for instance, that the dichotomy between local autonomy and centralization as clear alternatives for company strategy that is portrayed in the literature on globalization is misleading.

The programs at the two multinationals in our study whose implementation we were investigating were the perfect manifestation of this change. Such programs are geared to utilize two strategies that were previously thought to be in contradiction to one another. The benefits of local autonomy are reaped by utilizing the positive attributes of the local setting – skills, costs, expertise, experience, market, resources. Therefore companies are encouraged to make use of the general, often diffuse, tools and methods defined by the company headquarters to custom-make and implement a project or measure at the local company level: autonomy is in this regard welcomed. However, the reporting and benchmarking tools available to measure “success” are determined using centralized financial monitoring systems and the accountability (or control) linked to this process is very high. Harrison (1994) called this type of company strategy, “centralization without concentration”.

This type of program heralds a clear break with programs introduced in the ‘80s and early ‘90s whose goals were tapping productivity gains through employee participation (Dörre 2001; Applebaum, Batt 1994). Individual programs at the company level may still have strong ties to such participatory strategies as we will see in the following chapters. However, more and more the message from the center being transmitted to the companies, and in particular their management, is that financial results are the goal; they must be visible immediately. The consequences of not heeding this message are looming in the form of sell-off or closure.

The pressure for immediate gratification naturally invites the introduction of short-term cost cutting measures to achieve the results without thinking about the long term consequences of such measures.

For the multinational that is the main focus of this study, this orientation represents a fundamental shift in ideology: away from an "engineering" product-driven company to one driven by financial results. Thus the central identity of the company is no longer based on its technological superiority, but rather on its financial performance, the same standard applied to any other multinational in any other industrial branch. The other major change, also deriving from the strong orientation to financial results, represents a shift in philosophy concerning the ties between the various business units, or in other words, what does the company as a whole mean? Does the corporation as such, which is divided into a number of units by product type, have significance for the individual companies? In the past, the practice of the very solvent company, which had large capital reserves, was to move capital between units to temporarily help out in periods of financial difficulty. This policy has changed so that individual business units are held responsible for their individual results. In fact, poor performance on the part of a company or business unit is seen as a strain on the corporation as a whole: a kind of malignant tumor that is eating away at the good health of the corporate entity.

In a search for where these new orientations come from and whether or not larger trends stand behind them, one label comes to mind. It is certainly not new, but its effects rarely get examined beyond the superficial level, and are not well documented at the micro level: shareholder value.

Both of the companies in this study have made their debuts on the U.S. stock market quite recently: in 2000 and in 2001. The fact that this happened did not automatically set off a change in company policy that, in a deterministic fashion, effected activities at the local level overnight. In the industrial multinational, the opt2 program had been initiated as early as 1998. In both cases, it is difficult to draw a simple one-to-one connection between the stock market introduction and the changes in company orientation. However, it is clear that following notation on the U.S. stock market, company success became measured by stock price. What stock price responds to is earnings results and capital reserves – on a quarterly basis. Thus the pressure to show good results every quarter is intense.

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

One answer potentially lies in a change that has been occurring in the stock market itself. The post war period particularly in American capitalism has been characterized as the era of “managerial capitalism” (Useem 1996). The developments on the stock market in the ‘20s and again after the war were distinguished by lots of small stockholders who did not have a say in the daily operations of an enterprise. Selling or buying of stock among these types of stockholders did not have a major impact on the value or destiny of the company. Without owners as in the days of major capitalists or family run enterprises, managers took over the running of companies and were given a lot of freedom in doing so. Having no clearly definable owners to answer to, managers found themselves with a lot of autonomy and power to run multinationals. This did not mean a complete absence of accountability. It meant that daily decisions and even long term strategies were much less coupled to instant financial results than seems to be the case today. If managers argued for a certain strategic course in the era of managerial capitalism, they were credited with being most familiar with the needs of the company until proven otherwise. Also, in countries such as Germany where managers of industrial enterprises tended to be engineers, the management orientation could vary from countries in which industrial enterprises were run by financial specialists.

What has changed and seems to be having severe consequences for companies listed in the U.S. stock exchanges today is that the market is no longer made up of lots of small nameless stockholders. At present, large fund managers, with extremely large numbers of shares in particular companies in investment, money market or pension funds, have restructured the balance of power between those who run the companies and those who “own” them. Such “investor capitalism” (Useem 1996) is characterized by institutional stockholders who are identifiable actors and can exercise power in influencing the activities of multinationals, especially when financial performance is not leading to the desired stock price performance.

Investor capitalism creates a situation in which top management – under pressure themselves – puts extreme pressure on their individual site managements to achieve positive financial results on a regular basis (Dörrenbacher, Plehwe 2000; Kühl 2002). These management decisions are now influenced or even controlled by shareholder considerations in a way that did not exist previously. Some authors argue that management is sometimes pressured into making decisions that are against their own inclinations or will. One example is being induced to raise dividend shares after a good performance (i.e. distributing profits) rather than saving the money for a “rainy day” fund, which many managers in industrial enterprises will be inclined to do in order to weather the almost certain downturns in business cycles.

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

Given the companies’ new orientation to financial results even at the cost of long term considerations, it is not that surprising that employees at local sites are willing to participate in measures that are designed to achieve economic value added targets. However, although there might be very high costs to employees if goals aren’t reached – in the form of job loss through company closure or massive job cuts – it is local management who will first feel the effects in terms of compensation cuts or removal. And local management knows that short term goals and measures might be necessary, but that ultimately a company’s health will, in the long run, be evaluated by its products.

1.5 Overview of Chapters

Against the backdrop of shareholder value in the era of investor capitalism, which doubtlessly has consequences for company priorities and the responses companies have to make, the question remains how local companies respond to the strategies imposed upon them by their central headquarters, and what factors contribute most to the response? These are the issues that will be examined in the following chapters.

Chapter 2 offers more background information on the programs that were launched in the multinationals investigated in our study, particularly the transition process that took place in the course of the ‘90s in the opt/opt2 program in the industrially based multinational (company A). The differences between the two programs are examined in-depth because the shift in philosophy and goals of the programs underscores a fundamental shift in company strategy from a product driven, engineering based company to one governed by principles of financial performance. This is clearly demonstrated in the central significance and the meaning of economic value added (EVA – in German GWB: Geschäftswertbeitrag) as the driver of company goals. The chapter provides a detailed explanation of GWB and the larger implications of its use.

Chapter 3 examines the actual implementation process of the programs in detail at the three different international sites. Attention is paid to the issue of whether the implementation process varied by country and, if so, why, and also what kinds of measures and projects were chosen by the local sites and why. Also examined is the information exchange process between the local sites and the central headquarters. Finally, the larger consequences for individual employees and personnel policy in general are considered.

Chapter 4 looks at the response of local actors, either through formal systems of industrial relations such as works councils, in the case that such institutionalized mechanisms exist, or informally if they don't at the company level. A comparison is made between the role of company level interest representation and the effects of the programs on interest representation in the three countries.

One of our original tasks was to analyze the interaction effects of global companies' policies on national systems of employment regulation. The programs examined in the course of our empiry are examples for the strategic financial policy that is becoming a prevalent orientation in global companies. Chapter 5 summarizes the company response patterns to this policy and discusses the larger implications for existing systems of industrial relations.

In Chapter 6, we draw some conclusions on the role of systems of employment regulations in governing the globalization process of multinationals in the post fordistic era. Using the mapping process developed by Düll, Bechtle (1988) in which systems of industrial relations are graphically represented in a field comprised of negotiation, control, norm building, and conflict, we compare the three systems, the shift they have undergone, and their dealing with the conditions emerging in the era of investor capitalism given their roots in the fordistic production era.