

Labor Aspects of Internationalization:
Multinational Corporations and Employment Relations
in the U.S. and Germany

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INTRODUCTION

The significance of multinational corporations (MNCs) as one of the driving forces in the internationalization of economic activity is beyond dispute. Estimates suggest that 45,000 MNCs operate around the world, controlling about 280,000 subsidiaries while one in five employees in developed countries work directly for an MNC and another one in five are employed in firms supplying MNCs (United Nations, 1997). Inevitably, the increased cross-border investment activity of multinational corporations (MNCs) through mergers and acquisitions (M&As) has an unequivocally significant impact on labor.

What is the social and economic impact of cross-border M&A activities? Contrary to the rather simplistic neo-liberal argument that globalization will inevitably force global firms and societies to adopt a single business model – one characterized by weak labor unions, low labor costs, and deregulated workforces – this study argues that globalization is a much more complex and indeterminate process. Rather than convergence, a mixed or “hybrid” corporate business model – one that integrates new business ideas but retains a large portion of its traditional practices – is a more probable outcome. This study maintains that, despite neo-liberal predictions of its demise, organized labor often plays a vital role in this process through successful strategies countering the challenges of globalization.

The study attempts to make a meaningful contribution to our understanding of multinational corporate behavior, particularly those aspects that impact work and

employment relations – the systems governing such matters as the rights of workers, union, and managers; the nature of work practices; compensation practices; and the structure and mechanisms of union representation.¹ It examines firm-level employment relations in two major cross-border merger/acquisition (M&A) cases² in the automobile and banking sectors involving German and American multinational corporations.

While the rapid growth in MNCs dates to the early post-World War II era, concern over their impact on work and employment relations is much more recent. Studies done from a business management perspective point to post-merger challenges for management and outline the financial costs related to integrating the newly acquired workforce.³ A large amount of research in the field of comparative industrial relations focuses primarily on national comparisons of industrial relations institutions or the meso level of industries or sectors, while a smaller number of studies concentrate at the micro level of the firm.⁴ Many of the works deal with multinational corporations from a

¹ Harry C. Katz and Owen Darbishire, *Converging Divergences: Worldwide Changes in Employment Systems*. Ithaca: Cornell University Press, 2000, p. 2.

² Although mergers and acquisitions are legally different transactions, rarely do equally powerful companies merge (see Sue Cartwright and Cary L. Cooper. *Mergers and Acquisitions: The Human Factor*. Oxford: Butterworth Heinemann, 1992, p. 30). Following the literature, this study will treat the two terms synonymously.

³ For example, Mitchell Lee Marks and Philip H. Mirvis, “The Stiff Challenge In Integrating Cross-Border Mergers”, *Mergers & Acquisitions*, Jan./Feb. 1993, p. 37; Danniell G. Vliet, “The Growing List of Employment Issues Facing Acquirers”, *Mergers & Acquisitions*, Sep./Oct. 1994, p. 45.

⁴ Richard Locke, “The Transformation of Industrial Relations? A Cross-National Review”, in *The Comparative Political Economy of Industrial Relations*, Kirsten S. Wever and Lowell Turner, eds. IRRA Series, 1995; Richard Locke, Thomas Kochan, and Michael Piore, eds. *Employment Relations in a Changing World Economy*. Cambridge: The MIT Press, 1995; Greg J. Bamber and Russell D. Lansbury, eds. *International and*

decontextualised notion of the firm without any attention to their social and institutional embeddedness. In a significant majority of the studies, the focus is placed on corporate strategy and/or management practices while labor is often treated as a passive actor caught in the powerful tide of globalization.

The primary goal of this study is to address the significant gap in our knowledge regarding the broader socio-economic implications of cross-border M&A activities both inside and outside the firm. It challenges the neo-liberal thesis predicting the inevitable demise of labor unions by taking into account the active role they often play in shaping the ever-changing context of work inside and outside the firm. The study argues that employment relations are neither the result of automatic convergence to a single “best practice” model nor the outcome of unilateral corporate strategy. Rather, employment relations in cases of cross-border M&As are complex and differ significantly between sectors and even between firms within the same sector. Indeed, employment relations outcomes within each firm are a consequence of the power relationships between social actors such as organized labor and management and the processes of control and resistance between them.

Literature Review

One implication of the internationalization of capital through corporate strategies such as M&As is the likelihood that advanced industrial societies are moving toward

Comparative Industrial Relations: A Study of Industrialized Market Economies. London: Routledge, 1993; Walter Galenson. *New Trends in Employment Practices: An International Survey.* New York: Greenwood Press, 1991.

economic and social convergence as forms of work organization and the structure of labor markets become increasingly similar. Postwar writings about industrial societies, such as the works of Daniel Bell (*The Coming of Post-Industrial Society*, 1973), Clark Kerr, John T. Dunlop, Frederick Harbison, and Charles A. Myers (*Industrialism and Industrial Man*, 1960), and Raymond Aron (*Dix-huit leçons sur la société industrielle*, 1962) located the forces of convergence in technology and argued that countries moved along a common trajectory of technological innovation. Thus, all states would adopt, sooner or later, more of the same social, political, and economic structures. Kerr et al. claimed that industrialization would lead to a common “structuring” of the workforce across and within countries, a process that appeared to have a relatively strong role for unions.

A more recent body of work in the neo-liberal tradition argues that globalization will result in countries converging toward deregulation and a neo-liberal socio-economic model as firms seek lower labor costs through labor market flexibility and significantly less powerful labor unions (Kapstein 1996; Katz and Darbishire 1999; Ross and Martin 1999). However, there is considerable disagreement among convergence proponents regarding its social and economic impact. Certain authors such as Harold Levitt’s “Globalization of Markets” (1983), Kenichi Ohmae’s *Borderless World* (1990), and John Naisbitt and Patricia Aburdene’s *Megatrends 2000* (1990) the result is civilizing, resulting in boundless prosperity and consumer abundance. In contrast, Paul Kennedy’s *Preparing for the Twenty-First Century* (1993) and Dani Rodrik’s *Has Globalization Gone Too Far?* (1997) convergence has harmful rather than beneficial consequences.

On the other hand, the varieties of capitalism approach within the historical neo-institutionalist theoretical tradition challenges the neo-liberal thesis arguing that differences in country's institutional arrangements are firmly rooted in history and traditions unique in each society. Although some comparativists have predicted the erosion of the Rhenish or East Asian models due to internal and external pressures (Streeck 1996; Dore 1998; Wilks 1996), the majority of scholars have argued that national differences are not being significantly eroded (Boyer 1996; Wade 1996; Zysman 1996). As a result, globalization effects vary considerably from one country to another and influence differently the interests and strategies of social actors. The result is more neo-liberalism in the liberal market economies such as the U.S. but not so in the coordinated market economies such as Germany (Hall and Soskice 2001). Recent work by Mauro Guillén (2001) also challenges the argument that globalization leads to economic convergence and cultural homogenization, as countries use their "unique economic, political, and social advantages as leverage in the global marketplace."⁵

Among those espousing the neo-liberal thesis, there is little disagreement that one of the main vehicles of convergence is the multinational corporation. The general argument is that, in an effort to deal with an increasingly competitive global environment, MNCs are adapting similar strategies and structures while losing identification and allegiance to particular countries. As far back as 1969, Charles Kindleberger argued in *American Business Abroad*, that "the international corporation has no country to which it owes more loyalty than any other, nor any country where it feels completely at home." In

⁵ Mauro Guillén, *The Limits of Convergence. Globalization and Organizational Change in Argentina, South Korea and Spain*. Oxford and Princeton: Princeton

1971, R. Vernon observed (*Sovereignty at Bay: The Multinational Spread of U.S. Enterprises*) that the very large global corporations were developing into “global scanners”, using their vast resources to evaluate potential production locations in all parts of the world. More recently, authors like Robert Reich (*The Work of Nations*, 1991) and Kenichi Ohmae (*The Borderless World: Power and Strategy in the Interlinked Economy*, 1990) have claimed that MNCs have become “denationalized”. Writing about MNC managers, Ohmae states, “Before national identity, before local affiliation, before German ego or Italian ego or Japanese ego – before any of this is the commitment to a single, unified global mission... Country of origin does not matter. Location of headquarters does not matter. The products for which you are responsible and the company you serve have become denationalized.”

On the other (neo-institutionalist) end of the theoretical spectrum, Michael Porter argues in *The Competitive Advantage of Nations* (1990) “the role of the home nation seems to be as strong as or stronger than ever. While globalization of competition might appear to make the nation less important, instead it seems to make it more so...The way in which firms are managed and choose to compete is affected by national circumstances...Some of the most important are attitudes toward authority, norms of interpersonal interaction, attitudes of workers toward management and vice versa, social norms of individualistic or group behavior, and professional standards. These, in turn, grow out of the education system, social and religious history...and many other often intangible but unique national conditions.” (p. 74, 80, 109).

Furthermore, Suzanne Berger questions whether MNCs have become “stateless and footloose” in *National Diversity and Global Capitalism* (1996). Berger points out that most MNCs hold their assets and employees in their home country and that a large majority of shares is held by individuals and legal entities in the home nation. MNCs also do the bulk of their R&D in the home country and decision-making and innovation are concentrated in the home nation. In addition, recent empirical work by P. Doremus, W. Keller, L. Pauly, and S. Reich (*The Myth of the Global Corporation*; 1997) also provides strong evidence that rebuts the convergence thesis. Their study found “little blurring or convergence at the cores of firms based in Germany, Japan, or the United States...Durable national institutions and distinctive ideological traditions still seem to shape and channel crucial corporate decisions...the domestic structures within which a firm initially develops leave a permanent imprint on its strategic behavior...”⁶

Finally, a large amount of literature has been produced regarding the negative consequences of globalization for organized labor and workers in general. Christel Lane argues that corporate FDI strategies which traditionally have been focused on market expansion are now placing an additional emphasis on lower production costs. Firms are thus less content to remain within the confines of national systems of regulation and firm management often uses credible threats to labor unions regarding relocation of

⁶Paul N. Doremus, William W. Keller, Louis W. Pauly, and Simon Reich. *The Myth of the Global Corporation*. Princeton: Princeton University Press, N.J. (1998), intro.

production abroad while organizational restructuring weakens organized labor's ability to represent their constituents and resist concession bargaining.⁷

Other studies point to the political and economic control exerted on organized labor by national governments. For example, Suarez offers convincing evidence that governments of smaller economies exercise politically-motivated control on organized labor based on the claim that low wages and labor peace are essential prerequisites for the development of successful export-oriented development strategies.⁸ Additional studies as well as ILO reports, reinforce the argument that employers as well as national governments are often less than interested about the impact of corporate strategy or government economic policies on workers' rights intensifying the negative impact of globalization on labor.⁹

Another body of work challenges the view that globalization is a zero-sum game between employers and workers and provide evidence that labor unions can often respond successfully to the challenges facing them. For example, Thelen provides evidence from recent collective bargaining rounds in Germany that show significant labor

⁷ Christel Lane, "Globalization and the German Model of Capitalism – Erosion or Survival?," *British Journal of Sociology*, Vol. 51 no. 2 (June 2000), pp. 207-234.

⁸ Sandra Suarez, "Political and Economic Motivations for Labor Control: A Comparison of Ireland, Puerto Rico, and Singapore," *Studies in Comparative International Development*. Summer 2001 v36 i2, pp. 54.

⁹ Kate Bronfenbrenner, "Uneasy Terrain: The Impact of Capital Mobility on Workers, Wages, and Union Organizing." Report submitted to the U.S. Trade Deficit Review Commission, Sept. 2000. <http://www.ustrdc.gov/research/bronfenbrenner.pdf>. Also, International Labor Organization (ILO) Sectoral Activities Programme, "The Employment Impact of Mergers and Acquisitions in the Banking and Financial Services Sector." Geneva, 2001. <http://www.ilo.org/public/english/dialogue/sector/techmeet/tmbf01/tmbf-r.pdf>.

strength and union victories in the face of employers' vulnerability to industrial strife.¹⁰ Guillén argues that union reaction to multinational corporations is a function of the unions' specific "economic mentalities" and political situations determining their response to the challenges of globalization.¹¹ Lowell Turner reports dramatic and important changes towards the revitalization of the labor movement in the U.S. and England and in the relationship of unions to their counterparts in other countries.¹² These arguments are confirmed by a small number of case studies on European trade-union cooperation such as the Asea Brown Boveri (ABB)-Alstom-Power merger case involving workers from Germany, France, Belgium, and Italy.¹³

A recent study by the European Industrial Relations Observatory maintains that union cooperation within multinational groups newly created by M&As is still not very common with notable exceptions being French and German unions in the merger of Hoechst and Rhône-Poulenc to create Aventis; French, German and Spanish union in the

¹⁰ Kathleen Thelen, "The Paradox of Globalization: Labor Relations in Germany and Beyond." Institute for Policy Research Working Paper, WP-00-09, 2000. <http://www.northwestern.edu/ipr/publications/papers/2000/WP-00-09.pdf>.

¹¹ Mauro Guillén, *The Limits of Convergence. Globalization and Organizational Change in Argentina, South Korea and Spain*. Oxford and Princeton: Princeton University Press, 2001.

¹² Lowell Turner, "Reviving the Labor Movement: Rank-and-File Mobilization in the United States, Britain and Germany," Paper prepared for the conference "Reinvesting society in a Changing Global Economy," University of Toronto, March 2001. http://www.utoronto.ca/ethnicstudies/Turner_paper.pdf.

¹³ Roland Erne, "Explaining Transnational Collective Action: European Trade-Union Cooperation in the ABB-Alstom-Power Merger Case," Draft paper prepared for the Workshop on Globalization and Labor Movements, Turin, Italy, March 2002. <http://www.essex.ac.uk/ecpr/events/jointsessions/paperarchive/turin/ws11/erne.pdf>.

merger of Aerospatiale, Dasa and Casa to create the European Aeronautic Defense and Space Company (EADS); and Dutch and UK unions in light of the planned (but later abandoned) merger of British Airways and KLM. According to the same report, a lack of union cooperation around an M&A is due to the fact that there is only a very small or non-existent union presence in one of the companies involved. An example of this is the case of the Vodafone (UK) takeover of Mannesmann (Germany), where the former does not recognize any trade union representing its staff in the UK.¹⁴

In addition to the vast amount of literature produced on the subject of globalization and labor, a large body of research has focused on the cross-border employment practice transfers in MNCs. A number of studies have concentrated on Japanese MNCs abroad as the East-Asian business system has been considered extremely successful globally (Sharpe 1997 and 2002; Yamada 1981; Ishida 1986; Fukuda 1987; Yang 1992a, 1992b) while others focus on American firms (Innes/Morris 1995; Bae/Cheng/Lawler 1998; Tayeb 1998; Bhörkman/Furu 2000).

In the European context, there has always been a lack of research for single countries (Ferner 1997). This is true for Germany as well, although several global firms are of German origin and many of them operate throughout the world, including the U.S. One explanation for the lack of extensive research on Germany until recently is perhaps the fact that many researchers have regarded the German labor system as too strongly

¹⁴ Simon Macaire, Udo Rehfeldt, Maurice Braud, Catherine Sauviat, Mark Carley, "Industrial Relations Aspects of Mergers and Takeovers," EIROOnline (European Industrial Relations Observatory), 2001.
<http://www.eiro.euofound.eu.int/2001/02/study/TN0102401S.html>.

regulated to allow for the transfer of foreign employment practices to Germany (Peppard/Fitzgerald 1997; also, Liberman/Torbiörn 2000).¹⁵ However, Ferner and Varul (1999, 2000) provide detailed evidence that there is a process of “vanguard diffusion” in the case of several German firms. Their research examines the role of “vanguard subsidiaries” in spreading Anglo-Saxon employment practices to German companies.¹⁶ This shows that the German labor system does not totally prohibit the “import” of foreign employment practices. This study is expected to make a contribution to the increasing body of research regarding the transfer of employment practices in and out of Germany as well as the U.S.

This study challenges the neo-liberal view that globalization inevitably leads to social and economic convergence. Despite neo-liberal claims to the contrary, national institutions of labor relations continue to retain their nationally distinct institutional characteristics not only at the national and sectoral levels but also at the level of the firm. One of the key arguments in this study is that the increased internationalization of firms through mergers and acquisitions does not automatically lead to firm-level employment relations convergence to a single business model. Furthermore, the study maintains that, contrary to neo-liberal predictions, the weakening of organized labor is not a

¹⁵ Matthias Schmitt and Dieter Sadowski, “The International Transfer of HRM/IR-Practices within MNCs. Anglo-Saxon Multinationals Operating in the Federal Republic of Germany,” Institut für Arbeitsrecht und Arbeitsbeziehungen, Trier, Germany. Paper Presented at the International Conference on *Multinational Companies and HRM: Between Globalization and National Business Systems*”, De Montfort University Business School, Leicester, UK, 12-14 July 2001, p. 4.

¹⁶ Anthony Ferner and Matthias Varul, “ ‘Vanguard’ Subsidiaries and the Diffusion of New Practices: A Case Study of German Multinationals,” *British Journal of Industrial Relations*, 38:1 March 2000, pp. 15-140.

predetermined outcome of globalization and labor unions can, under certain conditions, resist the negative impact of globalization and retain most of their power and influence at the firm level. The findings in this study strongly suggest that the popularly held notion of “globalization as a zero-sum game” between workers and employers does not take into account organized labor’s ability to deal successfully with the pressures of globalization.

In addition, the study attempts to refine the historical neo-institutionalist approach which emphasizes institutional resilience or inertia and fails to explain eloquently the changes that do occur in global firms as a result of globalization. The results of this study suggest that global corporate activities, such as M&As, often create *cross-pressure* – each system exerting enough pressure on the firm not simply to change but to change at a faster pace. The result is not convergence to a single business model but *hybridization*, a more complex process of employment relations change that combines elements of global “best practices” as well as practices from various business models.

The emerging literature on hybridization attempts to bridge the gap between the neo-liberal thesis of automatic social and economic convergence to a single business model and the neo-institutionalist, varieties of capitalism approach emphasizing the resilience of national institutions and the embeddedness of global firms in these institutions. Several scholars of hybridization (Lane 2000; Deeg 1999; Boyer 1998; Jackson 2001; Casper 2000) argue that convergence to a single neo-liberal business model is not likely to occur as a result of globalization. A more probable outcome is a mixed or “hybrid” model incorporating elements from various business systems, each

adopting to common globalization challenges but still retaining enough established institutions that its traditional logic remains intact.¹⁷

This study is making a contribution to the emerging literature on hybridization by identifying the key factors that shape the nature and direction of hybridization within global firms. The major contribution of the study in this area is that it brings “organized labor back in” by strongly suggesting that the degree and nature of hybridization varies across firms based not only on corporate strategy or management decisions but on organized labor’s position within each firm. Contrary to dominant neo-liberal arguments and oversimplified popular understanding, globalization is not necessarily a zero-sum game between employers and workers and its effects are not always preordained or predetermined. Organized labor, rather than being a passive participant in the process of globalization, can play a significant role in determining employment relations outcomes suggesting that gloomy predictions regarding its demise may be exaggerated.

Methodology

Although it is difficult to accept the blanket argument that automatic convergence to a single “best practice” model of employment relations is taking place, it is equally true that employment relations have not remained static across countries and firms. Although MNCs are not “stateless and footloose”, they must compete outside of their national institutional environment and they must adopt new labor practices in order to remain globally competitive. If there is convergence in MNC employment relations,

¹⁷ Richard Deeg. *Finance Capitalism Unveiled. Banks and the German Political Economy*. Ann Arbor: The University of Michigan Press. 1999, p. 229-232.

where and how does it occur? If there is no convergence, what exactly is the nature of change taking place today in the employment relations of global firms and what factors and organizational/political actors shape the final outcome? Why do we see more change in some firms but less in others after a merger or acquisition?

The focus of the study on merger and acquisition activity (M&A) is significant due to the fact that large M&A deals have often been a dominant way for global firms to internationalize.¹⁸ Mergers and acquisitions offer potentially excellent opportunities for convergence since through such business deals two or more companies combine their organizations and workforces and their corporate identities are expected to be either subsumed or integrated to create a new firm.

In fact, mergers and acquisitions are quite different from “greenfield” operations or “transplants” – new plants owned and operated by a corporation in a foreign country. In the latter case, the investing firm has considerable freedom to determine the type of employment practices in its new transplant, as long as they remain within the parameters of the host country’s regulatory framework. In the case of “brownfield” operations, such as in the acquisition of or merger with an existing plant/firm, opportunities for “learning” new employment and managerial practices increase. More often than not, the acquiring firm inherits an entire organizational structure and a set of employment practices that have been embedded in the acquired firm over a long period of time. Oftentimes, the acquired company itself is a large global firm and innovator of globally competitive

¹⁸ Christoph Dörrenbächer, “The International Transfer of Production Models: Some Lessons from German FDI in Hungary”, Paper Presented at the International Conference on *Multinational Companies and HRM: Between Globalization and National*

employment practices. The increased international assignments and transfers of top managers and other professional “expatriates” add to the range of possibilities for “learning” from the newly acquired firm. Thus, although the acquirer may decide to “export” traditional employment patterns inherited from their home country, it is equally possible that they will inevitably “learn” new and innovative employment practices from the acquired firm, which they may attempt to implement in their global operations, including those in their home country.

However, the fact that employment practices can potentially be diffused across borders from the parent company to the subsidiary or vice versa in the case of “reverse diffusion” does not necessarily mean that convergence in employment relations at the firm level will necessarily occur in all cases. A number of institutional, cultural, organizational and other differences between the countries where the MNC operates make the process of convergence less than inevitable or automatic.

The argument put forth in this study is that, although mergers and acquisitions provide a fertile environment for “learning” new ways of managing a workforce and experimenting with innovative employment practices, convergence of MNC employment relations is inhibited by the distinct institutional environments of the home and host countries of the firms involved in a merger or acquisition. Predominant among these factors are the degree of labor power at the firm level and the ability of labor to resist management’s attempts to “import” new practices or to negotiate change in employment relations.

Hypothesis 1:

The higher the level of diversity between the national institutions of labor relations in countries where two firms originate, the lower the level of post-merger convergence observed in firm-level employment relations.

Despite the expected lack of clear and automatic convergence, there are cases where a great amount of change does occur post-merger as a result of the “cross-pressures” that each of the two combined firms exerts on the other. The term utilized to describe a more complex and multidirectional process of change is “hybridization” (Deeg 1999; Jackson 2001). Defined as “the ways in which forms become separated from existing practices and recombine with new forms in new practices”, (Pieterse 1994) hybridization lies between the extremes of strong path-dependence and convergence, and combines diverse elements of both Anglo-Saxon and Rhenish aspects of employment practices in a multidimensional process towards a compromise position. This study argues that hybridization (dependent variable) is not solely a result of managerial preferences or corporate strategy but will depend on labor power (independent variable) at the firm level.

Hypothesis 2:

The stronger organized labor is at the firm level, the lower the level of hybridization that occurs in employment relations within the combined firm. Conversely, the weaker the labor is, the higher the degree of hybridization observed in the combined firm's employment relations.

Sigurt Vitols (2000) argues that “labor power” or “labor solidarity” is a crucial explanatory variable influencing the ability of organized labor to resist pressure for change. In this study, the term “labor power” refers to union power at the firm level and

can be influenced by a number of firm-level conditions. The most significant of these conditions are labor representation by more than one unions reducing their ability to play a coordinating role; factions within organized labor which make it more difficult to pose an effective counterweight to management; the strength of employee groups less susceptible to “collective representation” such as highly skilled white collar workers;¹⁹ or, the total lack of a labor union representing a sizable portion of the workforce. Also, it must be pointed out that a union’s power at the firm level is closely intertwined with and more often than not influenced by union power at the sectoral level as well as by the political weight the parent union carries at the national level.

The **level of analysis** in this study will be that of the multinational firm. Studying employment relations at the micro level constitutes a considerable portion of the employment relation’s literature. A multinational corporation is defined as “an economic unit that operates across national boundaries, producing in at least one other foreign country as well as in its home market.”²⁰ It is vitally important to focus on the multinational corporation as a political economic actor since MNCs lie at the center of the process of cross-border activities and the structure of national political economies. According to Razeen Sally, “modern neoclassical economics (also) suffers from an analytic weakness with regard to firm: they are treated as atomistic actors judged on the

¹⁹ Sigurt Vitols, “The Reconstruction of German Corporate Governance: Reassessing the Role of Capital Market Pressures,” Paper presented in the First Annual Meeting of the Research Network on Corporate Governance, Berlin, Germany, 23-24 June 2000, p. 7.

²⁰ Razeen Sally. *States and Firms: Multinational Enterprises in Institutional Competition*. London: Routledge, 1995, p. 2.

basis of efficiency gain, without taking sufficient account of the institutional and policy settings which subsume, for example, bargaining relationships with governments over the distribution, as well as the generation, of wealth and power...”.²¹

Undoubtedly, powerful MNCs are able to exercise a degree of influence over their environment either by shaping consumer preferences, dominating their market, or pressuring governments and labor unions through their investment strategies or threats of investing elsewhere (Ferner 1997; Edwards 1993; Coller and Marginson; Reese, Edwards, and Coller 1999). However, while MNCs are theoretically free to behave in any way they choose, their behavior is in fact shaped by certain historically unique national institutions such as the financial system, the labor markets and labor relations system, and the character of the state, that is, the state’s ability to influence adjustment through rule making and allocating resources (Deeg 1999; Hall 1986; Soskice 1991; Zysman 1994).

A number of researchers from the varieties of capitalism approach point to the strong societal effects on firms and argue that firm relationships vary across different national economies (Hall and Soskice 2001). Deeg (1999) argues that firms do not operate in a vacuum and that their adjustment strategies are heavily shaped by the institutional environment in which they operate. From the comparative business systems perspective, a number of scholars maintain that differences in institutional contexts across countries have resulted in different forms of economic organization (Whitley 1990, 1994;

²¹ Razeen Sally. *States and Firms: Multinational Enterprises in Institutional Competition*. London: Routledge, 1995, p. 2.

Whitley and Kristensen 1997) and in different ways that firms change over time as a result of internationalization (Whitley 1999).

Both the varieties of capitalism and comparative business systems approaches offer useful analytical tools dealing with organizations operating across institutional contexts (Morgan, Kristensen, Whitley 2003). Analyzing the internationalizing firm from the standpoint of institutional and social embeddedness offers the opportunity to examine MNCs not as static and decontextualized entities but rather as “transnational communities” incorporating social interactions among people (Morgan 2001). This approach also enables the researcher to treat the adoption of new managerial practices as an ongoing social process that includes processes of consent and resistance by organized labor at firm level. It also allows for the treatment of corporate FDI activities such as M&As not only from a “capital mobility” perspective but also as the cross-border flow of ideas, people, and practices (Sharpe 2003; Morgan, Kelly, Sharpe and Whitley 2003).

In the business school literature, the terms “mergers” and “acquisitions” are treated synonymously, primarily because a merger is rarely a marriage of equals. An acquisition occurs when one organization acquires sufficient shares to gain control/ownership of another organization. Mergers, publicly at least, represent a cooperative agreement to join or gradually blend two previously discrete entities.²²

Harry Katz and Owen Darbshire define employment relations as the systems “governing such matters as the rights of workers, unions, and managers; the nature of

²² Sue Cartwright and Cary L. Cooper. *Mergers and Acquisitions: The Human Factor*. Oxford: Butterworth-Heinemann Ltd., 1992, p. 30.

work practices; and the structure and mechanisms of union representation.²³ The analytical framework of the study will focus on pre-merger and post-merger comparisons of labor-management relations, the structures and forms of employee and management compensation and benefits (including training and job security), relations with labor unions, contract negotiations, employee participation within the firm, and organization and scheduling of work (i.e. decentralization, flexible working times, etc).²⁴ In addition to structures, the study pays considerable attention to the processes surrounding the adoption of or resistance to new employment practices such as issues of adaptation, resistance, unintended consequences and translation that are significant in explaining “under what conditions” and “how” employment practices may be transferred, resisted, or adopted across economic organizations (Sharpe, 2003).

At the national level, employment relations are generally considered an integral part of the two broad types of capitalism: The “Anglo-Saxon” and the “Rhine” models. For example, Lester Thurow, who distinguishes between the “individualistic” Anglo-Saxon British-American form of capitalism and the “communitarian” German/Japanese variant of capitalism, finds crucial differences in labor-force turnover, employee training, bonus systems, wage reductions, and the status of the human resources officer within the

²³ Harry C. Katz and Owen Darbishire. *Converging Divergences. Worldwide Changes in Employment Systems*. Ithaca: Cornell University Press, 2000, p. 2.

²⁴ Richard Locke, Michael Piore, and Thomas Kochan, eds. *Employment Relations in a Changing World Economy*. Cambridge: The MIT Press, 1995, p. xxvi.

company structure.²⁵ Similarly, Michel Albert distinguishes between the Anglo-American model of employment and the Rhine/Japanese model and observes two equally distinct models of trade unionism as well as job security, company loyalty, training, recruitment, and salaries.²⁶

Katz and Darbshire also argue that employment relations have “historically differed substantially” across advanced market economies, such as the U.S., Britain, Germany, etc.²⁷ More specifically, the American employment relations system exhibits two central features: the role of collective bargaining as the key institutional mechanism to resolve labor-management conflict and the exclusive managerial prerogative to determine the strategic direction of the firm. On the other hand, one of the key features of the German employment relations system is codetermination or employee participation at the firm. An integral part of the system of codetermination is the works councils. The authority of the works councils is substantial, particularly in matters of plant closings, mergers, and the introduction of new work or production techniques as well as in the establishment of general criteria for hiring, discharging or transferring employees.

²⁵ Lester Thurow. *Head to Head. The Coming Economic Battle Among Japan, Europe, and America*. New York: William Morrow and Company, Inc. 1992, pp. 32-33, 54-55, 137-141.

²⁶ Michel Albert. *Capitalism vs. Capitalism*. New York: Four Walls Eight Windows, 1993. Pp. 117, 122, 234.

²⁷ Harry C. Katz and Owen Darbshire. *Converging Divergences. Worldwide Changes in Employment Systems*. Ithaca: Cornell University Press, 2000, p. 2.

Convergence is defined as the “expansion of a common set of employment patterns across countries” or firms²⁸ and generally occurs through mechanisms of competitive selection, imitation, or harmonization. Competitive selection eliminates inferior strategies of international competition among firms, while through the similar mechanism of imitation workers, firms, and policymakers imitate those strategies that are viewed as “best practice”. The third mechanism refers to the harmonization of economic policy, regulation, and economic structures among states.²⁹ According to MacDuffie, international competition among companies creates pressures “for convergence toward whatever approach to work organization is most associated with market success. At the same time, by driving companies (or their plants) out of business, it helps select for those work organization practices associated with competitive survival.”³⁰

The study examines two significant M&A cases between German and American global firms in the automobile and banking sectors. The first case is that of the 1998 merger between Daimler-Benz and the Chrysler Corporation and the second case is the 1999 acquisition of Bankers Trust by Deutsche Bank AG. In both cases, firm-level employment practices were examined prior to the merger and again after the merger in

²⁸ Harry C. Katz and Owen Darbishire. *Converging Divergences. Worldwide Changes in Employment Systems*. Ithaca: Cornell University Press, 2000, p. 13.

²⁹ Richard Deeg. *Finance Capitalism Unveiled: Banks and the German Political Economy*. Ann Arbor: The University of Michigan Press, 1999, p.8.

³⁰ John Paul MacDuffie, “International Trends in Work Organization in the Auto Industry: National-level Perspectives vs. Company-level Perspectives”, in Kirsten W. Wever and Lowell Turner, eds. *The Comparative Political Economy of Industrial Relations*. IRRS, 1995, p. 75.

order to determine whether convergence had began or whether national embeddedness in the area of employment relations persisted.

The research included several interviews of the firms' senior-level management as well as labor representatives of both firms in the U.S. and Germany. Gaining access to company information and senior management proved a very difficult task, particularly in the case of the American firms. In the course of last year, approximately 25 interviews and conversations were carried out with top- and mid-level corporate executives of DaimlerChrysler in Germany and the U.S., as well as with union officials in the respective labor unions, IG Metall and the United Auto Workers (UAW). The purpose of the interviews was to comprehend as much as possible the processes through which employment practices and new ideas were transferred from one location to another and to get a better understanding of the changing relationships between managers and workers resulting from the post-merger organizational restructuring. The questions asked were aiming not only to gather factual information but were particularly sensitive to processes of domination, control, and resistance within the firms.³¹ Several of these interviews were taped and fully transcribed while detailed notes were kept of telephone conversations. Also, several informal conversations were carried out with academics and field experts in both countries. Information and data obtained from the interviews were complimented with an extensive archival research (industry publications, company reports, union documents etc.).

³¹ I am indebted to Professor Diana Sharpe for her comments on structures and processes incorporated in this chapter.

For the convergence scenario to be proven correct, one of two conditions must be met: (a) American employment practices would be adopted in the German plants or (b) German employment practices would be adopted in the American plants post-merger. In each case study, employment relations were broken down to number of sub-issues such as job security, wages, training, and labor-management relations and were compared pre- and post-merger. In addition, related areas of corporate governance, and management ideology and remuneration were examined since they are closely linked to the firm's general investment strategy and orientation toward its workforce. If plants in both countries adopted some of each other's "best practices", then one would argue that instead of "convergence" a more complex and less clear scheme of employment practices has emerged which would be considered a result of organizational "hybridization".

Hybridization lies between the two extremes of strong national embeddedness of MNCs and inevitable convergence to a specific (usually neo-liberal) business model. Christel Lane defines hybridization as change which occurs when companies combine "domestically generated characteristics with those adopted in host countries into a hybrid form".³² According to Lane, subsidiaries become embedded in their host countries, leading to learning processes and the eventual adoption of new organizational structures,

³² Christel Lane, "Globalization and the German Model of Capitalism – Erosion or Survival?," *British Journal of Sociology*, June 2000, pp. 207-234. Also, see Robert Boyer, "Hybridization and Models of Production: Geography, History, and Theory," in *Between Imitation and Innovation*. R. Boyer, E. Charron, U. Jürgens, S. Tolliday, eds., 1998; Gregory Jackson, "Corporate Governance in Germany and Japan: Liberalization Pressures and Responses during the 1990s," Max-Planck Institute for the Study of Societies Paper, July 2001, p. 54; S. Casper and H. Kettler, "National Institutional Frameworks and the Hybridization of Entrepreneurial Business Models Within the German and UK Biotechnology Sectors." Paper prepared for the DRUID summer conference, Aalborg, June 2000. www.business.auc.dk/druid/summer2000/papergal.htm.

practices and competencies by the whole company. This is more so in cases of mergers and acquisitions where the subsidiaries themselves are often large firms already embedded in their country's institutional environment. Although hybridization is a gradual process, according to Lane, in the case of cross-border mergers it occurs in a more abrupt manner and can be more destructive of a firm's national identity.³³

A number of methodological issues were considered in conducting this study. First, the full effects of many M&As may take three to five years to work through, according to some analysts. However, it is quite possible that after five years it may be difficult to determine which employment practices were not adopted and why since there are no longer traces of "discarded" practices. Also, significant "organizational memory" may be lost as personnel is reassigned and/or employed elsewhere. Thus, although there may be certain methodological drawbacks to studying fairly recent M&As, there are an equal number of advantages in doing so.

Second, there are methodological concerns regarding the level of aggregation – firms, industries, national economies, regions, or the world. It is possible that different conclusions may be reached depending on the level of aggregation. For example, M&As may increase convergence in employment relations at the firm or sectoral level but not at the national level. Nevertheless, it is important to note that MNCs are not only shaped by the environment in which they operate but they can in turn shape that environment through the exercise of their great political and market influence. In cases where MNCs

³³Christel Lane, "Globalization and the German Model of Capitalism – Erosion or Survival?," *British Journal of Sociology*, June 2000, pp. 207-234.

dominate their market, they can shape the nature of consumer tastes through their marketing strategies, and can establish their production processes as the dominant mode of production in their industry. These tendencies are more significant where an MNC has a large or dominant market share. MNCs can also exercise influence over national or local governments and unions by appearing to be uncertain as to where to locate a new investment. By doing this, they may be able to influence labor standards in the countries or regions in which they operate by drawing governments and unions into competitive battles to secure new investment (see Ferner, 1997, for review).³⁴

The two cases were chosen for a number of significant reasons. First and foremost, multinational corporations offer the researcher the opportunity to examine organizational change across institutional contexts and to test theories of convergence between different social and political contexts. Furthermore, the automobile and banking sectors are among the key sectors in these economies employing both blue- and white-collar workers. Several of the employees in these firms are represented by powerful labor unions in both countries, while others are not. This offers the researcher the opportunity to test the significance of organized labor strength on firm-level employment outcomes. Finally, large successful global firms become pattern setters (“bellwethers”) in employment relations for the rest of the industry and have tremendous political influence. Employment patterns that emerge within the most powerful firms impact

³⁴ Chris Rees, Tony Edwards, Xavier Coller, “The Cross-Border Diffusion of Employment Practices in Multinational Companies: Case Study Evidence,” Occasional Paper Series, Kingston Business School, Jan. 1999.

indirectly employees in smaller companies within the same industry and may even set the tone for changes at the national level.

Relevance of the Study

This study aims at enhancing our understanding of the increased internationalization of MNCs through mergers and acquisitions and its social and economic impact. More specifically, it attempts to refine our understanding of multinational corporate behavior and its implications for employment relations in advanced market economies. In light of increased investment and capital movements in both domestic and overseas markets, the many implications of private sector activities on “social” issues through investment policies, sourcing and employment practices are central concerns in many societies and governments.³⁵

Indeed, M&As among large firms result in significant industry consolidation and corporate restructuring raising important public policy concerns. For example, issues related to employment are quite common, as mergers are usually followed by cost-cutting redundancies often on a massive scale. To gain the full benefits of the merger, firms eliminate duplicated operations and compress overlapping aspects of their organizations into one resulting in redundancies at all levels. Additional industrial relations instability and worker insecurity is related to the application of existing collective agreements after the change of ownership which in most cases is left up to the discretion of the new owner.

³⁵ Alan Pike, “A social role for capitalism”, *The Financial Times*, January 27, 2000.

Furthermore, this study concerns itself with democratic processes and workers' rights in the "era of globalization". Currently, government authorities at the national level make decisions regarding proposed M&A activities based on strict economic criteria rather than incorporating broader social considerations based on the public interest. The ability of public authorities to oppose or prevent M&As and the degree to which the social impact of M&As is regulated varies from country to country. Also varied is the regulatory framework governing the rights of employees and their representatives in M&As. In Western Europe, much of the national legislation is based on implementing EU directives while some countries (Austria, France, Germany, the Netherlands, Spain and Sweden) have additional specific provisions on M&As.

However, specific legislation on workers rights in M&As is very rare, with a new German law and the Dutch Merger Code as the few examples. In the U.S., minimal worker protections exist in M&A cases with only a few restrictions on how employers may change employment conditions within their firms. The Worker Adjustment and Retraining Notification Act of 1988 (WARN) requires firms with more than 50 employees to give 60 days' notice of impending layoffs to workers. The lack of advance consultations with unions and workers regarding alternatives or social plans to lessen the impact of M&As creates upheaval in industrial relations as greater reliance is placed on the external labor market to absorb redundant workers.

One of the theoretical implications of this study is that, traditionally, research in political economy has primarily focused on "what governments do". This study focuses on "what firms do" in interaction with other political actors, such as labor. The policy implications of such interaction for governments, labor unions, employers, and

management are tremendous. The global strategies of MNCs pose challenges not only for corporate management, but also for governments. In the future, the internationalizing firm may dilute the ability of governments to exercise control over their labor policies, particularly when such control endangers the competitive viability of the firm.

Furthermore, the study is of tremendous relevance to labor unions as they attempt to develop transnational collaboration strategies to counter the impact of globalization and redefine their role based on new challenges. Far from proving the relevance of neo-liberal predictions about the demise of labor unions, this study shows that a strongly organized labor force can transcend national borders and influence the outcome of firm-level employment relations in a way that enhances its position within the firm. This is not only a positive message for labor unions, but also a warning for those employed in firms or sectors that lack strong unionization as they are more likely than their unionized counterparts to be impacted more gravely by globalization.

Last, but far from least, the study is relevant to anyone within the government and business community who needs to better comprehend the ever-changing relationship between organized labor and multinational corporations. In the 1970s and 1980s, labor unions were struggling to keep up with an increasingly mobile group of firms which seemed capable of “fleeing” the confines of their national institutions by investing abroad. In the last decade, however, and perhaps as a result of the increased FDI activity through M&As, labor unions have come to realize that their interests can be better met by cooperating with their counterparts in other countries rather than competing against them on issues ranging from the location of production facilities to “benchmarking” between plants. Although organized labor has certainly not reached a high level of international

solidarity, there are significant indications that MNCs must deal with cases where there is strong cross-border collaboration among labor unions making it less than easy for them to “flee” the institutions of the home country.

Conclusion

National Institutional Resilience and the Hybridization of Firm-Level Employment Relations

The results of the study confirm Hypothesis 1 and point to the fact that M&As between German and American firms do not automatically result in employment relations convergence as both firms are embedded in distinct institutional environments and traditions inhibiting the adaptation of a new set of employment practices. This study clearly shows that, despite globalization, national institutions of labor relations remain largely distinct between the U.S. and Germany, still fitting properly in the broad categories of “Anglo-Saxon” and “Rhine” capitalism depicted in the varieties of capitalism approach.

Yet, despite national institutional resilience, MNCs must still compete effectively in numerous business environments where labor relations institutions may differ dramatically from those of the home country. The evidence collected for this study strongly suggests that, although international investment activities such as M&As do not result in complete convergence of firm level employment relations, they do generate a considerable amount of *cross-pressure* – each system exerting enough pressure on the firm not simply to change but to change at a faster pace. The result is not convergence but *hybridization*, a molding of different approaches, some borrowed from the German

model, some from the Anglo-Saxon model, and some from global “best practices” to create a new more complex employment relations scheme.

However, hybridization is not a uniform process across firms. According to Hypothesis 2, such change depends not only on unilateral management decisions or corporate strategy but on organized labor’s position within each firm. In the globalization literature as well as in the popular press, labor has been depicted as a passive observer in the tidal wave of globalization which decreases union power as nationally-based unions are unable to keep up with mobile capital and its cross-border investments. Although no one can doubt that there are significant power asymmetries between employers and workers in the current global marketplace, the empirical data collected for this study strongly suggest that globalization is not always a zero-sum game between employers and workers. Contrary to dominant theories and popular understanding, this study argues that far from being passive, organized labor is at times an active participant in the process of globalization influencing employment relations outcomes within global firms and an effective counterweight to management attempts to standardize products and labor practices.

The Significance of “Organized Labor Power” in Explaining Employment Relations Outcomes

Clearly, the most significant factor accounting for the difference in the level of hybridization in the two cases is the degree of labor power. In the DaimlerChrysler case, strong labor unions in both Germany and the U.S. have made it quite difficult for management to proceed with a quick and thorough integration of the two firms’

employment relations especially during the critical early stages of the merger. Meanwhile, IG Metall and the UAW proceeded with serious coordinating efforts of their own and, overcoming the initial distrust, created new transnational communication and cooperation networks such as the International Automotive Working Group. Thus, they were able to influence the direction of change in the new firm in areas that they perceived as being beneficial for employees such as participation in the company's supervisory board and the eventual creation of a World Employee Committee.

A strongly organized labor force is not only capable of bringing about specific changes that seem advantageous for workers but can also block unfavorable management decisions. In both cases, German labor was able to stop management's attempts to import American practices to the firm's German operations. In the case of DaimlerChrysler, the works councils were able to stop the widespread adoption of overtime and a more flexible work schedule, both widely used in the U.S. plants. They were also successful in limiting the use of temporary employment and the widespread application of the "Mercedes Production System" based on lean production principles that had proven successful in Daimler's U.S. plant in Tascaloosa, Alabama.

At the same time, the German labor union was able to pursue other changes that workers in Germany believed would improve their working conditions or strengthen their position within the new company. For example, IG Metall was successful in securing higher bonuses for the German employees that came closer to the U.S. bonuses at Chrysler. Most importantly, both unions demanded and succeeded in securing a seat on DaimlerChrysler's supervisory board for UAW. These developments indicate that organized labor has been no passive observer of the post-merger integration process but

has participated in most aspects of the employment relationship using its institutionally entrenched power to either stop undesirable steps from been taken or to demand specific changes that they deemed essential for the workforce.

Organized through IG Metall and the UAW, labor in the two firms has been able to push for hybridization only in areas they have considered beneficial for workers such as strong codetermination and cross-border employee cooperation. The supervisory board seat offered to UAW and the creation of the World Employee Committee are clear indications of strongly organized labor making its presence felt in the combined firm. In other areas, such as lean production, flexible work hours, and overtime, the German union has been able to use its institutionalized power to either block them completely or integrate them into the existing framework of labor relations.

In the Deutsche Bank case, on the other hand, weak labor institutions in the U.S. have made cross-border labor collaboration virtually impossible, creating ample opportunities for management to proceed with the planned integration quickly and effectively. Utilizing the latest high technology software tools, bank management has been able to effectively harmonize key areas such as employee performance and evaluation, training, and job classifications. It has also proceeded with organizational restructuring and a new corporate identity – both vitally important for the bank's continued global competitiveness.

In this case, the process of hybridization proceeded faster and was more extensive than in the DaimlerChrysler case. After the acquisition of Bankers Trust, the integration of the two firms moved quickly and was successful in blending the workforces in the two firms as well as developing a new common corporate identity that was neither German

nor American but a new and more “global” approach to corporate culture. According to the findings, labor’s weakness in Deutsche Bank’s U.S. operations allowed management more latitude to integrate quickly and adopt uniform employment practices that seemed essential for the firm’s success.

After the acquisition of Bankers Trust, Deutsche Bank experienced remarkable change in several aspects of the organization. In the senior management level, executive salaries and stock options increased and came very close to American levels of managerial compensation, while a common grading system was put in place and a single global title structure was implemented. In the area of corporate governance, Deutsche Bank adopted elements of the Anglo-Saxon model such as an increased focus on shareholder value and a more centralized leadership structure.

In other issue areas, such as performance appraisal, employee bonuses, job security, and employee training, a wide range of change has occurred as well, pointing again in the direction of hybridization. Still, two core areas of employment relations remain distinct between Deutsche Bank’s operations in Germany and New York: base salaries and labor-management relations. Base salaries continue to be determined by the market in the U.S. while in Germany collective bargaining between bank employers’ associations and labor unions is firmly in place and salary levels negotiated between these two groups are extended to all banking employees. Labor-management relations are also starkly different between Deutsche Bank’s operations in Germany and the U.S. as bank employees in Germany are legally guaranteed the rights to works councils and codetermination at the firm level and are represented by a strong union at the industry level. On the contrary, Deutsche Bank employees in the U.S. are not offered similar

guarantees due to the lack of a labor union at the sectoral level and the absence of formal institutions guaranteeing works councils and codetermination rights at firm level.

In Germany, banking employees' power is still considerable despite the recent restructuring of the German banking sector. Several service sector unions, including bank employee unions, have recently merged and combined their membership and resources in an attempt to present a "united front" during wage negotiations and in overall strategy at the sectoral and national levels. The new union, ver.di, created in 2001, is the largest single union in the developed world in terms of membership. Despite having to resolve initial differences regarding a common policy, it was very effective in negotiating a new collective bargaining agreement for banking employees in the spring of 2003 and reaching a consensus with industry employers who feared a long and disastrous strike. Thus, organized labor in the German banking sector has been able to maintain its institutional strength by adapting its organizational strategy to the fast-changing environment of German banking.

The institutional strength of employees in German banking is not shared by their American counterparts. Deutsche Bank employees in the U.S. are not represented by any union and do not participate in corporate governance as German works councils and codetermination rights are not extended to the U.S. workforce and do not constitute part of the U.S. institutional framework of labor relations. Meanwhile, the total absence of a legal body of employee representation in the bank's U.S. operations makes it extremely difficult for German union representatives to coordinate their strategies throughout the firm as they have no counterparts in the U.S. Although ver.di officials claim that this situation does not affect the strength of the German workforce, it may eventually have a

weakening effect in the overall position of the union inside the new firm as the German union officials sitting at the bank's supervisory board cannot claim that they represent the bank's workforce outside of Germany currently amounting to one-half of the bank's total workforce.

As the two cases indicate, mergers and acquisitions do not automatically bring about convergence in employment relations. Although M&As increase the cross-pressures that each system exerts on the other to change, such change is not moving in a linear fashion towards the German or the U.S. model. Instead, a complex hybrid of both systems gets combined with global "best practices" to create a unique blend of a new employment scheme. As a result, employment relations in each M&A case is unique and varies according to the position of labor and its ability or lack thereof to negotiate change. Thus, in accordance with other writers (Thelen 2001; Turner 1999) this study concludes that labor in the era of globalization is neither feeble nor passive. As the two cases in the study illustrate, despite tremendous challenges, labor is often able to participate actively in shaping employment relations outcomes in cross-border M&A cases with varying degrees of success.

Theoretical Reflections

The Limitations of the Neo-liberal Globalization Thesis

Two basic assumptions inherent in the neo-liberal approach to globalization are challenged in this study: the nature of the internationalizing firm and the impact of globalization on labor. According to the first assumption, MNCs are considered to be "stateless and footloose", adopting similar strategies and structures while losing

identification and allegiance to particular countries (R. Reich 1991; K. Ohmae 1990). By becoming “denationalized”, global firms desiring to remain competitive adopt new and innovative “best practices” or converge toward other national business models that have proven successful in the global marketplace. The second assumption is that labor union decline is an unequivocal outcome of globalization. According to this argument, globalization pushes all countries towards neo-liberalism and deregulation and encourages firms to lower labor costs and increase labor market flexibility while diminishing the power of unions to prevent such policies (Kapstein 1996; Katz and Darbishire 1999).

Following the general arguments made by historical institutionalism and the varieties of capitalism approach, this study argues that despite their global activities, MNCs remain strongly rooted in the institutional traditions and practices of their country of origin (M. Porter 1990; P. Doremus et.al. 1997). According to this approach, MNC behavior is shaped by the specific institutional home environment of the MNC – such as the financial system, the innovation system, and the industrial relations system – which makes them less than free to completely converge toward a single “best practice” model of employment relations.

According to the second neo-liberal assumption, labor is considered as a passive participant in the process of globalization often portrayed as the losing side in the global “zero-sum” game between capital and labor. Indeed, a large number of scholarly research as well as the popular media have argued consistently about the decreased power of labor unions in the era of globalization and capital’s ability to flee restrictive regulatory environments and tightly regulated labor markets by investing elsewhere.

Often, just the threat of relocation to an offshore site can impact the outcome of contract negotiations by threatening existing employment and shifting power relations between workers and employers, according to current research (Bronfenbrenner 2000).

Such studies correctly point to the power asymmetries between unions and employers in the current global environment. However, organized labor in Germany is much stronger than labor in the U.S. and organized labor in the automobile sector in both countries is considerably stronger than labor in the banking sector. This study is in alignment with other recent works (Thelen 2000; Turner 2001) maintaining that organized labor can be a powerful actor influencing the direction of change brought about by globalization. As the case of the DaimlerChrysler merger indicates, when powerful in both firms prior to the merger, labor unions can transcend their nationally-based character and become involved in cross-border collaboration through voluntary participation in transnational labor networks (Hurd, Milkman, and Turner 2002; Turner 2001; Erne 2002).

Refining Historical Neo-Institutionalism

Among the strongest attributes of the historical institutionalism approach is its ability to explain the resilience of national institutions and the social embeddedness of firms. However, the strong emphasis on the mutually-reinforcing and complementary nature of institutions often leads to a less than adequate account of the significant ways in which certain aspects of global firms may change and the conditions and processes under which such change may occur. In seeking to refine historical neo-institutionalism, this study argues that MNC behavior encompasses both an attempt to emulate global best

practices *and* societal embeddedness. Although MNCs are not “stateless and footloose”, they must adopt certain innovative ideas and practices in order to remain competitive in the global arena.

Neo-institutionalist works maintaining that MNCs “change only at the margins but not much at the core” (Pauly et. al. 1998) do not sufficiently explain the unprecedented change that does occur as global firms continuously expand their business abroad. The two companies examined in this study, Daimler-Benz and Deutsche Bank are cases in point. Both have long been considered “national champions” symbolizing the German post-WWII economic miracle as well as the consensus-driven German model of management and corporate governance. Based on collected evidence, however, Deutsche Bank and to a lesser extent DaimlerChrysler have changed their corporate governance structure as well as management practices to such a degree that clearly defies the neo-institutionalist argument that global firms change only marginally.

The Rise of a Global Managerial Class

In both the Deutsche Bank and DaimlerChrysler cases, the deep and extensive harmonization of various issue areas relating to the firms’ senior management was remarkable. The process of post-merger organizational unification impacted not only basic salaries but stock options, performance evaluations, as well as executive training. In addition, a deeper and perhaps more significant change seems to have occurred in management *ideology*, with a shift from the traditional German focus to stakeholder interests (investors, management, and labor) to shareholder value, where the short-term

fluctuations in share prices become a much more significant aspect of management strategy than in the past.

The shift towards shareholder value is closely connected to ownership changes in German firms, as the traditional ownership of firms by wealthy families and cross-shareholdings has been slowly replaced by often non-German individual and institutional investors demanding a short-term return on their investment. In addition, share price has become a critical measure of a firm's overall competitiveness and management's ability to maintain or, better yet, increase the price of shares determines the level of executive compensation. In addition, large German firms find that as they must have a strong presence in the U.S. market in order to remain globally competitive, they must adopt American GAAP accounting standards (US generally-accepted accounting practices) in order to secure a listing in the New York Stock Exchange or international accounting standards in order to sell shares globally. The concept of shareholder value is based heavily on American concepts and ideas of firm performance and, as a result, management remuneration.

The increased internationalization of German firms is also playing a big role in the "Americanization" of management ideology. As senior executives and other professional "expatriates" are being assigned to posts outside Germany, they become exposed to the American-style shareholder value ideology which depends on short-termism and high share prices. The focus on shareholder value as corporate strategy is clear in both cases as the firms have incorporated it in their executive pay schemes and management evaluation has been tightly connected to company performance as reflected in share prices.

An additional factor related to the rise of executive pay of German firms, is the international competition for “top talent” as highly skilled and successful professionals and senior executives become part of the firms’ competitive advantage. Particularly in the banking industry, Deutsche Bank found itself without too many choices but to increase salaries to match those on Wall Street the moment it started being a major player in the U.S. market. The “war for talent” in the banking industry has become relentless and firms must keep offering the most competitive pay in order to entice investment bankers and other banking professionals with contacts in niche areas to work for them and not be lured by their competitors.

The firms’ attempts to develop a common corporate “global identity” further contributed to the development of a “global managerial class”, as executive training focused on managing a globally diverse workforce and emphasized “corporate identity” rather than “national identity”. The exchange of managerial ideas through training seminars, travel, and increased job assignments further contributed to the development of a new global approach to management style as well. In both cases, a new hybrid has developed combining the patient and consensus-driven German management style with the more aggressive and centralized U.S. style.

This new development has stirred a public debate in Germany, where traditionally executive pay has been lower than in the U.S. and society in general is less tolerant of the sharp increase in executive salaries in large firms. With the exception of large companies, the majority of German executives still get paid much less than their U.S. counterparts as the German culture remains averse to the large income disparities between company executives and employees more widely accepted in the U.S.

Nevertheless, the national institutions of labor regulating the employment relationship apply more to the lower-level employees rather than the senior level management. As executive pay in global firms is more subject to global rather than national industry standards, remuneration of senior German executives will most likely be more in line with international rather than domestic pay levels.

Corporate Governance: Moving Closer to the Anglo-Saxon model

In this area as well, significant hybridization was observed during the study. Although both German firms retained basic elements of their traditional corporate governance structures such as the two-tier board and codetermination, significant change did occur post-merger. DaimlerChrysler became the first German firm to adopt elements of the Anglo-Saxon model of corporate governance by forming an independent “chairman’s council” of non-executive directors that included business leaders from major Japanese, British and American global firms but left out union and works councils representatives. By creating the “chairman’s council,” the firm has moved away from the consensus-driven German corporate governance model since the new structure may potentially reduce organized labor’s influence in the supervisory board.

In the Deutsche Bank case as well, the position of the chairman of the management board became more powerful resembling a more U.S. style central figure and a new executive committee was created by the management board which reports directly to the Deutsche Bank chairman, not the supervisory board. This arrangement is currently stretching German corporate law to its limits and it remains to be seen whether it will have a negative impact on the power of the supervisory board and the weakening

of labor's position in that body. In addition, several of the members currently occupying seats on the firm's management board and executive committee are non-Germans, including the current chairman of Deutsche Bank, symbolizing the shift from a clearly German corporate tradition to a more global corporate governance orientation.

The evidence in this study strongly suggests that the coupling among various aspects of the firm such as corporate governance, management practices, and employment relations may be looser than is usually assumed (Deeg 2003). External change such as globalization and domestic developments may indeed alter intra-firm dimensions – the institutions framing the relationships among management, employees, and owners. The evidence strongly indicates that the ideas, interests, and preferences of certain actors within the firm such as senior management have been altered significantly. In both cases, and regardless of the presence or absence of a strongly organized labor force, senior management was able to pursue their new interests and preferences by “disembedding” themselves from the traditional German model of management and aligning more closely with a managerial class espousing a more “global” rather than “national” orientation.

The Future of Firm-Level Employment Relations

International competition may have a tremendous impact on MNC behavior as firms struggle to remain globally competitive despite their status as “national champions” at home. In this harsh global environment, MNCs must often find a delicate balance between retaining key elements of their traditional organizational structure and corporate identity rooted in their home country's institutions and adopting alternative “best

practices” that appear to be better suited for long-term survival in the global arena. The point of compromise between their strong path dependence in their national institutions and their desire to compete successfully in the ever changing global environment is hybridization. This compromise results in the intricate blending of core elements of their original national identity with various elements from other globally competitive business systems.

Although complete convergence to a single model of employment relations does not seem plausible as long as national institutions of labor relations remain distinct, change cannot be ruled out completely. In the case of the U.S., it remains to be seen whether the labor movement can empower labor to such an extent that it can play a more substantive role in shaping firm level employment relations in the future. In the case of Germany, it is too early to predict the extent of changes that will result from the current political negotiation process for labor market reform. The ability of the current SPD coalition government to create consensus between capital and labor in Germany may be eroded due to the intense endogenous and exogenous pressures for drastic reforms. The most plausible scenario is that, given the fact that the German post-WWII political system is largely based on consensus, the future will be one of adapting to the pressures for a more flexible labor market without totally eradicating the core elements of the German model of labor relations, particularly strong labor unions, codetermination, and works councils. Will such changes mean a stronger position for capital and a weaker bargaining position for labor? At the national level, German unions are still powerful despite the current calls for dismantling or at least reforming the welfare state. For their

part, unions have so far shown that they remain a formidable force in German politics and will not be easily weakened.

At the global level, several arguments have been made regarding the fact that globalization strengthens capital and weakens labor. Certainly, the two cases in this study do not firmly support such an argument. The DaimlerChrysler case rather points to the fact that labor is often able to retain or even increase its strength after a merger or acquisition *if* it is already strong in both firms prior to the deal. Labor power may become relatively weaker after an M&A deal if at least one side was already weak prior to the merger. The Deutsche Bank case points to the fact that even though labor has remained strong in Germany, the absence of an institutionally strong workforce in the U.S. makes cross-border employee collaboration highly improbable.

Finally, what happens at the firm level cannot be totally independent from sectoral, national or global developments. The economic health of a particular sector as well as the state of the national and global economies play a very significant role in the development of employment relations as MNCs have the extraordinary ability to connect, through their operations, the global with the national, sectoral and even firm levels in a intricate web of interrelationships. One can, therefore, argue that MNCs are neither “stateless and footloose” nor exclusively “path dependent”. Their true nature and the character of their employment relations lies somewhere between these two extremes in a more subtle and complex blending of national traditions, global realities, and firm-level conditions.
