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The German model of employee relations on trial: negotiated and unilaterally imposed change in multi-national companies

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ABSTRACT

This article investigates the effects of negotiated and unilaterally imposed change on employee relations in the German subsidiaries of a Finnish and a German multinational company (MNC). We look at how the strategies affect the sustainability of the current German model of employee relations and highlight some of the disadvantages of this model for global MNCs.

INTRODUCTION

This article investigates the challenges faced by the German model of employee relations when it is confronted with different strategies of change management in two multi-national companies (MNCs), one German and one Finnish, in the heavy-engineering sector. We look at the implications of two very different change management approaches for employee relations, in particular for employee participation and authority sharing, in German subsidiaries.

The current debate on the German model of employee relations focuses on whether the traditional German business system will be able to adapt to the demands of increasing internationalisation or will be forced to adopt a more Anglo-Saxon orientation (Grahl and Teague, 2004; Schmidt and Williams, 2002). This would represent a fundamental shift in the basic characteristics of the German model, which include patient capital, a long-term management perspective with high levels of investment in research and development (R&D), a highly developed vocational, education and training system, highly skilled labour, strong internal labour markets with enhanced job security and cooperative management–labour relations (see Ferner *et al.*, 2000; Gospel and Pendleton, 2003; Grahl and Teague, 2004; Wever, 1995). Employee relations in Germany are currently strongly influenced by legislative safeguards (see Royle, 2004), the ‘insider’ system of corporate governance and the preferred system of production, diversified quality production (DQP), all of which permit employees to have

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an important influence on the organisation of work and technologies and have led to the formation of coalitions of interest between local management and employees and their representatives, the works councils (Geppert and Williams, forthcoming). However, some studies, for example, Lane's recent work, point to an increase in centralised integration and Anglo-Saxon management concepts centred on shareholder value in some German MNCs, which threaten to de-institutionalise the German model (Lane, 2000). Other studies reveal continuities in the operation of the German model and argue that German MNCs are not fundamentally challenging the German model of employee relations (Ferner and Varul, 2000; Girndt and Meiners, 2002; Grahl and Teague, 2004; Schmidt and Williams, 2002).

Our study investigates MNC responses to internationalisation pressures in one industry branch of the heavy-engineering sector in Germany. Senior management were found to adopt very different strategies towards change (Geppert *et al.*, 2002b), which had very different implications for employee relations in their subsidiaries in Germany as illustrated in our two case studies later on.

THE INFLUENCE OF MNCs ON THE 'GERMAN MODEL'

Underlying much of the mainstream international business literature on MNCs is the view that inexorable technological, economic and now even institutional forces are leading to an increasing convergence of organisational structure and operations of MNCs on the Anglo-Saxon model of shareholder capitalism (e.g. Hirsch-Kreinsen, 1998; Hunt, 2000; Ohmae, 1990; Parker, 1998; Whittington and Mayer, 2000). The argument has mainly focused on organisational design strategies to deal with the challenge of globalisation and on strategic decision-making processes, mainly at headquarters (HQ) level. Political and cultural factors are also seen as converging on the emergence of the stateless or global firm (Ohmae, 1990: 94), where previous national, cultural and institutional differences are eroded. Institutional pressures are seen as a reason why managers in internationally operating firms are increasingly adopting international best practices (Mueller, 1994). However, studies of MNC–subsidiary relations show how subsidiaries can operate as relatively autonomous units and, in some cases, develop their own initiatives within the global firm—so-called subsidiary charters (Birkinshaw, 2000; Birkinshaw and Fry, 1998; Birkinshaw and Hood, 1998). These studies explore the organisational resources needed for these subsidiary charters but do not investigate their societal embeddedness in specific home and host country contexts.

However, this issue of embeddedness is very much at the centre of comparative institutionalist studies, which analyse both the influences of the home country institutions and the degree of a subsidiary's host country embeddedness on MNC operations. Studies have found that national institutional settings produce different methods of corporate restructuring in MNCs (Edwards, 2004: 520), differences in business strategies adopted and employee relations policies and practices (Edwards and Ferner, 2002), as well as different ways of transferring policies and practices learnt in other countries back to the MNC's home system (Ferner and Varul, 2000). Whitley (2001) argues that national business systems (NBS) shape factors such as sectoral and technological specialisation, work systems, interest representation, how commitment is elicited in organisations and how authority is shared. This, he argues, has led to the development of particular types of firms in particular market economies. In Germany, the characteristics of firms include the focus on DQP and low authoritative coordination, where management consults with subordinates and involves them in decision making (Whitley, 2001: 4). While the German MNC in our case study reflects these characteristics of the German NBS, the Finnish MNC adopts a more Anglo-Saxon approach, with top management seeking to control the actions of subordinates through authoritative commands and unilateral decision making (see Whitley, 2001: 2; Ferner *et al.*, 2004). Recent studies on the sources and mechanisms of home country effects in MNCs (see e.g. Noorderhaven and Harzing, 2003) and, in particular, on the influence of institutional change on the restructuring of Finnish firms (see e.g. Tainio *et al.*, 2001) point to an Anglo-Saxonisation of the Finnish business system. Moderating effects on home country embeddedness are seen as more likely in Finnish MNCs, first, because of the small size of the Finnish economy compared, for example, to Germany, the largest economy in Europe and, second, because of the opening of the Finnish economy towards capital markets, a process in which Germany lags far behind Finland and where we still find a large variety of approaches across different industrial sectors (Jürgens *et al.*, 2000).

In relation to the role played by subsidiaries within MNCs, NBS characteristics help to shape the distinctive power resources and political approaches of subsidiaries to influence HQ decisions (see e.g. Geppert and Williams, forthcoming; Kristensen and Zeitlin, 2001). Ferner *et al.* (2004: 385) argue that national institutional frameworks can give subsidiary managers power to resist change to the status quo. This is particularly the case in Germany. Human resourcing and employee relations issues are seen as particularly subject to the constraints of host country business systems, and this forces 'micro-political negotiation over the balance between centralization and subsidiary autonomy' (Ferner *et al.*, 2004: 370, 387).

Our research in Germany has underlined the continuing importance of German NBS characteristics in the heavy-engineering sector we investigated and their influence on management change strategies at local and MNC levels.

RESEARCH DESIGN AND METHOD

In this article, we investigate the effects of the different change management strategies adopted on employee relations in the German subsidiaries of a German and a Finnish MNC in two case studies. A specific interest of this analysis is to shed some light on the question of whether, and in what ways, both strategies affect the sustainability of the current German model of employee relations. To analyse and illustrate these issues, we contrast the change management approaches of two major global players of a relatively small business sector, Lifts & Escalators (for details of the two MNCs in this article, see Table 1). The reason for the choice of this business sector is the fact that it is rapidly going global and is facing challenges including a major programme of mergers and acquisitions and a shift to shareholder value concepts and standardised financial reporting to gain access to US capital markets and to manage successfully the new acquisitions. There have been changes in production processes and business practices generally to support a standardisation of products and services across the companies. However, given the similarity of industrial sector pressures towards global convergence, our cross-national comparison of change management approaches shows different sources and mechanisms of home and host country influences on change management practices and employee relations.

Table 1: Basic data about the two multi-national companies (MNCs) studied

	Finnish MNC	German MNC
Country of origin	Finland	Germany
Total number of employees worldwide	23,000	28,500
Multi-nationality index		
Proportion of employees abroad (%)	94	93
Proportion of sales abroad (%)	91	89
No. of countries with overseas subsidiaries	40	102
No. of overseas manufacturing plants	14	23
Size of German subsidiary		
Sales (in million euro)	243	421
Employees	1,800	1,822
Size of UK subsidiary		
Sales (in million euro)	205	120
Employees	1,295	800

Sources: Annual Reports 2001 and interviews by the authors.

Qualitative research methods were used in the form of interview guidelines and semi-structured questionnaires in German and English for managers involved in, or responsible for, change management measures in their companies. Between spring 2000 and summer 2001, 28 in-depth expert interviews were conducted with managing directors (MDs) and managers, five in the HQs and their functional sub-units and 23 at subsidiary level in both countries. As the focus of the research was on change management in response to pressures of globalisation, the questionnaires were directed at management. However, the important role played by works councils in the change process in Germany came to light during these interviews and the interviewers had some informal contact with a number of works councillors and union representatives in the lifts and escalators industry in both countries. Further details of the research methodology have been published elsewhere (see e.g. Geppert *et al.*, 2002b; 2003).

THE CASE OF THE GERMAN MNC: NO GLOBAL MODEL FOR CHANGE—A 'PLURALITY OF INTERESTS' APPROACH

The German MNC is a '*typical German company*'. Its main focus is on heavy engineering, and banks and foundations own 40 per cent of its shareholdings. It is not quoted on the stock market and has pursued a cautious process of internationalisation based on local responsiveness of its foreign subsidiaries. In its German subsidiaries, it operates DQP technology and there is a close integration between R&D, sales and service, and manufacturing. It has traditionally operated a system of decentralised control over its subsidiaries and is made up of a network of loosely knit national companies with no central R&D, production or marketing plan. There are no HQ plans for the central coordination of manufacturing, although the HQ does want a reduction in the number of manufacturing units and has begun this process in Germany and abroad. The foreign subsidiaries are seen as strengthening their position with increased autonomy and initiative taking. This fact, together with the importance of codetermination in Germany and the European works council at HQ level, leads to the representation of a plurality of interests in the MNC.

Change is described as '*a continuous, ongoing process*' in both the lift and escalator subsidiaries in Germany. Thus, a new information technology (IT) system (SAP) has been introduced gradually, first in the escalator unit, then in the lift manufacturer. This was described as '*a painful process*', with some resistance, but the views of the subsidiaries have been taken into consideration. The introduction of SAP is linked to a major change in the organisational structure of the lift manufacturing unit, the so-called segmentation process, which has created separate profit centres within the unit based on particular products, such as lift doors. The aim is to generate a sense of '*ownership*' of the product and to introduce market pressures as each segment gets to know its competitors and has the autonomy to discuss pricing etc. with its suppliers direct.

The subsidiary investigated is the only major producer of lifts still manufacturing in Germany and combines manufacturing and R&D in the production of non-standard lifts. It produces all the components for the lifts itself, seeing itself as a '*supplier of systems*' to customers in the middle to high market segments, that is, high-value administrative buildings and hotel complexes. Lifts are tailor-made to customer specifications (two-thirds of sales), supported by a large R&D function. Managers view the unit still as '*craft production*' supported by a skilled workforce and flexible engineering solutions. This meets customer expectations of a '*specialist company*', and examples are given of customers refusing to talk to the heads of the regional service centres and demanding instead to discuss orders with the technical manager of the production unit. The system of production is described by this manager as a '*flexible manufacturing system*' with a mix of mass production in some areas and customer-specific manufacturing in others. Flexibility is created '*mostly via the people*' in the unit but also by the manufacture of all the components on site, so customer requirements can be taken into account. The 'British' solution of a shift to service provision only, found in the MNC's UK subsidiary, is rejected by the German subsidiary management as leading to the loss of technical competence, even in the service area itself, and hence the loss of competitive advantage.

The idea for segmentation of production, the key change introduced in the subsidiary, came originally from a management consultant employed by the HQ and was agreed as a project in 1996. For two years, plant management worked with a team of consultants, but '*nothing happened*' apart from a great many meetings and reports, which were very costly for the plant. Resistance came from the senior management level in the subsidiary while middle management and employees were said to be enthused by them: '*because no one had actually done anything here . . . for years, the plant had been neglected*'.

Then, in 1998, over a six-month period, a whole hierarchical level of management was replaced—the head of production, head of engineering, head of assembly operations, head of work scheduling and others—through a combination of factors including early retirement, premature death and transfer to areas less critical for the success of the project. This points to some imposition by the HQ in the change process in its early stages. The new head of production was seen as an '*enabler*'; someone with the necessary technical and human skills and someone willing to take risks as 10 million DM was spent on new machinery alone apart from the indirect personnel costs involved in retraining, transfers and early retirements. HQ gave him the mandate to push on with segmentation and the introduction of SAP and overcome resistance.

There followed two years of constant changes in manufacturing as segmentation led to a complete restructuring of the organisation and its operations. This included the closure of departments such as central production planning and the transfer of its staff to the new segments. A continuous improvement process team was established to ensure the ongoing implementation of the project and to secure improvements to the processes over time. There was also a '*mass and continuous retraining programme*' as the roles of the skilled workers in the plant changed to accommodate new IT skills and the skills formerly found in specialist departments, which had been closed.

Management referred to the importance of codetermination as '*a form of ritualised worker representation*' in the whole process of change. The works council chairman is a member of the Continuous Improvement Committee, so he, together with management, is integrated into the project and bears responsibility for its success. Most of the ensuing problems have been resolved by this committee working with employees on the shopfloor and in the offices. As long as there are no redundancies or a huge intensification of work, the works council and employees are supportive of change to secure the future of the plant. Early retirement and transfer are the means used to achieve the necessary staffing changes. The only area where there have been problems with the works council is in teamworking because of the fear that groups might develop their own dynamic if they have an elected team leader and the risk of group pressure on individuals leading to work intensification. The works council sees its role as protecting individual workers from this. Generally, however, relations with the works council are seen as '*constructive and good*' in the subsidiary and in the MNC as a whole. They are given more information than is required by law and are expected to reciprocate and '*not to push for more than they should have or need*'. In management's view, there is no wish for bad relations as the works council can affect overtime working, works agreements, new appointments etc. and make life very difficult for management. This is demonstrated in the case of the Finnish MNC in the next case study.

The managers view the whole process of segmentation as a plant-driven project, apart from the initial idea coming from a consultant. The main movers have been '*the technical milieu*', and many ideas have arisen from the plant itself. The plant has since adopted their own version and spread it throughout the workforce, using workshops as well as taking it to other companies, including a recycling plant. This process of exchange of information is not centrally determined nor has it a formal structure but occurs through '*chance meetings*'. The Continuous Improvement Committee has secured the implementation of segmentation and its continuing refinement. In this way, the plant-level actors have become the process owners of the changes made, with a genuine and ongoing interest in ensuring they succeed in practice.

The whole process of segmentation of operations in the plant has, after a shaky start, been successfully introduced and is seen by management as a gamble, which has paid off. Their plant has been reaffirmed as the MNC's key lift manufacturing subsidiary and their largest R&D site. The focus on complex specialist engineering solutions for lift customers in a system of DQP continues to be central to their operations.

THE CASE OF THE FINNISH MNC: TOWARDS A GLOBAL MODEL FOR CHANGE

As indicated earlier, the Finnish MNC's operations reflect changes in the Finnish NBS towards the globalisation of large Finnish companies by the use of aggressive acquisition policies to build market power (see Moen and Lilja, 2001). The decline of earlier state and banking links with companies and the opening up to international ownership is leading to changes in management culture towards an increasing 'Americanisation' of Finnish MNCs (Tainio *et al.*, 2001). Thus, despite being a family-owned company, the MNC is increasingly finance-driven.

At the start of 1999, the Finnish MNC, which specialised in lift production, launched a global company to standardise all business processes throughout the MNC, supported by the concurrent implementation of a new IT system (SAP). According to management, the Mark 1 global model focused on the measurement of business processes, whereas the Mark 2 version will focus on the actual standardised implementation of SAP in the subsidiaries. The model will be subject to ongoing changes made at HQ level.

Up until 1998, the MNC gave its subsidiaries considerable independence, having grown through the acquisition of independent companies, who were very successful in their respective fields, market leaders with long manufacturing traditions. After a period of considerable '*financial turbulence*' in the mid-1990s, it now seeks to become a '*proper global company*', with the HQ exercising strategic leadership and the subsidiaries merely implementing the central strategy. The aim of the HQ is the central coordination and control of all processes in the subsidiaries, including areas such as employee relations and human resource management. The implementation of SAP and the Mark 2 global model are being used to gain better control of the subsidiaries' operations.

The global model itself was developed at HQ level by a 60-man IT team, which included subsidiary experts, who were later used to '*roll out the concept*' in the individual manufacturing units. Each unit has been given a time period during which they must comply with the model. In October 2000, the time of the interviews, the MNC was halfway through its rollout programme. Although, as mentioned above, subsidiary experts did have some influence during the initial design phase at HQ level, the influence is now declining since the model has been set up. Formal meetings of the MDs of the MNC's 16 key companies (90 per cent of the MNC's business) do take place in order to share knowledge, but these are followed by an edict that: '*once it is designed and frozen, you must go and implement it in that country*'. The aim is to cover 80 per cent of all business processes, including areas such as job descriptions and processes of recruitment. The work of standardisation is ongoing. The HQ view is that lifts and escalators involve the same business processes, which can therefore be standardised. They accept that engineers do not see things this way because of their pride in their product and their job. This has led to high levels of resistance, particularly in the German manufacturing subsidiary. Within the subsidiaries, members of the HQ project team work together with local staff to adjust the model to local conditions with the company ethos of one brand, one firm, one technology and one set of business processes worldwide. The MNC has also introduced a standardised product in both its lift and escalator business, which it plans to sell internationally.

As the largest escalator manufacturing plant within the MNC, the German subsidiary is the lead plant and was selected to manufacture the MNC's first global escalator. New lines were built to accommodate this in both the German and a US subsidiary. The new global product represents a great challenge for the German subsidiary as it reduces the former focus on customer choice and the need for extensive engineering and customised production. The old DQP system is described by current management as '*spoiling the customers*', and they argue the need to '*re-educate* *the customers*' to change their expectations, particularly in the German market, so that they accept the new (cheaper) pre-engineered solutions on offer. A further challenge for the subsidiary is the implementation of SAP. Up until the German implementation, the MNC tended to customise SAP to meet the requirements in each plant; now a standardised system is being introduced. The HQ management view of German culture is that if you can convince the MD of a subsidiary of the need to change, the rest of the employees will follow his lead. The implications of this view are explored in the next section.

The new strategy of the HQ assuming strategic leadership, and the subsequent loss of the plants' role in strategic decision making as they become mere operating units, is particularly problematic for the German subsidiary. It is the lead manufacturing and R&D unit of the MNC after winning out over the US subsidiary—a fact which has led to very sour relations between the two subsidiaries. The reasons given for its success are its greater number of experts, its factory strengths and greater manufacturing tradition compared with the US, local management initiatives in strongly presenting the German case to the MNC and the close link between R&D and manufacturing, supported by strong university links in the area. All these factors, however, make acceptance of centrally promulgated edicts problematic.

The first attempt to implement the MNC's new global model in the German subsidiary in 1999 failed. HQ management, however, is now determined to harmonise and globalise. It is now '*more of a "you will" rather than a "maybe you can"*'. This creates resistance as '*each managing director* (of each subsidiary) *has been his own power base . . . and that was one of the difficulties here* (in the German subsidiary)'. The changes mean the reversal of the German subsidiary's previously strong market position in highly engineered custom-made products and the new focus on a standard product.

The second attempt at implementation was ongoing when the interviews were carried out and is more forceful than the first attempt. Some engineers had been taken out of the R&D area because '*their national interests were too strong and this was hindering the MNC's aim of international development, not German development*', that is, standardised not customised products. A large number of Finnish managers and HQ staff were also brought in to ensure conformity with the model as both the former German MD and technical director had retired. Direct HQ intervention is seen as necessary as the German subsidiary is at the centre of standard product development and manufacture and the German MD is responsible for all the other manufacturing subsidiaries in the MNC. The plant was singled out to run the pilot project within the MNC, and success here is seen as critical for the MNC as a whole.

The managers interviewed accept they still have '*a hell of a lot of problems*' in the subsidiary and employees still tend to see the changes as '*all bad*'. Some of the genuine problem areas according to the managers include '*people not sticking to the new processes*' and not inputting data into SAP properly or at all so the reporting information is not trustworthy. In the managers' view, staff '*do not live up to the system*'. This, they argue, will be resolved by tightening up the audit. Other examples were given of ongoing resistance to changes in manufacturing processes and product structure. The content of existing agreements with the works council make many processes impossible to change as the works council is resisting all changes to the system of wage/work organisation, thus preventing the introduction of the standard model. Referring to the production system, the manager in charge of the rollout of the model in the subsidiary stated that:

> It's normal for the works council to be very obstructive [so that] certain things planned for in the model could therefore not be introduced here . . . we have to look for new solutions.

So, contrary to the global model envisaged by the MNC, management will now be forced to implement local solutions in many areas in the German subsidiary. Employee relations legislation in the form of works council rights in Germany has forced management into a *de facto* negotiating situation with the works council. The view of the head of engineering in the subsidiary is that it is very difficult to forge a company with just one central policy line from a series of formerly independent units, particularly if they are all different nationalities. His first visit to the management board at HQ level illustrated the extent of the divisions between management at that level. Despite all the talk of globality, he saw little evidence of it even there.

DISCUSSION

In Table 2 we summarise some of the key effects of the two change management approaches found in the two MNCs.

The case studies show that the negotiated approach to change, where the subsidiary in the German MNC was given the autonomy to develop their own initiatives to respond to the exigencies of new market conditions, was a successful strategy in terms of the effective implementation of change to consolidate its position as a '*supplier of systems*' to the upper market niche. This approach involved all the stakeholders in the subsidiary—management, works council, employees—and led to process ownership of the radical changes to manufacturing processes and plant organisation. Conflict, albeit indirect, was concentrated at subsidiary management–HQ level, with the old guard of subsidiary-level managers, who had led the subsidiary successfully in the past, disputing the need for change. This led to an initial imposition of change by the HQ to replace members of the senior management team. Apart from this, however, there was a groundswell of support for change among the workforce, middle management and some plant managers. This led to support for the new management team. Long-standing cooperative relations with the works council could be built upon and the integration of the works council chairman into the committee responsible for the implementation of, and ongoing improvements to, the new system reinforced the sense of process ownership of the changes. The close integration of R&D, manufacturing and IT functions was

Table 2: Key differences between the negotiated approach and the unilaterally imposed approach in the two multi-national companies studied

	Negotiated approach	Unilaterally imposed
Authority sharing	High	Low
Employee involvement	High	Low
Subsidiary process ownership	High	Low
Reliance on subsidiary capabilities	High	Medium–low
Employee relations	Cooperative	Conflict-based
Conflict levels	Medium–low	High

evident in the problem-solving process. This was made easier by the close proximity of R&D and key HQ staff offices in the subsidiary itself. A possible area of conflict was seen in the relationship between the manufacturing plant and the new regional sales and service centres, which were viewed by subsidiary management as neither possessing the technical expertise to sell the product successfully nor having the interests of the German production site in mind, being too ready to sell, for example, standard products from the French site rather than the higher-value products made in Germany. In their critique, the local managers queried the power of regional centres to act in this way and showed their ongoing commitment to the DQP model, where manufacturing is closely linked with R&D and sales and services.

The attempt to impose change unilaterally in the Finnish MNC forms a direct contrast to the German MNC. It involved actual HQ managers taking over the direct running of the subsidiary with subsequent limited authority sharing and attempts to limit the influence of both the middle German management, works council and employees in the implementation of the global model. Although HQ reliance on subsidiary capabilities had been high when the subsidiary was first acquired to facilitate HQ learning of the escalator manufacturing process, there was now a sense of traditional skills and expertise no longer being valued in the drive for a global standardised product. There is a similarity between the two case studies in that the HQ intervened to replace the senior management team to drive through the changes, but the replacement managers and the course of the subsequent change process were very different in the two cases.

Conflict-based relations existed at all levels in the Finnish MNC—between HQ and subsidiary senior and middle management and between the replacement Finnish expatriates and middle management, works council and employees. Process ownership is concentrated at HQ level among the 60-man team of IT experts. This illustrates the top-down, rather technocratic implementation of change in the Finnish case, compared with the negotiated, more bottom-up approach of the German MNC based on authority sharing, employee involvement and a higher reliance on subsidiary capabilities and skills. This indicates again the shifting patterns of the Finnish NBS towards the Anglo-Saxon model of capitalism with the introduction of rather short-term and quantifiable mechanisms of coordination and control of the German subsidiary (see Child *et al.*, 2000; Edwards and Ferner, 2002).

Ferner has pointed out that 'non-negotiated attempts at imposition of systems' often end in frustration (Ferner, 2000: 529). The Finnish MNC is a good example of this type of scenario as it illustrates some of the problems involved in HQ management seeking to impose a system of work organisation, which runs directly contrary to key features of the German NBS outlined earlier. The German MNC has been more successful with its approach because it consolidates these features, reaffirming the competitive focus on DQP, which is seen as typical for key segments of the German manufacturing sector (Sorge, 1991). Employee relations legislation on works councils in Germany tends to reinforce the continuity of DQP systems of production in manufacturing as management is forced to seek the agreement of the works council on any changes to areas such as working time, work scheduling, bonuses and performance targets of employees, the payment of wages and salaries, workplace training, data held on employees and monitoring of workers. These were all areas where Finnish HQ management needed changes to support the new standardised production system but failed to win works council agreement.

CONCLUSIONS

The framework of employee relations within the German NBS is orientated towards a negotiated approach to change, both at plant and company board levels; in this way, employee interests are 'factored into' management decision making at all levels (Gospel and Pendleton, 2003). This approach has strong legal and trade union support in German manufacturing industry, which means works councils are able to exercise their legal rights in the workplace and represent the 'employee voice' in any change processes. The negotiated model of change operating in the German MNC has facilitated a relatively smooth transition to new ways of organising production in the plant. However, the changes can be seen as incremental and following on the German DQP tradition. The changes the Finnish MNC has sought to introduce, in contrast, mark a radical departure from the DQP model and can be interpreted as an attack on that model, both in terms of a new competitive strategy based on standardised production and a more unilateralist management style, which seeks to ignore the role of the works council as an employee voice mechanism. Interestingly, the case of the Finnish MNC also shows how HQ and expatriate plant management have, after some considerable battles with both German managers and the works council, been forced to abide by the legal framework of works council rights and seek a negotiated approach to changes in work organisation and wage systems. The two case studies highlight the important influence of host country business systems on human resourcing and employee relations issues as legal constraints on the use of employees forced a change of strategy in the Finnish MNC. The legal rights of works councils in the so-called social issues area, particularly those relating to changes to bonuses and targets, wage and salary payment, data held on employees and their surveillance in the workplace, posed major obstacles for the Finnish MNC's change management strategy but were built into the German MNC's strategy for change.

Thus, the case-study material reaffirms the importance of the close links between the NBS and aspects of subsidiary operations such as work and wage systems and interest representation. This affects the transfer of management practices and restricts, in Whitley's words, the 'standardization of work systems around a single model of efficient production' (Whitley, 2000: 114). The Finnish MNC initially acquired the German subsidiary in order to learn from its expertise and benefit from the skills of its employees as well as to obtain its market share. The subsidiary, as we have already indicated, is still its lead manufacturing plant for escalators and its centre for international R&D. However, the imposition of mass production of a global standardised product, supported by uniform business processes throughout the MNC, has put enormous strain on the German subsidiary, which has traditionally been tightly integrated into the German system of DQP. As the Finnish MNC has also set up production lines to manufacture the new global product in the USA and China, ongoing problems with the German subsidiary could lead to the transfer of manufacture to a more amenable location such as China. However, it may still wish to retain the R&D expertise of the German site—this is problematic as the development of new ideas in Germany is closely linked to the cross-fertilisation process between R&D and manufacturing. This was very evident in the German MNC case-study material (see also Geppert, 2002; Matten and Geppert, 2002).

The Finnish MNC's HQ management has employed a variety of control mechanisms to bring the German site into line but is still grappling with how to 'enforce the integrity of their systems in foreign subsidiaries' (Ferner, 2000: 537). The German subsidiary will be one of the most problematic because of its traditional orientation to its national environment and to supplying the national market. Schultz-Wild's study of ABB (Schultz-Wild, 1999) illustrates a similar case in ABB's German subsidiary. In this case, however, the German plant was the reference model plant for the whole MNC and did not have to undergo extensive changes. Despite this, the plant's innovative capability was being put at risk by the standardisation process within the MNC and it was debatable whether this strategy would leave sufficient scope for the continued use of the strengths of the established German production system (Schultz-Wild, 1999: 196). Outsourcing endangered their flexibility, and the entire production system built on 'stability, commitment and high trust' was in danger of collapse (Schultz-Wild, 1999: 196). This is certainly a possible scenario for the Finnish MNC's German subsidiary if management continues to seek to impose change unilaterally.

The German MNC's strategy of negotiated management of change, in contrast, took advantage of the strengths of the German NBS outlined earlier and permitted the stakeholders within the plant to use their skills and experience to take initiatives to improve the product and processes. The role of the works council in facilitating the implementation of changes on the shopfloor reinforced cooperative processes of problem resolution and mutual learning. Grahl and Teague (2004: 569) point to the 'formidable capacity to adapt' of the large international German companies and how that capacity to adapt may be reinforced by their sophisticated employee relations systems. We found no evidence in the German MNC of attempts to dismantle the established German model of employee relations nor to liberate themselves from their social obligations as suggested by some commentators on Germany (see Grahl and Teague, 2004: 570). Neither did we find evidence that the German model based on an incremental pattern of change was obsolete as suggested by Streeck (1997), among others. While our findings may reflect only what is occurring in the traditional heavy-engineering sector of the German economy, recent work by Casper and Kettler (2001) on one of the newest industry sectors, biotechnology, also points to a continuation of the German model of incremental change with successful biotechnology firms in Germany specialising in so-called platform technologies (Casper and Kettler, 2001: 18). Casper and Kettler argue that the key elements of the German institutional framework, including labour law and skill formation, are reflected in the emergence of this new industry sector (Casper and Kettler, 2001: 14).

However, our research also shows how the 'German model', based on DQP and cooperative change processes involving all stakeholders in the company, is placed under severe pressure by centrally imposed global strategies for change based on mass production of a standardised product or service. Such strategies will fail to exploit the traditional advantages of the German NBS but rather see them as disadvantages. In contrast, international strategies based not just on product differentiation, but also on locally differentiated manufacturing processes will allow German subsidiaries to play to their strengths as well as support other subsidiaries with their R&D and technical expertise.

A number of recent studies on Germany point to the emergence of hybridisation in some German companies. Casper and Kettler's article describes hybridisation taking place as German companies 'work with existing institutional frameworks . . . to create new business strategies' (Casper and Kettler, 2001: 6) to develop a comparative advantage in certain areas of biotechnology. Edwards (2004) argues that Volkswagen is an example of hybridisation of institutional configurations, showing aspects of both the insider and outsider models of corporate governance (Edwards, 2004: 533). Ferner *et al.*'s (2004) wide-ranging study of MNCs points to the lower scope for rapid flexible organisational changes in German companies because, as we have seen in the case studies here, the institutional framework gives organisational actors, including employees and works councils, more power to resist changes to the status quo (Edwards, 2004: 385). These studies underline the 'path dependency' of new business strategies in Germany with the development of 'incremental innovation processes in established technologies', even in areas outside the traditional strongholds of the 'German model' (Casper and Kettler, 2001: 15).

Many German-owned companies are therefore still following a path-dependent approach, drawing on the advantages afforded them by the wider institutional framework while seeking to mitigate the more disadvantageous elements. The German MNC in our study was able to implement a new control system (SAP) as well as profit-based centres for the production process by involving plant-level staff, both management and employees, in the formulation and implementation of change to enable the company to continue to be profitable in the new global competitive environment. The case of the Finnish company illustrates the problem of approaches, commonly adopted by HQ management in the Anglo-Saxon tradition, which view the organisation as amenable to 'strategic design', that is, 'the conscious construction of organizations to efficiently accomplish specific tasks' (Adler *et al.*, 1999: 386). Such approaches ignore important characteristics of organisations, which are also 'social constructs' and arenas and tools of power and interests (Adler *et al.*, 1999: 388). Both Finnish HQ management and expatriate managers sent to implement the global model in the German subsidiary were powerful but needed the acceptance of local actors of the changes to be able to implement them successfully. The German model supports the involvement of local actors in change processes and thus formalises the process of negotiation, which occurs in any transfer of new practices.

The sector we investigated, heavy engineering, is traditionally seen as an area of competitive advantage in the German NBS, and it is to be expected that attempts to unilaterally impose changes, which shift production away from DQP, will be hotly resisted by subsidiary actors. It is the sector with the strongest exercise of works council legal rights, backed by strong works council–trade union cooperation. Research in other sectors, where the advantages of the German NBS may be less evident and works councils and unions are in a weaker position, such as high technology, finance and banking, may provide a more varied picture as local actors may be both more open to and less able to resist the argument for radical changes to remain competitive. There is some evidence of a differentiation of 'remodelling strategies' in Germany, where, for example, more radical changes to eliminate the 'old model' are expected in the more knowledge-based German MNCs such as SAP (Schmidt and Williams, 2002). However, Casper and Kettler's study on the emergence of a new industry sector in Germany and Adler's work on the transfer of Japanese management systems to the USA, where we would expect fewer institutional barriers to change, continue to support the path dependency of these processes of change and the important role played by local actors in transforming management strategies and practices (Adler *et al.*, 1999: 27).

Critical studies in international management, especially in an Anglo-Saxon context (see e.g. Bell, 1999; Martin and Beaumont, 1999), show that attempts by senior management to impose changes unilaterally will run into problems even in business systems where local management and employees have a limited formal voice as they can still affect and resist the implementation process in a wide variety of informal ways. However, the problems will be more open and obvious in countries like Germany where the different 'stakeholders' in a business are also given formal-voice mechanisms to force a negotiated change management process.

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