

# Deregulation of the German Industrial Relations System via Foreign Direct Investment: Are the Subsidiaries of Anglo-Saxon MNCs a Threat for the Institutions of Industrial Democracy in Germany?

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This article asks whether the subsidiaries of American and British MNCs operating in Germany act as forces that endanger the traditional German system of industrial democracy by 'importing' typical Anglo-Saxon style industrial relations practices into their host nation. In a mail survey based on responses from 297 foreign-owned and local German firms, little evidence was found that Anglo-Saxon-owned subsidiaries act as a threat to the central pillars of Germany's IR system, i.e. codetermination and collective bargaining. This finding contradicts a widely held belief of the erosion of the German IR system and suggests that this system is still strong: foreign companies adapt to local standards so as to retain legitimacy within their host nation's environment.

*Keywords:* collective bargaining, Germany, globalization, multinationals, works councils

## Introduction

In Germany, US companies are operating some 1800 subsidiaries with approximately 800,000 employees (American Chamber of Commerce in Germany, 1999), and additionally British companies are operating several hundred subsidiaries (British Chamber of Commerce in Germany, 1999). What kind of industrial relations (IR) practices do these subsidiaries deploy – those of their parent firm or those of their host nation?

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Convergence theorists have argued that the comparison of national business systems will become more and more obsolete, because the diffusion of economic and technical progress will lead to a one best way of designing business and labour systems all over the world. Therefore, global trends will erase – at least in the long run – many of the specific national patterns of organizing labour institutions (e.g. Peters and Waterman, 1991; Begin, 1992; Mayer and Whittington, 1999). Undoubtedly, globalization and supranational institutions do induce some convergence; European works councils are a good example (Marginson and Sisson, 1996). The vision of totally converging business systems, however, seems exaggerated, since powerful theoretical and empirical arguments cast doubt on convergence theory. Cultural attitudes and work-related values differ significantly even between nations that operate at roughly the same economic level (Hofstede, 1980, 1983; Trompenaars, 1995; Rogovsky, 1996), and these values of course have an effect on the way labour is used in the respective countries (Schuler and Rogovsky, 1998). In addition to work-related cultural factors, institutional features vary strongly between industrialized nations (Rosenzweig and Singh, 1991), and these institutions shape the behaviour of firms in the area of personnel management and IR. This implies that there is obviously no single, global, one best way in organizing labour relations. DiMaggio and Powell (1983) argue that some kind of coercive isomorphism, which is exerted by (national) institutions and legal provisions, forces enterprises within a given country to behave in a certain way intended by these institutions and laws. Whether labour arrangements are efficient, therefore, depends on the specific circumstances of national institutional environments (Whitley, 1992). The question what practices subsidiaries of foreign multinational companies (MNCs) will employ, and whether they are an effective force in altering the IR systems of their respective host nations, cannot be put aside with a hint to tendencies of global convergence.

Within the general problem, the policies of subsidiaries of American and British MNCs operating in the Federal Republic of Germany are particularly intriguing. Germany is regarded as a kind of prototype of a strongly regulated market economy that grants far-reaching codetermination rights to employees and relies heavily on multi-employer collective bargaining at sectoral and regional level to avoid a too strong dispersion of labour income and to set uniform working conditions nationwide. Industrial democracy is a

more salient feature in Germany than in most other countries. In contrast, the USA and the UK – the latter at least since the Thatcher era – are deregulated outsider systems, where employment at will, individualism and unilateralism dominate the IR area. Do Anglo-Saxon MNCs pose a threat to the democratic and egalitarian elements of the traditional German system of collective bargaining and codetermination? Will their subsidiaries play a role as ‘vanguard’ organizations in changing German IR patterns? Surprisingly, empirical evidence on this important question is sparse.

### **Collective Bargaining: The German vs the Anglo-Saxon System**

The ‘German model’ of IR is characterized by a high degree of juridification, and it is based on a ‘dual system’ of interest representation, in which workers’ representation at establishment level is separated from the collective bargaining system. While collective bargaining generally takes place at sectoral and regional level between unions and employers’ associations, works councils and management are responsible for labour relations at establishment level. The dual system was designed to reduce conflicts inside firms by having wages and working conditions decided on outside the workplace. Unions and employers’ associations bargain and decide on basic standards for remuneration and working conditions which must not be violated by decisions taken by the actors within an establishment. Works councils and management are obliged by law to work together ‘in a spirit of mutual trust for the good of the employees and of the establishment’ (Jacobi et al., 1992). As in collective bargaining one region usually takes the position of pace-maker that is then followed by the other regions in the industry, multi-employer bargaining leads to similar results in wages and working conditions nationwide in each sector. Such a system of de facto central collective bargaining can only work well if the bargaining parties are strong and widely accepted associations who can negotiate collective agreements that are binding for their members (Flecker and Schulten, 1999). Although sectoral multi-employer collective bargaining on wages and working conditions prevails in Germany, many firms bargain directly with unions to reach single-employer agreements or are not involved in collective bargaining at all. There are no legal restrictions as to the contents of collective agreements; the Collective Agreement Act guarantees free collective

bargaining on virtually all matters of labour relations. A well-acknowledged general feature of the German system of IR concerns the comparatively high degree of representativeness of its collective actors. As a result, the overwhelming majority of employees are covered by collective agreements (Paqué, 1993). A further well-known characteristic of the German system is the comparatively high degree of cooperation between unions and works councils on the one side and employers' associations and management on the other, the 'traditional spirit of social partnership' (Weiss, 1992).

Employers' associations are only one type of employers' organization in Germany. With the exception of company agreements, employers' associations are exclusively responsible for the negotiation of collective agreements. Employers' associations are organized along sectoral and regional lines; national federations only coordinate the activities of regional associations. The national federations are affiliated to the Confederation of German Employers' Associations (BDA). About 80 percent of all employees in the private sector are covered by BDA member associations (Jacobi et al., 1992; Müller-Jentsch, 1997). German unions are organized according to the principle of industrial unionism. As a result, there is typically a 'one firm-one union' situation (Sadowski and Böck, 1995). By law, unions represent the interests of all employees and not only their members. The main peak organization of German industrial unions is the German Trade Union Federation (DGB) covering more than 80 percent of German union members (Jacobi et al., 1992). In the last decade, however, the German model of multi-employer collective bargaining has come under pressure. Union density in the DGB, measured as the share of the dependent labour force, shrank from 33 percent in 1991 to below 26 percent in 1996. Additionally, many employers now oppose the conclusion of central collective agreements, apparently because they consider them as being too rigid. As a consequence, a trend towards decentralization of collective bargaining has emerged. Firms use opening clauses in collective agreements to bargain at company level for conditions that deviate from the provisions laid down in multi-employer agreements (Schnabel, 1998). Several employers' association now offer the possibility of being a member without submitting to the terms laid down in the multi-employer agreements concluded by the association (Lambrich, 1999). An increasing number of firms choose the more radical way of not joining or opting out of employers' associations. As a consequence, the number of

company-level agreements is steadily rising. In 1995, about 70 percent of the German workforce was covered by association-level agreements, more than 10 percent by company agreements and approximately 17 percent were not covered by a collective agreement at all (Kohaut and Bellmann, 1997). The economic problems associated with German unification and intensifying international competition are two main reasons for the trend towards decentralization in German collective bargaining (Flecker and Schulten, 1999). Nevertheless, these developments have not led to a complete erosion of central bargaining in Germany. Multi-employer agreements are still far more important than decentralized forms of agreements. Compared to Great Britain and the USA, attempts at deregulation have been of only limited scope. German institutions, regulations and the strategies chosen by the most important corporate actors stabilize the traditional German system of multi-employer bargaining (Keller, 1998).

In the USA and in Great Britain, the systems of collective bargaining are far more decentralized than in Germany. In the US, the government only sets some basic rules by law in the area of labour relations. In the non-union sector, which dominates the US economy, most labour-related matters are therefore decided upon unilaterally by company management. Direct communication between management and employees is far more widespread than effective collective interest representation. Even where labour unions try to organize workers' interests, they are often bypassed by management actions. Especially in the large non-union sector, HRM and labour relations are managerial prerogatives. US management is known to be rather hostile to any attempts to organize workers' interests and often takes an active anti-union position. In 1998, only 13.9 percent of the American workforce was organized in trade unions; in 1980 it had been 23 percent. Unions traditionally try to conclude collective agreements for their members on rather traditional issues, in particular on pay. But there exist only a very limited number of centralized multi-employer agreements in a few industries. Most agreements are concluded at firm or even at establishment level. Because the overwhelming majority of the American workforce is not affiliated to a union and employers' associations play only a marginal role, collective bargaining in the USA is fragmented and plays only a minor role. This is warmly welcomed by US management. Unilateralism is not a necessary result of decentralized bargaining structures but unilateralism as a management

philosophy does not give much room for centralized collective bargaining (Gooderham et al., 1998; Wheeler, 1998; Katz and Kochan, 2000). The situation in Great Britain is becoming similar to that in the US with regard to the collective bargaining arena. Collective relations between the employers' and the employees' side are not governed by law. The principle of voluntarism is fundamental to British labour relations (Mueckenberger, 1988). There is a strong trend from multi-employer bargaining to the conclusion of company agreements and even further to negotiation of labour contracts at the individual level (Dingeldey, 1997; Marginson, 1998; Perrons, 2000). A strong indication of the widespread erosion of organized labour's influence is the strong decline in union density. In 1980, 65 percent of British workers in firms with at least 25 employees were trade union members; the figure for 1998 is only 36 percent. Similarly, the importance of British employers' associations has decreased because of the fragmentation in collective bargaining. In 1984, 41 percent of British establishments with at least 25 employees were covered by multi-employer collective agreements; this figure decreased to only 13 percent in 1998. The number of employees covered by any sort of collective agreement decreased during the same time span from 70 percent to 40 percent (Millward et al., 2000). Hence, despite some moderate decentralization of collective bargaining in Germany, the German system is much more centralized compared to both the American and British one. The question arises whether subsidiaries of US and British MNCs operating in Germany are a leading force in promoting a more decentralized bargaining system in their host country.

### **Codetermination: The German vs the Anglo-Saxon System**

At the very centre of economic democracy in Germany is the system of codetermination. Works councils are the most important and effective institution in enabling employees to articulate their views in work- and business-related matters at establishment and company level. Works councils are elected – with some minor exceptions – by the whole workforce of a plant. Contrary to a widely held belief, a works council is not established automatically. Only if employees initiate an election and vote for a works council, is management legally obliged to establish one (Etzel, 1998).

Additionally, workers' representatives have a voice at the board of larger enterprises, but here the influence on company decisions is much more restricted than in the case of works councils (Han and Chiu, 2000). Although, in theory, collective bargaining on the one hand and labour relations inside the workplace on the other are strictly divided, in actual fact interdependencies exist. This is certainly true for unions and works councils, because a large number of works councillors are at the same time union officials. Works councils are given a number of participation rights by the Works Constitution Act applicable to establishments with at least five employees. The weakest form of rights, mere information rights, exists in financial matters: the works councils' standing economic committee must be informed by management 'in full and good time of the financial affairs of the establishment' and in case of planned changes 'which may significantly disadvantage employees'. Information and consultation rights are given in personnel planning, changes in work processes, the working environment, job content and new technology. Far-reaching codetermination rights predominantly exist in 'social' matters: principles of remuneration, the introduction of new payment methods, bonus rates, performance-related pay, daily and weekly work schedules, overtime, short-time working, holidays and technical monitoring devices. They also apply to personnel matters such as recruitment, transfer, regrading and dismissal (Gaugler and Wiltz, 1992; Müller-Jentsch, 1997). Unlike collective bargaining, where strikes and lockouts are means to solve industrial conflict, only peaceful negotiations are allowed in the exercise of participation rights by works councils (Flecker and Schulten, 1999). Works councils and management can reach binding firm-level agreements, the so-called works agreements. Generally, works councils do function as a rather effective interest representation for workers and they tend to cooperate with management (Frege, 1998; Han and Chiu, 2000). But this does not mean that works agreements are a substitute for collective bargaining. The provisions laid down in collective agreements in regard to working conditions and levels of remuneration are binding. The collective bargaining parties set frames and minimum standards and the actors at establishment level – if the establishment is covered by a collective agreement – are only allowed to act within these frames.

In the USA, no institution exists that can be compared to the German works councils. Only a minority of American companies

are unionized. In these firms, the unions do not have any codetermination rights but react to management actions on behalf of union members. If conflicts between employer and employees arise, arbitration bodies try to solve them. In the non-union sector, direct communication between management and employees dominates. Additionally, many firms have established different forms of complaint systems. In some cases, ombudspersons exist to articulate workers' interests to the management. In sum, in the USA there are only some minor approaches to collective interest representation at intra-firm level, which are neither in quantity nor in quality comparable to the institution and to the legally granted rights of German works councils (Katz and Kochan, 2000). In Great Britain, works councils and joint consultative committees do exist, but they are not legally mandated like the German ones and their influence is far more restricted, because they have no real codetermination rights, but are only platforms for information and consultation that do not endanger managerial prerogatives in labour- and business-related issues (Niedenhoff, 1991; Clarke and Bamber, 1994). Concomitant to the trend of decentralization of collective bargaining in Britain, there is a trend to substitute forms of indirect workers' participation by the typical American forms of direct communication. In 1984, 29 percent of British firms with at least 25 employees only used indirect participation via works councils and joint consultative committees; this figure decreased to 14 percent in 1998. On the other hand, the number of firms only using direct forms of employee participation has risen from 16 percent in 1984 to 30 percent in 1998. For a given company size, the probability of having a works council is twice as high for German establishments compared to British firms. For example, 25 percent of British establishments with 50–99 employees had a works council or a similar institution in 1998, while the figure for Germany was 56 percent for 1993 (Müller-Jentsch, 1997; Millward et al., 2000).

Overall, the institution of works councils as the central means of collective representation of employees' interest is far more widespread in Germany than in Great Britain, while it is completely absent in the USA. Furthermore, the rights of German works councils are significantly more far reaching than those of their Anglo-Saxon counterparts. Given the preference of US and British managers for direct communication and for unrestricted decision-making power, it is open to question whether American and British MNC subsidiaries in Germany try to avoid collective institutions of

workers' representation and strive for a radical change in the traditional German system of economic democracy.

### **MNCs of Anglo-Saxon Origin Operating in Germany – State of Research**

A fairly large body of empirical literature studies the transfer of HRM and IR practices from the parent firms of MNCs into their foreign subsidiaries, but only a few studies have addressed the question to what degree American and British subsidiaries in Germany 'import' typical Anglo-Saxon patterns of industrial relations into their German host country and whether these can be judged as a danger for the German model of industrial democracy (for an overview, see Schmitt, 2002). One main reason for the neglect of this important research question might be the widely held – but false – belief that the German labour system is too strongly regulated to allow the transfer of foreign practices to the country (Peppard and Fitzgerald, 1997). We have seen that there is indeed room for deviation from the traditional German IR features: numerous firms have chosen not to become members of employers' associations and are no longer covered by multi-employer collective agreements (Kohaut and Bellmann, 1997). Furthermore, a survey of industrial plants in Lower Saxony has shown that nearly half of the establishments with 21–100 employees did not have a works council (Addison et al., 2000). There is no legal obligation in Germany to join an employers' association, and the number of cases where an enterprise is forced to accept central collective agreements is rather limited. Moreover, many ways exist to avoid the foundation of a works council, and for smaller firm sizes a large proportion of employees belong to plants that do not have a works council.

Several arguments could be advanced which make it likely that Anglo-Saxon MNCs transfer home-grounded IR arrangements into their German subsidiaries. First, US managers especially are known to hold fairly ethnocentric attitudes and are very sceptical about any form of collective employee representation. They exercise a tighter control over their foreign subsidiaries than MNCs from most other nations and in general try harder to transfer home practices internationally (e.g. Hamill, 1984; Yuen and Kee, 1993; Innes and Morris, 1995; Bae et al., 1998). Some empirical evidence supports the notion that British MNCs, like American MNCs,

prefer a similar kind of unitarian approach to HRM and IR (Volz, 1997; Ngo et al., 1998). Second, the Anglo-Saxon model is widely regarded as being the most successful one internationally, which makes it more likely that US and British management is eager to benefit from the perceived virtues in their foreign subsidiaries as well. Beechler and Taylor (1994) have shown that there is a positive correlation between management's belief in the superiority of their own HRM approach and the extent to which home-country personnel practices are transferred. Third, the fact that the USA and Britain are among the most important foreign investors in Germany should facilitate their role as 'IR innovators' in Germany.

Surprisingly, the empirical evidence on the IR policies of Anglo-Saxon MNCs' German subsidiaries is scattered. Many researchers claim to have detected strong evidence for an Anglo-Saxonization of subsidiaries' IR practices, but, as a closer look at the respective studies reveals, they hardly back such a widespread conclusion. It is doubtful whether US and British affiliates act as revolutionaries in altering the traditional German IR institutions. The studies on the topic are still extremely few in number, and they all apply a case study methodology. Hence, generalizations of findings in a statistical sense are hardly possible. The work of Ferner and Varul (1999, 2000) is predominantly concerned with the question whether German MNCs are learning from their subsidiaries in Britain in the field of HRM/IR and provides detailed case study evidence that in nearly half of the 40 subsidiaries that the authors have investigated selected practices were subject to backwards diffusion to Germany. But this does not imply a fundamental change in the German parent companies' IR policies. For the single case of McDonalds, Royle (1998) has shown the use of strategies to avoid German codetermination in Anglo-Saxon owned subsidiaries. Tempel (2001) looks at transfers within two British MNCs with subsidiaries in Germany belonging to the chemical/pharmaceutical industry. Because of the sectoral focus and the small number of cases, her study cannot be considered as being representative. In short, her empirical evidence indicates that the British MNCs tried to exert country-of-origin influence in the area of personnel management, but there were no indications of an 'export' of British IR policies; i.e. the subsidiaries in Germany did not deviate from local representative participation practices. Müller (1996, 1998, 1999) reports significant deviations from German standards in regard to labour relations issues for subsidiaries of American MNCs operating in Germany. He compares

IR practices of 13 Anglo-Saxon subsidiaries (nine US and four British firms) to those of a control group consisting of 12 local German enterprises. In order to control for sectoral characteristics, he concentrates on firms engaged in the financial or chemical industry. For the US-owned subsidiaries in his sample, he reports strong home-country effects for IR variables, such as non-compliance to the German system of collective bargaining and to collective employee participation. But as far as the financial institutions are concerned, for which the country-of-origin effects in IR are reported to be the strongest, Müller's sample construction is problematic as he does not group comparable financial institutions in the Anglo-Saxon and German subsamples. In the German sample, large-sized universal banks are concentrated while the US-owned firms are predominantly small-sized investment or merchant banks. Therefore, if IR policies vary between US and German sample firms, it is difficult to disentangle country-of-origin effects from differences caused by organizational characteristics, especially the size and structure of the workforce. In sum, our knowledge about US and British subsidiaries' personnel and labour policies in Germany is still limited and there is a need for more information and in particular representative data on the research question.

### **Data Collection and Sample**

In order to create a sample that enables us to draw statistically generalizable conclusions, a postal questionnaire was sent to personnel managers both of Anglo-Saxon MNC subsidiaries and of native German firms with at least 70 employees. The native firms function as a control group. To allow for random sampling, foreign-owned enterprises were identified by the most comprehensive members lists of the American and British Chambers of Commerce in Germany. For selecting the local German firms, the Hoppenstedt CD-Rom firms database was used. A total of 500 senior personnel managers of local firms and 660 of subsidiaries were contacted. The questionnaire had been rigorously pre-tested with academic experts, HR managers, and experts in questionnaire construction. Additionally, numerous measures – most importantly reminder telephone calls – were taken according to methodological principles to obtain a satisfactory response rate (e.g. Fox et al., 1988; Mangione, 1995; Bourque and Fielder, 1995).

We received back 320 questionnaires of which 297 were usable for statistical data processing. A net response rate of 25.6 percent is well above comparable postal questionnaire research such as the German Cranet-E survey 1995 with 19 percent for western Germany (Hanel, 1996). A total of 165 subsidiaries (119 US and 46 UK) and 132 local firms sent back their questionnaire. The response rates for both groups were about the same.

Due to 'low' response rates usually associated with mailed surveys, there is always the possibility of non-response bias. But we did not find indications of a severe bias in our sample. We have used the most representative databases available to draw the samples and cross-checked information when we were in doubt. We did not ask sensitive questions, which are a main source of non-response bias. Furthermore, we compare local to foreign firms without calculating averages for the whole sample of all firms. Even if an intervening variable caused a bias, the bias would affect both groups in quite the same way, and, therefore, it would be less severe when comparing the groups. A way often chosen to detect potential non-response bias is to compare early to late respondents, the latter being a proxy for non-respondents (e.g. Martinez and Ricks, 1989; Fowler, 1993). We did this for several variables that one could think of as influencing the propensity to respond to a survey: reported competitive situation, perceived need for innovation, reported development of profits or revenues, firm size and reported local labour market situation. Statistical tests did not show any significant differences between early and late respondents.

The differences between local and foreign-owned enterprises in regard to size and industry – which have been controlled for anyway when running multivariate regressions – are not very pronounced. The average size in terms of employment was 610 for Anglo-Saxon-owned subsidiaries and 669 for local firms. Approximately 70 percent of the subsidiaries and 60 percent of the local control group were manufacturing enterprises. But while only 4.5 percent of the foreign-owned firms were located in the eastern part of Germany the share was 16.9 percent for local German firms.

### **Empirical Findings: Collective Bargaining**

If US and British subsidiaries in Germany played a role as 'IR innovators' by 'importing' typical Anglo-Saxon policies from their

parent companies this would manifest in a deviation from the traditional system of industrial democracy in Germany. In the area of collective bargaining, the central features of complying with the German model are, first, membership in an employers' association and, second, acceptance of collective bargaining agreements. Conversely, IR innovators may choose not to join an employers' association and not to accept collective bargaining agreements. Besides these, one would expect that foreign 'IR innovators' might use works agreements concluded at company or plant level between management and works councils on a larger scale in order to benefit as much as possible from any flexibility that is granted by the German system.

Table 1 shows that about the same fraction of foreign subsidiaries and native German firms are covered by collective agreements. Additional data analysis does not exhibit a stronger trend in subsidiaries to conclude single- instead of multi-employer collective agreements: while 8 percent of US/British subsidiaries were covered by single-employer agreements, the proportion for local firms is 11.5 percent. Comparable results can be found for membership in an employers' association and for the conclusion of works agreements. Works agreements, concluded between management and

**TABLE 1**  
**Flexibility in Bargaining Policies: Anglo-Saxon Subsidiaries vs Local German Firms**

HRM/IR Variable	US/GB Subsidiaries (N)	German Firms (N)	$\chi^2$ -test
Firms covered by collective agreements in % (Tarivtr2)	68.6% (156)	66.9% (127)	0.088 (NS)
Membership in employers' association in % (Agverba)	62.2% (164)	57.6% (132)	0.651 (NS)
Works agreement concerning working time in %	66.3% (163)	71.2% (132)	0.829 (NS)
Works agreement concerning remuneration in %	3.6% (165)	6.9% (131)	1.587 (NS)
Works agreement concerning redundancies in %	12.2% (164)	10.9% (129)	0.127 (NS)

Own calculations.

Levels of significance: NS = not significant at .1 level.

works councils, can be a means to use flexibility in designing labour practices (within the frame that is laid down in collective agreements). Our questionnaire asked for the existence of such agreements concerning working time, remuneration issues and redundancies. There was no statistically significant difference between Anglo-Saxon subsidiaries and native German firms for either of these variables. Works agreements concerning working time and remuneration seemed to be even a little bit more prominent among local enterprises. For none of the criteria concerning compliance with the German system of collective bargaining is there any indication that American and British multinationals try to overcome the 'restrictions' of the German IR system. Univariate chi-square values turn out to be insignificant for all variables investigated. If anything, Anglo-Saxon subsidiaries adhere somewhat more strongly than their local counterparts to the German model of central collective bargaining.

These univariate findings, however, may not be the result of nationality but of intervening variables. In order to control for these, we ran multivariate regressions for the two central features of compliance with the German bargaining system: whether a firm is covered by a collective agreement (Tarivtr2) and whether a firm is member of an employers' association (Agverba) (see Table 2). Because one might argue that the conclusion of single- instead of multi-employer collective agreements is a deviation from the traditional form of central collective bargaining we also ran a regression on whether firms are covered by multi-employer agreements only (Tarivtr1). Since all dependent variables are binary, we estimated logit models (Liao, 1994; Studenmund, 1997). Enterprises that were covered by collective agreements or were members of an employers' association, respectively, were coded 1, otherwise they were coded 0. Exact descriptions of the variables are given in the Appendix.

The explanatory variable of interest for our purpose is the firm's home nation (Nation), which is 0 for Anglo-Saxon subsidiaries and 1 for local German firms. If subsidiaries deviate from the policies of the German control group in the direction of the American/British business system, the 'right' sign and significance of (Nation) will be evidence of this. We have included as additional right-hand side variables which existing empirical studies have suggested as possible correlates of membership in employers' associations and compliance with collective agreements (Schnabel and

**TABLE 2**  
**Collective Bargaining – Multivariate Analyses**

<b>Independent Variables</b>	<b>Model 1: Membership in Employers' Assoc. (Agverba) Logit-Regression</b>	<b>Model 2: Covered by Multi- Employer Agreement (Tarivr1) Logit-Regression</b>	<b>Model 3 Covered by Collective Agreement (Tarivr2) Logit-Regression</b>
Nation	-0.388 (-0.989)	-0.442 (-1.25)	-0.382 (-0.861)
Akadem	-0.044 (-3.835)***	-0.042 (-3.233)***	-0.056 (-4.039)***
Anzahl2	0.413 (2.222)**	0.154 (1.034)	0.647 (2.732)***
Intens1	0.200 (0.557)	0.383 (1.179)	0.504 (1.247)
Profi971	0.314 (0.587)	0.181 (0.375)	0.991 (1.603)
Umsat971	-0.912 (-1.771)*	-0.574 (-1.242)	-1.104 (-1.894)*
Anford1	-0.135 (-0.378)	0.014 (0.044)	-0.180 (-0.452)
Vollan1	0.443 (1.215)	-0.069 (-0.214)	0.469 (1.138)
Br1	1.841 (3.944)***	1.241 (2.812)***	1.693 (3.523)***
Branche1	0.028 (0.017)	-0.251 (-0.705)	-0.436 (-1.081)
Buland1	0.304 (0.519)	-0.279 (-0.532)	-0.206 (-0.325)
Constant	-2.226 (-1.941)*	-0.639 (0.677)	-2.892 (-2.077)**
	<i>N</i> = 207	<i>N</i> = 206	<i>N</i> = 199
	LR $\chi^2$ = 65.64	LR $\chi^2$ = 39.53	LR $\chi^2$ = 76.17
	Prob > $\chi^2$ = .000	Prob > $\chi^2$ = .000	Prob > $\chi^2$ = .000
	Pseudo- <i>R</i> <sup>2</sup> = .24	Pseudo- <i>R</i> <sup>2</sup> = .14	Pseudo- <i>R</i> <sup>2</sup> = .31

Own calculations; *z*-values in parentheses.

Levels of significance: \*\*\*  $\leq .01$ , \*\*  $\leq .05$ , \*  $\leq .1$ .

Wagner, 1996; Kohaut and Bellmann, 1997). Although several of these independent variables are originally measured on a seven-point scale, we dichotomized them at their median and created binary dummy variables in order to avoid categories with only few cases. Because in multiple regression analysis missing values cumulate, we concentrated on controlling for the most important potentially intervening factors. Additionally, we have tested the robustness of our calculations by moderately altering the set of independent variables and by running probit-regressions instead of logit-regressions. If the opposite is not explicitly stated, the respective regression results concerning (Nation) are robust.

The highly significant test statistics (likelihood-ratio test) demonstrate that all three logit-regressions are meaningful models. With the exception of model 2, the pseudo- $R^2$  values are rather high. This indicates that model 3 is a better one to explain the factors determining compliance with German collective bargaining than model 2. Because models 1 and 3 show quite similar coefficient signs and levels of significance, they are discussed together. To start with (Nation), no model gives any evidence that – after controlling for a range of potentially intervening factors – Anglo-Saxon-owned subsidiaries deviate from German IR standards or institutions in the area of collective bargaining. The univariate test results are completely confirmed by multivariate regression analyses. As to collective bargaining, foreign subsidiaries clearly do not act as ‘IR innovators’ in Germany. Among the intervening variables, capital intensity (Intens1) turns out to be insignificant, just as industry dummies (Branche1), the reported pressure for product innovation (Anford1), the share of full-time permanent employees (Vollan1), and the firm location in western vs eastern Germany (Buland1). The results for the development during the past three years of firm profits (Profi971) and revenues (Umsat971) are somewhat ambiguous. These factors either have no clear effect on the dependent variables, or it needs longer than three years of a certain financial business development for firms to take action in respect of their IR behaviour. Smaller enterprises often complain about their interests not being adequately articulated by employers’ associations and that central collective agreements do not sufficiently take into account their business situation. This may be one reason why larger enterprises are (highly) significantly more likely than smaller ones to be a member of employers’ associations and to be covered by collective agreements (Anzahl2). A high proportion of graduates

generally implies a high proportion of exempt employees who are not covered by collective bargaining. Hence, there is less pressure from the workers and their representatives on the management to take part in collective bargaining. This results in a highly significant negative relationship between the proportion of graduates in the workforce (Akadem) and the dependent IR variables. Given the large number of union members among works councillors, it is not surprising that the existence of a works council (Br1) raises the probability for firms to comply with the traditional German institutions of collective bargaining at a highly significant level. Multivariate regression analysis testing for the probability of having concluded works agreements did not show statistically significant differences between foreign subsidiaries and local firms. In sum, apart from nationality, factors such as size, workforce structure and the existence of works councils do influence the propensity of companies to join employers' associations and to be covered by collective agreements. But even taking these influences into account, American and British subsidiaries do not play a more prominent role than local firms in decentralizing bargaining patterns in Germany. Our data contradict some of the existing empirical evidence on this issue (see especially Müller, 1996, 1998, 1999). To make our findings even more comparable to those of Müller, we have rerun models 1, 2 and 3 by omitting the British subsidiaries, i.e. we only compared US-owned firms to the German control group. The results remained the same: for none of the three dependent variables were there any indications that US-owned subsidiaries were more likely than their local German counterparts to implement individualized or decentralized forms of bargaining.

### **Empirical Findings: Codetermination**

Besides collective bargaining, the system of intra-firm codetermination is the second pillar of the traditional German model of industrial relations and economic democracy. The central institution for collective workers' representation at establishment level is the works council. Whether a company adheres to the system of industrial democracy is critically dependent on the question whether a works council is established in the firm (see Table 3). If we compare the data for the Anglo-Saxon-owned companies to those of the

**TABLE 3**  
**Existence of a Works Council**

Independent Variables	Coefficient	z-Value
Logit-Regression on (Br1)		
Nation	-0.928	-1.845*
Branche1	-0.988	-2.133**
Buland1	1.842	1.984*
Anzahl2	1.181	4.200***
Akadem	-0.019	-1.662*
Vollan1	-0.483	-1.034
Tarifpo1	1.195	2.416**
Niederl1	-0.921	-1.824*
Extflex1	0.148	0.318
Constant	-3.310	-2.302**

Own calculations; levels of significance: \*\*\*  $\leq .01$ ; \*\*  $\leq .05$ ; \*  $\leq .1$ .  
 $N = 211$ ; LR  $\chi^2 = 63.13$ , Prob  $> \chi^2 = .00$ , Pseudo- $R^2 = .32$ .

German control group, the result is astonishing. While only 69.7 percent of the local firms had a works council, the number for the subsidiaries is 85.5 percent. A chi-square test yields this difference as being highly significant (chi-square = 10.771; significance level  $< .01$ ). Again, the univariate test results have to be checked by running multiple regression analysis. Because the dependent variable (Br1) is dichotomous – 1 if a works council exists, 0 otherwise – a logit-regression is to be used.

Besides nationality, several potentially intervening variables have been controlled for (for a discussion of factors that influence the existence of works councils see Jirjahn, 1997; Addison et al., 2000). A highly significant likelihood ratio (LR) test indicates that the regression is a meaningful model. The high value of the pseudo- $R^2$  is another indication for the quality of the regression model. The most interesting result is that even after controlling for a range of intervening factors, Anglo-Saxon subsidiaries are more likely than the firms of the German control group to have a works council. However, the difference is only weakly significant on the .1 level. Let us briefly discuss the most interesting intervening factors. It is a well-documented finding that firm size (Anzahl2) correlates positively with works council existence. If a company belongs to manufacturing instead of services (Branche1), the possibility of

having a works council is higher. The same holds true for a low share of graduates in the workforce (Akadem). Following Jirjahn (1997), we have used the degree of centralization in collective bargaining (Tarifpo1) as being a proxy for union strength within the firm. This variable is also significant at the .05 level. All three aforementioned variables reflect a 'traditional' IR milieu, which should and does increase the possibility of existence of a works council. If we substitute the proxy (Tarifpo1) by the direct variable 'share of unionized employees' (Gewerk), the number of valid cases decreases from 211 to only 126, because many personnel managers were not able to report the approximate share of unionized employees within their firm. But the explanatory power of the regression model rises, which is indicated by a pseudo- $R^2$  value of .53. (Gewerk) turns out to be highly significant ( $p < .01$ ): stronger union power within the firms gives workers a better voice in claiming the implementation of works councils. It is worth mentioning that if (Tarifpo1) is substituted by (Gewerk), the variable (Nation) becomes insignificant. Therefore, one cannot state that American and British subsidiaries are definitely more likely than their local German counterparts to have a works council, but that they are *at least* as likely to have one. Again, if we differentiate between British and American subsidiaries this does not alter the picture: while, as mentioned previously, 69.7 percent of German firms had a works council, the number for British subsidiaries is 87.0 percent and for American subsidiaries, 84.9 percent. Surprisingly, the regressions to collective bargaining and to codetermination show that US and British MNCs operating in Germany do not act as a threat to the traditional pillars of German industrial democracy, as it has often been assumed. They comply with the central institutions of German IR, (multi-employer) collective bargaining and works councils, at least as much as local firms do.

So far, it has been argued that the management of foreign firms encourages or at least accepts the creation of works councils. An alternative explanation of the findings, however, is feasible: the workforce of foreign-owned subsidiaries might feel threatened by Anglo-Saxon IR practices and might therefore be eager to establish works councils in order to protect themselves from the introduction of unitarian management practices. From Kotthoff's (1994) work we know that the role of works councils can be a very different one between firms. Some act deficiently: they are neglected by management and are not involved in decision-making. Others act

**TABLE 4**  
**Importance of Written Employee Surveys as a Means of Management–Employee Communication**

	<i>N</i>	Important	Partly Important	Unimportant	Does not Exist
US/GB subsidiaries	164	21.3%	39.1%	18.3%	21.3%
German firms	132	6.8%	34.1%	27.3%	31.8%

Own calculations.

as efficient committees on behalf of the employees and are accepted by management as competent partners. If works councils in foreign subsidiaries were established as a means of workers' protection against the intentions of the management one would expect them to be neglected by the management and not be used as channels for communication with the workforce. Our data, however, suggest that this is not the case. In the questionnaire we have asked personnel managers to rate how important 'their' works council is as a means of management-employee communication on a scale from 1 to 7; 1 for important and 7 for unimportant. While only 47.8 percent of local German firms rated the importance high on categories 1 or 2, the number for Anglo-Saxon subsidiaries was 58.9 percent. Apparently, Anglo-Saxon firms not only have to accept works councils but are willing to cooperate with them. Perhaps managers of foreign subsidiaries operating in Germany are well aware that works councils can have positive economic effects, e.g. in respect of using human capital efficiently by increasing employment stability (Sadowski et al., 1995).

Nonetheless, it would be wrong to conclude that there are no indications whatsoever of a transfer of individualistic Anglo-Saxon IR practices to Germany. Respondents were asked how important they judge written employee surveys, a typical instrument of individualistic and direct management-employee communication; the results are shown in Table 4.

We can see that written employee surveys as a means of direct communication – which might be used to bypass to some extent the collective workers' participation via works councils – is not only more widespread among US/British-owned subsidiaries, but it is also reported to be a more important channel of communication in foreign-owned than in local companies. Running an ordered logit-regression on the results for those firms that used written employee surveys and using the independent variables of the works council regression to control for intervening factors confirms the findings. Anglo-Saxon-owned companies judge written employee surveys as being a more important means of intra-firm communication than the German control group does ( $p < .05$ ). But this finding cannot fundamentally change the picture already drawn by our results. In general, American and British subsidiaries comply as much as local firms with the main democratic institutions of the German IR system. This cannot fully be explained by legal pressure. First, we have seen that there is *de facto* room to deviate from the

traditional pattern of German IR, both in regard to collective bargaining and codetermination. Many small and medium-sized firms do not run a works council and a trend to decentralization of collective bargaining makes it easier to negotiate individualistic agreements on wages and employment conditions. There is no law that forces firms to join an employers' association, and only in a very few cases are firms forced by law to accept multi-employer collective agreements. Additionally, the law does not prescribe the establishment of works councils, and there are numerous strategies to avoid the foundation of these (see Royle, 1998). Though US management in particular is reported to be more than sceptical towards collective employee representation (Innes and Morris, 1995; Gunnigle, 1995; Gooderham et al., 1998), why do Anglo-Saxon subsidiaries not use their flexibility to avoid collective bargaining and codetermination?

### **Discussion and Conclusion**

As a first argument to explain the absence of a transfer of Anglo-Saxon IR practices, parent companies may simply be not interested or not powerful enough to put their subsidiaries under pressure to accept the 'import' of typical individualistic and unitarian practices. However, this seems unlikely, because our data show that in the area of HRM typical Anglo-Saxon practices, like low investment in initial vocational training, the introduction of profit-related pay and the implementation of employee share ownership arrangements are transferred internationally. Moreover, the subsidiaries report that many parent firms firmly control their subsidiaries and markedly intervene in their strategic decision-making.

One likely reason for the wide coverage of US and British subsidiaries by works councils is the fact that profit sharing and employee share ownership is significantly more widespread among them than among local firms (for detailed information on the determinants and diffusion of workers' financial participation in different countries, see Kruse, 1993, 1996; Long, 1997; Festing et al., 1999; Poutsma et al., 1999; Poutsma and Huijgen, 1999). Employees may be sceptical of flexible remuneration schemes unless they are well informed about the firms' state of business on which their variable payments critically depend. In the USA, very strict accounting standards secure the necessary provision of information for the workforce.

In Germany, a trustful relationship and constant cooperation between works councils and management can replace strict accounting standards. In the German context, individualistic financial and collective participation via works councils might not be opposites but complements. Firms that want to apply variable compensation and employee ownership schemes, i.e. Anglo-Saxon subsidiaries, must cooperate with institutions of collective workers' representation in order to implement a flexible arrangement in the area of compensation.

But this cannot explain why foreign subsidiaries also comply with the German system of collective bargaining. A helpful starting point to explain the role of US- and British-owned firms in Germany as adaptors to the local IR system is DiMaggio and Powell's concept of 'coercive isomorphism'. We have already seen that the coercion of laws and legal rules alone cannot explain our statistical findings. But besides official rules, there are norms and expectations of external stakeholder groups which play a major role in shaping the behaviour of organizations. In order to maintain legitimacy in the German environment, foreign-owned companies in particular, which carry the burden of a 'liability of foreignness' (Kostova and Zaheer, 1999), are forced to comply with all those institutions that are easily observable by outsiders, such as the existence of works councils and the acceptance of collective agreements. As long as these institutions are accepted by the majority of relevant stakeholders, e.g. government, trade unions, public opinion, employers' associations, deviations from standards that are regarded as being legitimate will endanger the business position of those organizations that break implicit rules and norms (Meyer and Rowan, 1977).

In addition, maintaining company-internal legitimacy may also be of great importance. German employees hold work-related values that are substantially different from those of American and British workers (e.g. Hofstede, 1980, 1983). German employees' preferences are strongly attached to the system of industrial democracy in their home country. The institutions of collective bargaining and co-determination determine a wide range of labour-related factors, such as remuneration, working conditions, organizational change and further training. Hence, German employees are often unwilling to accept deviations from these institutions. If Anglo-Saxon-owned firms tried to implement country-of-origin practices on a large scale, i.e. individualistic and unitarian approaches to IR, workers' preferences would be severely frustrated. Negative consequences for the

firm could be decreasing work morale and employee performance as well as a deterioration of its labour demand position in the host country's labour market (Jain et al., 1998; Ngo et al., 1998). Therefore, the concerns of Anglo-Saxon-owned subsidiaries to maintain company-internal as well as company-external legitimacy may account for their far-reaching compliance to the central German institutions of industrial relations.

### **Appendix: Description of Variables**

<b>Variable</b>	<b>Variable Description/Coding</b>
(Agverba)	Firm member of employers' association: 0 = no; 1 = yes
(Akadem)	Share of graduates as percentage of total workforce
(Anford1)	Pressure for product innovation, measured on seven-point scale, recoded: 0 = low; 1 = high
(Anzahl2)	Number of employees, ln
(Br1)	Existence of a works council in firm: 0 = no; 1 = yes
(Branchel)	Sector: 0 = manufacturing; 1 = services
(Buland1)	Firm location: 0 = former FRG incl. Berlin; 1 = former GDR
(Extflex1)	Existence of numerical flexibility, measured on seven-point scale, recoded: 0 = low; 1 = high
(Gewerk)	Share of unionized employees as percentage of total workforce
(Intens1)	Capital intensity, measured on seven-point scale, recoded: 0 = low; 1 = high
(Nation)	Nationality: 0 = US-/UK-owned subsidiaries operating in Germany; 1 = local German firms
(Nieder1)	Number of firm locations: 0 = one; 1 = two and more
(Prof971)	Development of profits since beginning of 1997, measured on seven-point scale, recoded: 0 = bad; 1 = good
(Tarifpo1)	Centralization of bargaining, measured on seven-point scale, recoded: 0 = decentralized; 1 = centralized
(Tarivtr1)	Whole company covered by multi-employer collective agreement: 0 = no; 1 = yes
(Tarivtr2)	Firm covered by collective agreement: 0 = no; 1 = yes
(Umsat971)	Development of revenues since beginning of 1997, measured on seven-point scale, recoded: 0 = bad; 1 = good
(Vollan1)	Share of full-time employees as percentage of workforce: 0 = less than 95%; 1 = 95%–100%

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