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**Heinz-Josef Tüselmann, Frank McDonald  
and Arne Heise**

The International Business Unit  
The Business School

**German Multinationals in the UK and the  
German Model of Labour Relations:  
Diffusion and Reverse Diffusion Effects**

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The Director, Graduate Business School, Manchester Metropolitan University, Aytoun Building, Aytoun Street, Manchester M1 3GH

Telephone No: 0161- 247 6798. Fax No: 0161- 247 6854.

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**Heinz Tüselmann**  
**Frank McDonald**  
**Arne Heise**

**International Business Unit**  
**The Business School**  
**Manchester Metropolitan University**  
**Aytoun Building**  
**Aytoun Street**  
**Manchester**  
**M1 3GH**  
**Telephone: 0161 247 3901**

**E-Mail: Frank McDonald <f.mcdonald@mmu.ac.uk>**  
**Heinz Tüselmann <h.tuselmann@mmu.ac.uk>**

### **Biography**

Heinz Tüselmann is a Senior Lecturer in International Business at the Manchester Metropolitan University Business School. He was seconded to the German Ministry of Economics where he worked on the OECD negotiations on the liberalisation of foreign investment. His research work has been centred on German DFI flows and on HRM issues in international business.

Frank McDonald is a Principal Lecturer in International Business and Head of the International Business Unit at the Manchester Metropolitan University Business School. His research work has been focused on the impact of European economic integration on business strategies and operations and on geographical concentration as a means to develop international competitiveness.

Arne Heise is Professor of Economics in the Department of Economics at the University of Economics in Vienna. Before he took up his appointment in Vienna he worked for the Hans Boeckler Foundation in Dusseldorf where he researched into employment and labour market issues. His research work has been connected to development in the German economy, including changes in labour markets.

## **Abstract<sup>1</sup>**

The paper examines whether in light of heightened globalisation pressures, German multinational companies operating in an Anglo-Saxon setting have developed approaches to employee relations which may point to the diminishing international competitiveness of the German approach. It also assesses whether the wider knock-on effect may exert pressures on the German model of labour relations to converge towards the Anglo-Saxon model. The paper is based on a survey of German subsidiaries in the UK, their parent companies and a comparative analysis to the Workplace Employee Relations Survey 1998. The study reveals the existence of a country-of-origin effect in the UK subsidiaries and finds little evidence of attempts to import Anglo-Saxon style practices into the parent companies German locations, despite some indications of possible reverse diffusion effects with regard to direct employee involvement schemes. With the current reforms in the German industrial relations system already providing a broader scope for more flexible collective employee relations responses, evolving pattern in German multinationals may be described as a “flexible collective approach with a HRM dimension”. Taking into account possible wider knock-on effects onto other companies in the German economy, the paper predicts a continuation of the path dependent reform trajectory in the German model.

**Keywords: Human Resource Management, Germany, Labour Relations, Multinational Companies, Nationality of Ownership, Reverse Diffusion.**

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<sup>1</sup> The paper is based on a research project on employment and employee relations in German multinational companies in North-West England. The project was funded by the Hans-Böckler Foundation and has been carried-out in co-operation with the Economic and Social Research Institut (Wirtschafts- und Sozialwissenschaftliches Institut) in Düsseldorf. The German-British Chamber of Industry and Commerce in London provided infrastructural support for the project.

## **Introduction**

In view of increased globalisation pressures, one of the most controversial issues is whether the nationality of ownership (still) matters in employee relations (ER) approaches and practices of multinational companies' (MNCs) (Ferner, 1997; Hu, 1992); or whether ER pattern in MNCs are converging to the Anglo-Saxon approach, irrespective of MNCs country-of-origin (Reich, 1991). This issue is connected to the wider debate on the fate of national business systems in an era of heightened global competition where MNCs are seen as powerful transmission belts for transnational convergence. The unresolved question is whether national models of ER will retain their national distinctiveness by responding to pressures of globalisation in a path dependent trajectory of institutional and regulatory change (Lane, 1995; Whitley, 1992); or whether these pressures lead to the disappearance of tightly regulated and highly institutionalise national models, and their convergence to the orthodox Anglo-Saxon deregulated market-led model (Streeck, 1997). Research into ER of German MNCs UK based operations seems particularly fruitful to investigate such issues, since ER in Germany and the UK can be stereotyped as being at opposite ends, at least in the European context. The densely regulated and institutionalised, but currently contested, German model with its emphasis on a collective approach to ER is frequently juxtaposed to the UK deregulated market-led model with its emphasis on an individualistic human resource management (HRM) style approach.

In light of the frequently cited diminishing consensus among the German business community as to the benefits of the traditional collective ER approach and employers' demands for a more flexible, deregulated and decentralised industrial relations (IR) system - often with reference to the British experience - (Institut der deutschen Wirtschaft, 2000; Wirtschaftswoche, 1995), ER in German MNCs in the UK could be interpreted as a proxy for emerging pattern of ER in Germany. This is not least due to the importance of MNCs as innovators in the ER/HRM arena and the subsequent wider knock-on effects for other companies in the economy. Indeed, ER in German MNCs operating in an Anglo-Saxon setting could be viewed as an indicator for the international competitiveness of the German approach to ER. If, as often claimed, the German approach puts companies at a competitive disadvantage in

an era of heightened global competition (Fels, 1992; The Economist, 1999), one would expect that German MNCs would refrain from exporting their country-of-origin emphasis on collective ER to their foreign subsidiaries and import the best practice attributes of the Anglo-Saxon approach to ER to their operations at the German location. With regard to the latter, German MNCs may strategically adopt an individualistic HRM style labour relations approach in their UK operations and use such subsidiaries as vanguard sites to generate reverse diffusion effects onto ER in their home bases to weaken collective arrangements (within the margins of the feasible space) and to disseminate a more individualistic Anglo-Saxon approach. The UK is the fourth most important location for German world-wide direct foreign investment (DFI) stock (Deutsche Bundesbank, 2000) and alongside the USA was the most popular destination of German DFI outflows in the 1990s, accounting for one seventh of all German outward flows in this period (Bundesministerium für Wirtschaft und Technologie, 2000). Therefore, the potential magnitude of possible reverse diffusion and wider knock-on effects could indeed have a significant impact on the development of the German ER model. Ultimately, this process could exert pressures on the national ER model resulting in an Anglo-Saxonised German model.

Thus, a weak country-of-origin effect in German subsidiaries in the UK and a widespread strategic Anglo-Saxonisation of ER in the UK subsidiaries with the view to the generation of reverse diffusion effects may be interpreted as a sign that the German approach has become internationally uncompetitive, which in turn may lend grounds to support the competitive convergence thesis. Conversely, a strong ownership effect and weak reverse diffusion effects in German MNCs which operate in an Anglo-Saxon setting may point to the international competitiveness of the German approach and might lend support to proponents which predict a path dependent trajectory in the German model of ER. Based on a representative survey on German subsidiaries in the UK (which also closely matched the profile of the total population of German subsidiaries in the UK in terms of broad size, sector, age and type of activity characteristics), their parent companies and a comparative analysis to the Workplace Employee Relations Survey 1998 (WERS, 1998), this paper aims to shed light on these issues. Because of certain limitations of the data (see below), the survey results have to be interpreted with a degree of caution. Additionally, the study

was not tailored to provide direct evidence on reverse diffusion effects. These findings are based on indirect evidence inferred from the survey data and are thus of a more speculative nature. However, they provide some indicative answers which may fertilise the debate and initiate further research.

### **The German Setting and the German Approach to Employee Relations**

The traditional collective approach to ER in German companies is deeply rooted in the particular configuration of the German industrial relations (IR) system. This is characterised by a high degree of regulation and a dense, encompassing institutional infrastructure that imposes a uniform set of institutional constraints on companies, but at the same time provides incentives for employers to accept institutional constraints (Lane, 1995; Soskice, 1994). The institutional structure is highly integrated with strong linkages, not only within the IR system, but also to the wider German businesses system. Key elements of the German model, to which the majority of German companies subscribe, are the centrally co-ordinated sector based collective bargaining system and employee representation at domestic level via the works council system equipped with statutory participation and consultation rights. Indeed, German employers have to negotiate a densely structured institutional framework inside and outside the company level. The German approach to ER is also underwritten by strong labour market legislation and an elaborate welfare system. Despite growing interest in individualistic HRM style direct employee involvement mechanisms, their uptake has so far been comparably modest in German companies (Sperling, 1997). Because of the wide ranging rights of information, consultation and co-determination in the German representative system, the use of individual voice mechanisms is relatively unimportant in the German setting. Therefore, in the international context, it may be plausible to infer that German MNCs will have a propensity to support a collective approach to ER in their international operations by recognising trade unions, engaging in collective bargaining and establishing strong workplace level employee representation systems.

Nevertheless, the twin pressures arising from heightened international competition and reunification have led to a tendency to erode some of the elements in the German system. Employers' demands for a more flexible, deregulated and decentralised IR system, especially in relation to collective bargaining, seem to have gradually weakened the consensus on the benefits of the traditional collective ER approach (Bispinck, 1995; Tüselmann and Heise, 2000). Throughout the 1990s, a process of incremental internal reforms to the system has progressively broadened the scope for flexibility and strategic choice in companies (Schulten and Zagelmeyer, 1998; Tüselmann, 1996). Yet, this has so far been accommodated within the parameters of the flexible adaptation potential of the current system in the form of regulated flexibility and centrally co-ordinated decentralisation, pointing to a path dependent trajectory of change. Emerging ER in German companies may perhaps be described as a flexible collective approach to ER. However, it seems not entirely clear at this particular juncture whether the growing pressures of international competition can be arrested in the future within the current system by the process of negotiated and consensual reforms, or whether these pressures will lead to the disintegration of the German model (Dörre, 1995; Streeck, 1997). In the latter case, the possible future ER approach in German companies could then no longer be described as flexible collectivism but may move towards the individualistic Anglo-Saxon approach. Indeed, trade unions and employers' associations are already losing members (Deutscher Gewerkschaftsbund, 2000; Schulten und Zagelmeyer, 1998), which starts to challenge the traditional structure of the organisational foundations of collective bargaining and hampers the achievement of unified strategies. Despite the recent reforms, there has also been a growing incidence of disorganised decentralisation, whereby employers tend to ignore the terms of collective agreements - frequently in co-operation with works councils (often as a *quid pro quo* for safeguarding jobs). They establish pay provisions and working time arrangements which violate the collective accords, thereby contesting the adaptation potential of the system (Bochum and Dörrenbächer, 1996). Large German companies increasingly tend to insert the strategic use of DFI and the threat of locational flexibility into their negotiations with works councils to secure such deals (Mueller, 1996).

## **The UK Setting and the UK Approach to Employee Relations**

In contrast to Germany, the contemporary British IR system is characterised by a weak regulatory framework and a thin, fragmented institutional infrastructure, which imposes relatively few barriers and constraints on labour relations practices (Lane, 1995; Soskice, 1994). The fragmentation of the institutional structure goes hand in hand with weak linkages both within the IR system and in connection to the wider national business system. Because of the relative permissiveness of the contemporary IR context, the UK seems to be a particularly suitable country to explore the country-of-origin effect in MNCs international operations, since home country approaches to ER can be transferred relatively unconstrained by host country institutional arrangements. However, to uncover the existence of possible ownership effects it is necessary to establish the differential space between the home and the host country ER approaches.

Contrary to the German experience, no distinct stereotypical UK ER approach can be identified. Traditionally the cornerstone of labour relations was the pluralist workplace industrial relations system, characterised by the Donovan Report (1968), which subsequently collapsed in the 1980s in the wake of the neo-liberal labour market policies under the Thatcher government. These reforms encouraged employers to dispense with collective labour relations and to individualise ER along the lines of US style HRM (Edwards, P., *et al.*, 1998; Clark, 1996). Indeed, by end of the 1990s a collective approach to ER is no longer representative of the economy as a whole, but is increasingly confined to the public sector and a dwindling minority of private sector companies (Cully, *et al.*, 1999; Millward, *et al.* 1992, 1999; WERS 1998). In the private sector, trade union recognition collapsed throughout the 1980s and 1990s and with it the incidence of workplace level trade union representatives. The institution of collective bargaining dramatically declined. By 1998, two-thirds of private sector employees had their pay fixed by management decision without any union involvement. Non-union channels of interest representation, such as staff representatives of joint consultative committees (JCCs) (the weaker version of the German works councils), are relatively rare and also in decline. They have not filled the vacuum left by the dramatic decrease in union recognition and workplace level union representatives. There is large and growing representation gap in the UK and

an absence of any kind of collective voice mechanism in the majority of firms (Millward, *et al.*, 1999). In those firms where a collective approach to ER still occurs, it takes place within a changed power balance between employers and collective labour actors and on a decentralised basis.

With the retreat of the collective ER approach there has been much discussion and expectation that HRM style direct ER may become a major feature of British ER. Although direct employee involvement methods have become increasingly common among UK workplaces, various studies point to a rather ad hoc and sporadic adoption of such practices (Sission and Marginson, 1995; Wood and Albanese, 1995). Companies with comprehensive HRM involvement packages are far from the norm. Furthermore, a large percentage of them tend to be firms with trade-union recognition (WERS 1998). The combination of the low incidence of a collective approach of ER and the high incidence of comprehensive HRM style employee involvement schemes found in firms with a collective ER approach, indicates that many companies have not developed a coherent alternative approach to collective labour relations, other than the unfettered reign of the management prerogative. Here, employees are neither represented by collective voice mechanisms, nor do they enjoy a comprehensive individual voice mechanism.

## **The Literature**

Despite the vast literature on MNCs and international HRM relatively little is known about the impact of nationality of ownership. One strand of the debate argues that despite global pressures MNCs are not stateless players but are embedded in the business system of the country-of-origin (including the IR system) which colours their behaviour and influences the HRM/ER approaches and practices in their foreign operations (Ferner, 1997; Hu, 1992). Therefore, HRM/ER in international operations of MNCs display distinctive country-of-origin traits. Another strand in the debate emphasises host country effects, with subsidiaries blending into the local environment and adopting local approaches (Coller and Marginson, 1998; UNCTAD, 1994). Foreign owned subsidiaries may have to comply with host country

laws and regulations. Alternatively, they may adopt local approaches to mimic their competitors in the host country, if this is perceived to be beneficial to the MNC's business success in that country. Furthermore, home country practices developed within the country-of-origin business system may be unworkable or not yield the desired outcome outside the particular configuration of the national institutional and regulatory setting in which they are embedded. Additionally, MNCs from countries with more tightly regulated and institutionalised IR systems may deliberately drop what they perceive as constraining elements in their home country when operating in host countries that have a permissive IR environment.

The debate on country-of-origin effect has recently been enriched by a new dimension, which is of particular relevance for the wider convergence debate. MNCs' subsidiaries may act as reverse diffusers within MNCs whose home country national business system is experiencing pressure to change in response to changes in the international economy (Edwards, T., 1998; Ferner and Varul, 2000). This is particularly relevant for MNCs from countries, such as Germany, who are relatively latecomers in the internationalisation process, and whose practices and approaches developed in their country-of-origin business system cannot be easily transferred internationally because of their reliance on a particular national institutional configuration (Streeck, 1997). They may seek to adopt the salient characteristics of more mature international companies, notably those from the Anglo-Saxon world, whose ER/HRM practices have been developed in a deregulated market-led IR environment and which are more easily exportable. Thus, German MNCs may strategically operate an Anglo-Saxon ER approach in their UK based subsidiaries and use such vanguard sites to diffuse practices from the periphery to the centre. Ultimately, this process may exert pressures on the national models of ER to converge towards the Anglo Saxon system.

A significant number of studies have identified an ownership effect, showing that MNCs from different home countries behave in a distinctive way in managing HR/IR issues in their international operations (e.g. Child, et.al., 1997; Young, et.al., 1985). Conversely, other studies point to the predominance of the host country effect (e.g. Coller and Marginson, 1998; Rosenzweig and Noria, 1994). Compared to US and Japanese MNCs, research into the nationality of ownership effect in German MNCs

is relatively rare. However most studies did not find a distinctively German pattern in German MNCs ER in the UK (and elsewhere), but rather an adaptation to local practices (e.g. Beaumont, et.al., 1990; Guest and Hoque, 1996; Innes and Morris, 1995). A recent study involving in-depth interviews found Germanic traits in several HR aspects, but not in relation to collective labour relations (Ferner and Varul, 1999).

Research into the reverse diffusion effect is still in its infancy, with the notable exception of its inclusion in the Ferner and Varul (1999) study. The tenor of this study seems to suggest that a significant number of UK based German subsidiaries can be viewed as vanguard sites and that in many cases a degree of reverse diffusion of certain practices is occurring, but that this tends to become transmuted within a managerial repertoire that remains basically German. In other words, we may witness the insertion of a dose of Anglo-Saxon style HRM into the traditional German ER approach, but in a German manner. However, there is a need for further research into ER of German subsidiaries in the UK. None of the studies carried out so far has been representative for the total population of German UK based subsidiaries and none of the studies has operated with matched samples of German subsidiaries and British firms. Apart the informative study of Ferner and Varul (1999), the issue of reverse diffusion has hardly been tackled.

### **The Study**

The research on which this paper is based is part of a larger study on employment and employee relations in UK based subsidiaries of German MNCs (Tüselmann, McDonald and Heise, 2000), which has been carried-out in co-operation with Economic and Social Research Institute in Germany. The study was based on a postal survey of all German subsidiaries in North-West England (based on a list of companies from the German-British Chamber of Industry and Commerce) which employ at least 25 workers. This region of England attracts roughly the same amount of DFI inflows as other regions of the UK and the source countries of DFI in North-West England are similar to the rest of the UK (Invest in Britain Bureau, 1999). Very

small subsidiaries were excluded since they are more likely to have informal HRM/ER approaches (Guest and Hoque, 1996; Millward, et.al., 1992). The questionnaire was sent to either the managing directors or the human resource managers of the subsidiaries. Forty completed replies were received, equalling a 38 per cent response rate. Nearly 77 per cent of the respondents were owned by German manufacturing companies and 13 per cent by German service sector companies. In terms of type of activity, 41 per cent were manufacturing plants, 45 per cent sales or distribution facilities of German manufacturing companies and 13 per cent were services outlets of German service sector companies. Fifty-three per cent of subsidiaries were small establishments, employing between 25 and 99 workers; 39 per cent were of medium size, employing between 100 and 499 workers and just 10 per cent were large establishments, employing over 500 workers. The respondents employed a total of 8,200 workers. The median size of the subsidiaries amounted to 94 employees and the mean was 204 employees. The majority of subsidiaries, i.e. 80 per cent, represent brownfield investment, with greenfield investment accounting for remaining 20 per cent. Just over one-half of subsidiaries (55 per cent) have been German owned for more than 10 years, and just under one-half (45 per cent) for less than 10 years. The profile of the survey respondents closely matched that of the total population of German subsidiaries in the UK, in terms of broad size, age, sector and type of activity characteristics. The results of the questionnaire are thus broadly representative for ER in German owned UK subsidiaries.

A questionnaire was also sent to all German parent companies who have subsidiaries in North-West England. Just 16 completed questionnaires were received, equalling a response rate of 11 per cent. Of these merely 3 were parent companies whose subsidiaries had responded to the British questionnaire. Therefore a short telephone interview was carried-out with either the human resource manager or a senior human resource officer of all parent companies whose subsidiaries had returned the questionnaire. A 100 per cent response rate was achieved. Yet, to realise this rate, the interview questions were restricted to the incidence of collective labour relations' arrangements in the parent companies.

The survey results from the German subsidiaries were compared to the results contained in the database of the Workplace Employee Relations Survey 1998

(WERS 1998), the largest representative survey on ER in the UK. For the purpose of this study, workplaces with less than 25 employees, public sector enterprises and wholly or predominately foreign owned establishments were omitted from the analysis of the WERS 1998 database. Yet, the composition of the WERS workplaces differs from that of the survey respondents in terms of size, age and industry. Studies have shown that ER practices exhibit significant variations according to these characteristics (Frick and Sadowski, 1995; Rosenzweig and Noria, 1994). To ensure that differences in ER between German subsidiaries and British establishments were not merely due to the different composition of the samples, the results for British establishments were weighted to reflect the broad age, size and sectoral composition of the German subsidiaries. Because of the small sample size of the German study, a more detailed categorisation (e.g. according to industry division) was not feasible. Nevertheless, the broadly representative nature of both the German subsidiaries and the British owned workplaces and the weighting of the results for the latter to reflect the composition of the German subsidiaries allows for a degree of generalisation in the interpretation of the results of this study.

The small sample size of the German study and the large difference between the sample sizes of the German study and WERS 1998 did not allow for meaningful statistical testing. Thus, it is more fruitful to compare the percentage differences between the results of the German study and the weighted results in WERS 1998. However, in absence of statistical tests for significance, the findings have to be interpreted with a degree of caution. Moreover, the absence of data from the parent companies, other than those on the incidence of collective ER arrangements, implies a further degree of uncertainty in relation to the country-of-origin effect in individualistic ER approaches. Furthermore, the findings on reverse diffusion effects are based on indirect evidence derived from this cross-sectional survey. The original design of the survey did not address this issue explicitly. The survey on ER was part of a larger survey which also included employment effects. In order to secure a high response rate, the ER part (as well as the employment part) had to be reasonably short. Yet, the lack of longitudinal data and the lack of data from parent companies allows only for a speculative interpretation of the results on reverse diffusion and tentative predictions for possible wider knock-on effects. A substantive treatment of

reverse diffusion issues also requires qualitative research in form of in-depth interviews, especially at the German end.

### **Collective Approach to Employee Relations**

Nearly all the parent companies of the UK subsidiaries conform to the German model of ER by exhibiting the key German institutional arrangements of prescribing to collective bargaining (thereby implicitly or explicitly recognising trade unions) and operating works councils (see Table 1). However, their UK subsidiaries are less likely to replicate the strong emphasis on collective ER (see Table 1). Forty-five per cent recognise trade unions and 40 per cent engage in collective pay bargaining. Nevertheless, over two-thirds of employees in German subsidiaries are covered by trade union recognition. Only 20 per cent of establishments had any kind of formal representative employee participation/consultation systems, such as JCCs, the weaker and voluntary version of German works councils. The lesser propensity of German subsidiaries to stress a collective approach to ER compared to the parent companies can at least in part be explained by fact that emphasis on collective ER at the German location is largely the result of the particular balance of constraints and incentives generated by German IR institutional and regulatory configuration, and that this constellation does not prevail in the UK context.

**Table 1: Incidence of Collective Employee Relations (%)**

	German Subsidiaries <sup>1)</sup>	Parent Companies	British owned Establishments <sup>2)</sup>
Trade Union Recognition	45	94	35
Collective Pay Bargaining	40	94	36
Workplace Level Trade Union Representatives	38		27
Non-Union Employee Representatives	18		15
Formal Representative Employee Participation/ Consultation System (e.g. Works Council, Joint Consultative Committee)	20	97	36
Collective Voice Gap	45	3	60

Notes: <sup>1)</sup> with at least 25 employees

<sup>2)</sup> weighted responses from WERS 1998 of wholly or predominantly British owned private sector establishments with at least 25 employees

However, a collective ER approach is more widespread among German subsidiaries compared to British owned firms. At a first glance the figures in Table 1 suggest that the main difference between the ER approaches may have more to do with a differential emphasis on the individual practices, rather than with the extent of a collective ER approach. Compared to British owned workplaces, German subsidiaries seem more inclined to recognise unions and have workplace level union representatives present, but are putting less emphasis on developing formal representative employee participation/consultation systems. Yet, considering that the overwhelming majority of formal representative employee participation/consultation systems in British establishments are accounted for by unionised workplaces (80 per cent compared to 60 per cent in German affiliates), it appears that just some 10 per cent of non-unionised workplaces have such a voice mechanism. In combination with the rare occurrence on non-union staff representatives, many of which are anyway located in unionised establishments, it seems clear that such formal representative systems cannot generally be viewed as alternatives to union recognition and workplace level union representatives. Given this constellation, it appears that the collective voice gap (i.e. the absence of any collective channel of interest representation) is far smaller among German subsidiaries (45 per cent) compared to British owned establishments (60 per cent) (see Table 1). This

highlights that employees in German owned workplaces are better represented by collective channels compared to their counterparts in British owned workplaces. Indeed, 85 per cent of employees in German subsidiaries are covered by some form of collective channel.

There seems to be indeed a recognisable Germanic trait in ER among German subsidiaries. They more likely to operate with some collective ER approach compared to their British counterparts, but are less likely to do so than German parent companies. Hence, an ownership effect of perhaps medium strength may be ascertained. However, the strength of the country-of-origin effect seems to be closely associated with the degree of parental control. In line with similar results of other studies (Harzing, 1999, Ferner and Varul, 1999), the overwhelming majority of parent companies refrains from direct interference in HR/IR issues. Eighty-five per cent of subsidiaries reported a high degree of autonomy on such issues. Yet, those subsidiaries where parent companies exert indirect control via expatriates are far more likely to have some form of collective voice mechanism (70 per cent) compared to subsidiaries where such control mechanism is absent (40 per cent). Thus, where German parent companies exert a degree of control, they seem to perceive it as beneficial to compete in the UK context by drawing on the German model of ER.

### **The Individualistic Approach to Employee Relations**

As outlined before, the far ranging participation, consultation and information rights in the German representative system may explain why employers in Germany tend to make less use of the whole range of direct employee involvement schemes when compared to Anglo-Saxon companies, notwithstanding the gradual uptake of certain HRM practices in Germany. Thus, one would also expect an ownership effect in terms of a lesser emphasis on individualistic HRM style direct employee involvement compared to British owned firms. Indeed, on average, German subsidiaries tend to make less use of such practices (see Table 2). Although around one third of German as well as British owned workplaces operate some kind of

consultation schemes, German subsidiaries are making less use of direct participation mechanisms (the strongest form of direct involvement) and information sharing (the weakest form of direct involvement). This may indeed point to the existence of an ownership effect. In the absence of comparable data from the parent companies, such a conclusion remains somewhat speculative.

However, the dissemination of the individual practices does not inform whether German subsidiaries are developing comprehensive HRM direct involvement packages. For the purpose of this study, subsidiaries which operate at least half of the practices listed in Table 2 were deemed to have such packages. Nearly half of the German affiliates have developed comprehensive HRM involvement packages. Yet, they tend to be a feature of unionised establishments (62 per cent) rather than non-unionised ones (40 per cent). This finding is also in line with similar results of the 1998 WERS for British firms. Instead of firms developing individualistic HRM style ER as an alternative to collective ER, the relationship between these two approaches seems to be complementary rather than substitutional. Indeed, nearly 30 per cent of subsidiaries combine collective and individualistic ER.

**Table 2: Direct Employee Involvement Practices (%)**

	German Subsidiaries <sup>1)</sup>	British owned Establishments <sup>2)</sup>
<u>Participation</u>		
Partly autonomous Teamworking	40	42
Problem Solving Groups	30	38
<i>Average</i>	<i>35</i>	<i>40</i>
<u>Consultation</u>		
Attitude Surveys	23	42
Suggestion Schemes	35	26
Regular Meetings with the Workforce	43	33
<i>Average</i>	<i>34</i>	<i>34</i>
<u>Information-Sharing</u>		
Team Briefing	60	86
Regular Newsletters	58	56
Systematic use of the Management Chain	60	64
<i>Average</i>	<i>59</i>	<i>69</i>

Notes: <sup>1)</sup> with at least 25 employees

<sup>2)</sup> weighted responses from WERS 1998 of wholly or predominantly British owned private sector establishments with at least 25 employees

On the other hand, the high incidence of such HRM involvement packages in subsidiaries that operate with some form of collective ER, implies that a significant minority of subsidiaries have no comprehensive ER approach, with neither collective, nor effective individual voice mechanisms (i.e. at least half of the practices listed in Table 2). The total voice gap amounts to 20 per cent in terms of subsidiaries but to only 5 per cent in terms of employee coverage. In comparison, around one third of British owned workplaces have no comprehensive ER approach (WERS 1998). The overwhelming majority of employees in German subsidiaries (95 per cent) enjoys some form of voice mechanism. The greater emphasis on a co-operative ER style (regardless of whether through collective or direct channels) among German subsidiaries seems to point to an ownership effect in terms of echoing the nationally embedded culture of co-operation between labour and management. This is also confirmed by Ferner and Varul (1999).

## **Anglo-Saxonisation of Employee Relations**

As discussed before, this survey does not allow to draw substantive conclusions. Nonetheless, the results of this survey allow for some indicative answers. The internationalisation of German companies has accelerated since the onset of the 1990s. At the same time, employers' criticism of the German IR system, especially the collective bargaining system, has intensified, calling into question the benefits of traditional German ER approach. In light of the combination of these twin developments, it could be speculated that German MNCs operating within a permissive Anglo-Saxon setting may strategically adopt Anglo-Saxon style ER practices in these subsidiaries by avoiding/abandoning collective ER, especially trade union recognition and collective bargaining, and operate with individualistic HRM style ER with the view of using such vanguard sites to coerce change at their German locations to weaken collective arrangements (within the margins of the feasible space) and to fill the widened space for management choice with a more widespread adoption of HRM style direct ER. Here, the insertion of the DFI lever and the "threat" of locational flexibility into labour relations may provide a major mechanism for employers' attempts to secure such change. Thus, it could be hypothesised that German MNCs have endeavoured to strategically Anglo-Saxonise ER in their subsidiaries since the beginning of the 1990s. However, this may generally be easier in newly established/acquired sites compared to more mature subsidiaries which were in German ownership before the onset of the above outlined twin developments (operations established/acquired before the 1990s). Because of the combination of the comparatively lower degree of internationalisation of German companies and the general consensus as to the benefits of the German model of ER until the turn of the last decade, it may be perceivable that German companies were more inclined to operate with a collective ER approach in the UK before the onset of the 1990s. Since such an approach may be long established in mature subsidiaries, it would seem generally easier to strategically Anglo-Saxonise ER in younger German subsidiaries. Therefore, it could be assumed that younger establishments are less likely to emphasise collective ER (especially in relation to trade union recognition and collective bargaining), and are more likely to stress individualistic HRM style direct employee involvement approaches compared with older subsidiaries. This be

could perhaps be interpreted as a proxy for an evolving pattern of ER in German MNCs (provided the reverse diffusion effects are of a significant magnitude).

However, the results in Table 3 do not confirm these predictions. Rather than providing a test bed for ER without unions and collective bargaining, younger subsidiaries are more likely to recognise unions (50 per cent) and engage in collective pay bargaining (45 per cent) compared to older subsidiaries (41 per cent and 36 per cent, respectively). The collective voice gap is far greater in mature subsidiaries (52 per cent) than in the younger establishments (38 per cent). Thus, many German MNCs seem to have responded to the heightened international competition of the 1990s by drawing on their country-of-origin collective ER approach in their operations located in an Anglo-Saxon setting, rather than adopting the Anglo-Saxon practice of avoiding/abandoning collective arrangements. On the other hand, younger subsidiaries exhibit a greater propensity to develop comprehensive HRM style direct employee involvement packages (60 per cent) compared to older ones (39 per cent). Based on this (limited) evidence it could be suggested that there has been no widespread strategic Anglo-Saxonisation in terms of avoiding/abandoning collective ER and substituting it with individualistic ER. German MNCs seem to increasingly operate simultaneously with both individualistic HRM involvement and collective approaches in the UK. If younger subsidiaries were more likely to act as vanguard sites and a source of ER innovations, vanguardism in German subsidiaries could be described as an emphasis on collective ER, complemented by comprehensive HRM style direct employee involvement.

**Table 3: Employee Relations in Mature and Younger German subsidiaries (%)**<sup>1)</sup>  
<sup>2)</sup>

	All subsidiaries	Mature subsidiaries	Younger subsidiaries
Trade Union Recognition	45	41	50
Collective Pay Bargaining	40	36	45
Collective Voice Gap	45	52	38
Comprehensive HRM Involvement Package <sup>3)</sup>	50	39	60

Notes : <sup>1)</sup> with at least 25 employees

<sup>2)</sup> Mature Subsidiaries:  $\geq 11$  years German owned  
 Younger Subsidiaries:  $\leq 10$  years German owned

<sup>3)</sup> Subsidiaries which operate at least half of the in Table 2 listed practices

If ER in vanguard sites located in an Anglo-Saxon deregulated market-led setting influences the evolution of ER in German MNCs, the above findings may imply that reverse diffusion effects are not weakening the collective approach to ER at the German location. In light of the broadened framework for flexibility and company-specific solutions, resulting from the recent (and ongoing) reforms in the German IR system, collective ER approaches in German companies have already become more varied and flexible. Such a flexible collective ER approach may become enriched in a complementary manner by a more widespread infusion of individualistic HRM style direct ER practices. ER in German MNCs may thus become more complex and multi-faceted, but remain firmly located within a collective approach. The insertion of Anglo-Saxon style HRM elements may add a new dimension to an ER approach that seems to remain distinctively German in nature.

## Conclusions

Contrary to the popular perception, the German approach to ER seems internationally competitive. This study points to a distinctive German trait in the ER approaches among German subsidiaries in the UK. Although the country-of-origin emphasis on a collective approach is less pronounced than in the German parent companies, it is more widespread among the German subsidiaries compared to British owned

workplaces. The comparatively lesser emphasis on individualistic ER in Germany is reflected by the lower propensity of German subsidiaries to operate with direct employee involvement schemes compared to British owned establishments. Whilst half of the German affiliates have developed comprehensive HRM style involvement packages, these are largely found in establishments with collective ER approaches, pointing to the complementary, rather than substitutional relationship between these two approaches. Yet, this also implies that a significant minority of subsidiaries have no comprehensive ER approach, neither in the form of collective nor effective individual voice mechanisms. Nonetheless, this is far less widespread when compared to British owned workplaces, indicating a greater emphasis on a co-operative ER style among German subsidiaries. This may echo the national embedded culture of co-operation between management and labour in Germany.

Contrary to the predictions of the proponents of the competitive convergence thesis, there are tentative indications that German MNCs have not endeavoured to Anglo-Saxonise ER strategically in their UK subsidiaries by abandoning/avoiding collective ER so as to generate spill-back effects to weaken collective arrangements at the German location. There seemed to be a heightened emphasis on collective ER throughout the 1990s among the German subsidiaries. This has gone hand in hand with a more widespread adoption of comprehensive HRM style direct involvement packages. Thus, possible reverse diffusion effects may not weaken the collective ER approach at the German location, but enriching it with a dose of Anglo-Saxon style HRM elements in a complementary, rather than a substitutional manner. With the current reforms in the German IR system having already provided considerable scope for more flexible collective ER responses, emerging ER pattern in German MNCs may be summarised as a “flexible collective ER approach with a HRM dimension”. Ergo, ER in German MNCs do not seem to converge towards an Anglo-Saxon individualistic approach, but remain distinctively German in nature despite the insertion of Anglo-Saxon style HRM elements.

Such an assessment provides few grounds to assume a convergence of German ER model towards an Anglo-Saxon model. Given the experience of the IR reform

process so far, and taking into account the possible knock-on effects of reverse diffusion of vanguard sites located in a Anglo-Saxon setting onto the German ER model, there may be grounds to expect a continuation of the path dependent trajectory of institutional and regulatory change. This takes the form of centrally coordinated decentralisation and regulated flexibility which will provide a broader scope for the introduction of HRM elements within the parameters of a system that remains essentially a collective one. In this sense, a selective import of Anglo-Saxon style elements should not be viewed as an encroachment of the German model, but rather as an enrichment to the German model.

However, these results have to be interpreted with a degree of caution, because of methodological problems not allowing for meaningful statistical testing for significance. Additionally, the cross sectional survey could only address reverse diffusion effects indirectly. A substantive investigation requires longitudinal data and qualitative research in form of in-depth interviews. Therefore, the analysis of reverse diffusion effects has been of a more speculative nature, providing some indicative answers which may fertilise the debate and initiate further research. Subsequently, predictions of wider knock-on effects onto the German ER model remain tentative, yet providing some interesting arguments for the current controversy on the future direction of the German model. A fuller picture about labour relations in German multinationals and the issues raised in this paper, requires a larger survey, the inclusion of longitudinal data and matched responses from parent companies, as well as in-depth interviews with matched pairs of parent companies and subsidiaries to further explore the complexities, linkages and processes involved. Furthermore, similar studies need to be carried-out involving other main German DFI host countries to obtain a more comprehensive picture.

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