



Interest Representation, Co-determination and Labour Relations in Foreign owned Firms in Germany

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Prof. Dr. Christoph Dörrenbächer & Dr. Rudolf Meißner
Hochschule für Wirtschaft und Recht, Berlin, Deutschland

Prof. Heinz-Josef Tüselmann & Dr. Qi Cao
Manchester Metropolitan University, Manchester, Großbritannien

The Project

Comprehensive quantitative and qualitative study (2014 – 2016)

- **First large-scale representative survey in this area of foreign owned firms in Germany, both in terms of sample size and issues covered**
- **First broader comparative case study investigation in this area involving 21 cases, 50 interviews (management, works council members and union representatives) and multiple secondary sources**

Focus of the presentation: quantitative results, supplemented by insights from the qualitative part.

Method

- **Representative survey of all foreign owned firms in G in manufacturing and service sector with > 20 employees, based on structured questionnaire.**
- **Target audience: managing directors (and in case of large subsidiaries, the HR directors).**
- **Population based on FirmenWissen database of Creditreform e.V. (most comprehensive coverage)**
- **Stratified random sampling (after extensive database cleaning: tax heavens, mere *de jure* movement of HQs to countries → tax advantages and/or prevention of supervisory board)**
- **Data collection via CATI, conducted by Zentrum für Sozialforschung Halle (ZSH)**
- **Gross sample: 8,000; Net sample: 5,466; valid responses: 863 = response rate: 15,8%**
- **Comprehensive tests for representativeness, sampling error, unit non-response bias, item non-response bias → satisfactory → \sum relative high degree of generalisability of the results**
- **Given the binomial and ordinal nature of dependent variables and of several independent variables, prior conduct of statistical analyses, comprehensive tests for “minimum sufficiency requirements” (Long, 1997) and where below threshold, variables were collapsed into smaller number of categories.**
- **Prior regression analyses comprehensive tests for multi-collinearity and common method bias.**
- **Regression models entailed main effect models and interaction effects (type of industry*type of home country).**
- **Regression Models: Fractional Logit Generalized Linear Models, which have several advantages compared to conventionally used logistic or probit models.**

Analyses

Levels of Analysis:

- **Incidence of German labour relations institutions (works council, collective bargaining)**
- **Outcomes (labour relations climate, conflicts, conflicts due to MNC nature of subsidiary)**
- **Collaboration with works councils and outcomes**
- **Variance of labour relations**

Independent Variables:

- **Structural and demographic firm level variables (e.g. size, age, entry mode, activity, skills structure, type of employment, etc.).**
- **Industry (type of industry according to OECD techno and knowledge intensity and individual industries.**
- **MNC specifics(mandates; interdependencies between subsidiary and MNC network, strategic autonomy of local management, familiarity of central level with labour relations at location of subsidiary)**
- **Home country: type of home country (according to IMF definition and VoC literature: industrialised LMEs, industrialised CMEs, industrialised Others; emerging and developing countries**

Incidence of Works Councils and Collective Agreements

	<u>% Firms</u>	<u>% Employees</u>
• Works Council	50,4	82,7
• Collective Agreement	39,7	69,5
• Sectoral Agreement	27,1	47,4
• Company Agreement	12,6	22,1
• No collective agreement: Orientation on sectoral agreement	24,6	
(41,8% of all firms without collective agreement)		

Comparison to IAB sample of German private sector owned establishments in manufacturing and service industries with > 20 employees suggests works council coverage at least not below German owned establishments, but sectoral agreements may be somewhat below.

Determinants

- **Predominance of “conventional” firm level characteristics (e.g. size, age, entry mode) and industry factors as significant explanatory factors (and signs in expected direction).**
- **MNC aspects play no significant role**
- **No significant differences either between types of home countries or individual home countries**

Labour Relations Climate and Conflicts

Generally good labour relations (80% = very good or good, 3% = bad or very bad) and low conflicts (60% = none or rarely, 8.5% = often or very often).

Where conflicts, in 25% of cases, international nature of subsidiary (i.e. part of larger MNC) was an important factor, whereby transfer of foreign labour relations practices is generally not an important reason. Main reasons: central level performance objectives and MNC wide standardisation.

Determinants

“Conventional” firm and industry level factors have less explanatory power compared to incidence of German IR institutions.

However, MNC aspects are important influencing factors for good labour relations situation in foreign owned firms in Germany, including:

- **Strategic autonomy of local management** (i.e. where management in foreign owned firms can take important decisions and employees and works councils are dealing with management that has decision making power and is not just the “longer arm” of the foreign parent company).
- **Familiarity of higher level management abroad with the labour relations situation in the subsidiary**, incl. the German works council based firm level co-determination and its intersections with the collective bargaining system. Against background of often voiced impression that foreign MNCs have little understanding or appreciation of the complexities of the German industrial relations system, around half of the managers in our study reported that central level management is very familiar with the labour relations situation.

Labour Relations Climate and Conflicts

Determinants (continued)

Not surprisingly, works councils and sectoral collective agreements are associated with a somewhat higher degree of conflict (→ higher conflict potential of works councils due to Works Constitution Act, implementation of regulations of sectoral agreements at firm level, decentralisation within the German sectoral bargaining system, etc.)

Yet with over $\frac{2}{3}$ of management reporting a cooperative relationship with works councils, conflict resolution seems to be in many cases in constructive manner, where effective interest representation and cooperation go hand in hand. However, in 20% of firms with works councils, less good climate and relatively higher degree conflict.

Analogous to results of incidence of German labour relations institutions, neither type of home country nor individual home countries play a major role in labour relations outcomes in foreign owned firms in Germany.

Taken together, the results seem to suggest that ownership effects have less to do with nationality of ownership but rather with MNC factors highlighted in the International Management literature, and regardless of country-of-origin.

Cooperation and Interaction with Works Councils

Majority of management in foreign owned firms in Germany seem to have no problems with the relatively extensive participation rights of the German works council model:

- Two third have cooperative relationship with the works council, arbitration processes (Einigungsstellenverfahren) are the exception (16%), over half of the firms conclude regularly Works Agreements with works councils. However, the influence of works councils on company decisions seems rather around average (18% = much influence, 22% little or no influence).
- Although works councils are associated with a higher degree of conflicts, results suggest that in many cases conflicts are resolved in constructive manner.

Determinants:

Overall, neither firm level, industry, MNC specific variables nor type of home country play generally a major role.

Amongst others, this suggests that cooperative management – works council relations are as common in LME (e.g. US, UK) as in CME (e.g. Austria, Sweden) or in emerging country (e.g. China and India) ownership and that the influence of works councils is not different along country of origin of subsidiary.

Summary Remark

The lack of pronounced differences along country of origin aspects in both main and interaction models regards incidence of German firm level institutions, labour relations' outcomes and cooperation and interaction with works councils, against backdrop of:

- **negative image generated by certain circles (e.g. BDI, AmCham) of the German firm level co-determination model;**
- **publicly voiced criticism of certain MNC CEOs;**
- **partly different findings of qualitative studies;**
- **certain high profile negative cases reported in the German media (esp. in relation to certain US and emerging country MNCs);**

raises question, based on our large-scale representative study:

Do perhaps across all countries of origin, foreign investors value the advantages of German firm-level codetermination not only to the same degree, but over and above what is generally thought or admitted?

Limitations

Results based on management survey: need to also survey labour representatives for matched sample (see e.g. WERS in the UK)

Cross-sectional nature of quantitative study: “average” effects hide “outliers” that can be better picked up in qualitative studies, and cannot deal with details and processes involved as qualitative studies can.