

# Human resource and industrial relations practices of UK and US multinationals in Germany

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**Abstract** Most of the research about HRM and IR practices of MNCs in their host country has been conducted in deregulated countries such as the UK and the US. Host countries with relatively weak institutional arrangements facilitate the transfer of home-country practices. In contrast, those with institutionally strong systems, such as Germany, impose stronger pressures for adaptation.

This paper reports research about nine US and four UK subsidiaries operating in Germany. It examines how their HRM and IR practices are shaped by German labour and IR institutions, how they differ from a control group of indigenous firms and what room for manoeuvre is left for the introduction of home-country practices.

The main conclusions are that small and medium-sized subsidiaries in particular can to some extent avoid the pressures exerted by German labour and IR institutions. This facilitates the transfer of home-country practices. However, even larger affiliates that comply with the German institutions can transfer practices from their parent company. The highly regulated German system leaves some room for flexibility. Nevertheless, the institutional environment prevents large companies from following a unitarist HRM and IR approach.

**Keywords** International human resource management, Germany, HRM, MNC, IR

## Introduction

The international HRM of MNCs is subject to dual pressures (Evans and Lorange, 1989). On the one hand, there are pressures for internal consistency. This applies particularly for ethnocentric and geocentric MNCs which aim to have similar employment practices world-wide (Perlmutter, 1969). On the other hand, foreign subsidiaries of MNCs face pressures for adaptation from local institutions. This host-country effect is positively related to the strength of local systems (Ferner, 1997). Most of the research on HRM and IR practices of MNCs has examined their subsidiaries in deregulated countries such as the UK and the US, in which organizational autonomy is hardly restricted (recent examples are Guest and Hoque, 1996; Innes and Morris, 1995; Rosenzweig and Nohria, 1994; Wood, 1996). Much less is known about the employment practices of MNCs in host countries with institutionally strong systems.

A particularly interesting case to examine is the HRM and IR of US and UK MNCs in Germany. First, whereas the few existing studies about employment practices of British subsidiaries show that they allow local autonomy and blend in more to the local style (Warner and Peccei, 1977), research about US MNCs has shown that they are relatively centralized and ethnocentric in their HRM and IR practices (e.g. Lawler *et al.*,

1989; Negandhi, 1986; Young *et al.*, 1985; Yuen and Kee, 1993). Their employment practices not only differ from those of indigenous firms, but they are often more advanced and innovative. In the UK, for example, US MNCs have implemented innovative human resource practices and there is evidence of parental influence from the US (Guest, 1995; Marginson *et al.*, 1993b; Storey, 1992; Tayeb, 1998). Furthermore, the US and to some extent UK MNCs come from a culture where many employers have a unitarist perspective (Legge, 1995; Wever, 1995). Trade unions and collective bargaining are perceived as something to be deliberately avoided. In the US, for example, the non-union sector has grown rapidly over recent decades (Kochan *et al.*, 1986). Therefore, not surprisingly, US affiliates in Europe have been identified as anti-trade union (DeVos, 1981).

Second, Germany has an 'institutionally strong' system (Marginson *et al.*, 1993a) which legally imposes a uniform set of institutional arrangements on companies and/or provides incentives for employers to accept institutional constraints. The key labour and IR institutions of multi-employer collective bargaining, co-determination and initial vocational training in particular exert pressures to follow a pluralist HRM and IR strategy (Muller, 1996, 1997a). This might provide a particular challenge for MNCs from the US and the UK.

### **The research context**

Many MNCs from the UK and the US are not used to multi-employer bargaining in their home countries. In contrast, almost 85 per cent of the German work-force is still covered by multi-employer collective bargaining and a further 5 per cent by company bargaining. The bargaining agreements not only determine basic pay and merit increases but also regulate terms and conditions such as the duration of the working week, paid breaks, holiday entitlements, bonuses, overtime rates, sickness provisions and termination of the work contract.

There are no compulsory works councils in the UK and the US and employee representatives are not represented at the board level. In contrast, private-sector firms in Germany usually have a works council elected by all non-executive employees. Compared to members of similar bodies in other countries, German works councillors have a strong influence on the management of people (Gill, 1993; IDE, 1993). They have, for example, co-determination rights in regard to pay, working hours and appraisal systems. When these rights apply, the management has to get the approval of the works councils before it can implement any change. In addition, companies with several establishments normally have a central works council at company level which consists of representatives of the local works councils. Furthermore, companies that are legally required to have a supervisory board have to have employee representatives on these boards.

Finally, most companies in the UK and the US do not offer general initial vocational training. In contrast, almost all medium- and large-sized firms in Germany actively participate in this country's dual system of initial vocational training. This training, which normally has a three-year duration, combines on- and off-the-job training in firms and off-the-job training in vocational schools. The German system of initial vocational training is highly regulated and thus reduces organizational autonomy. It also provides general skills rather than company-specific skills (for a more extensive analysis of German labour and IR institutions, see Muller (1997b)).

Considering the importance of these institutions one can formulate the *hypothesis* that *all UK and US firms operating in Germany comply with the requirements of the three key labour and IR institutions of centralized collective bargaining, co-determination and initial vocational training*. A company complies fully with the German system of multi-employer collective bargaining, as long as it is a member of an employers' association. If it has a company collective bargaining agreement, it complies only partly. Similarly, a firm complies fully with initial vocational training as long as it has a significant percentage of apprentices (e.g. more than 3 per cent of the total workforce). Those with only a few apprentices are considered to comply partly. Although the German system exerts pressures to comply with these two institutions, this is not legally enforced. This is different from co-determination, as the German law to some extent forces companies to establish works councils or to have employee representatives on supervisory boards. All those companies which have works councils in all major establishments and which do not avoid board level co-determination comply fully.

UK and US MNCs have a significant presence in Germany. US-owned firms account for about 3 per cent of all medium- and large-sized firms in this country (Commerzbank, 1991: 6). They are important role models for innovative human resource practices. In practitioner journals, business magazines, edited books and the press, human resource instruments used by German subsidiaries of MNCs such as IBM, Hewlett Packard, EXXON and 3M are widely described. However, there are only a few academic studies about their HRM and IR practices. One is Peter's (1975) case study of IBM Deutschland. He came to the conclusion that IBM had the most sophisticated HRM system in Germany. In the early 1970s, it already operated a sophisticated management development scheme and conducted attitude surveys. Although IBM's world-wide human resource guidelines promote the avoidance of unions, Peter observed that German management was on good terms with the trade unions and had a high trust relationship with its works councils. Peter (1975: 175, 209) even suggested that the labour management of IBM Germany had been a model for the 1972 German works council co-determination law. Recently, this American company has become more critical of the German IR system. When IBM Germany split up into several independent companies in 1993, it left the employers' association of the metal industry.

Besides Peter's by now outdated research, there is one more recent study. Wever (1995) studied three US affiliates in Germany. In comparison to a German control group, these subsidiaries emphasize cross-functional careers, empower lower-level managers and emphasize direct communication. They also tend to implement organizational change more rapidly than indigenous firms, even if this leads to conflicts with employee representatives. The example of IBM and Wever's research suggest that American companies transfer employment practices from their home country and that they also challenge German labour and IR institutions. Almost all remaining research about HRM and IR practices of foreign MNC in Germany is about Japanese firms (e.g. Kitcha *et al.*, 1988; Lincoln *et al.*, 1995; Park 1989; Park *et al.*, 1992; Sako, 1994). This shows that Japanese subsidiaries transfer only few Japanese management practices to Germany. Most transplants are tightly controlled by the parent company and older subsidiaries are more likely than newer ones to comply with German institutions.

The literature cited above is admittedly meagre. Nevertheless, it suggests that foreign firms transfer their own practices, despite the rigidities of German institutions. Therefore, a *second hypothesis* is that *the HRM and IR practices of US and UK subsidiaries in Germany are different from those of indigenous firms*.

*Methods and data collection*

The research presented here is built on case studies of twelve German-owned, four British and nine US companies operating in Germany (see Table 1). The case studies are based on multiple sources of evidence. Usually several members of an organization were interviewed. Documentary evidence such as company newsletters, annual reports and works agreements were collected. Between 1991 and 1994 the sample firms were visited at least twice and more than 150 face-to-face and telephone interviews were conducted. Most of the respondents were personnel managers. When possible the researcher also talked to line managers and employee representatives. The interviews

**Table 1** *The firms in the sample: (employment size and compliance with key labour and IR institutions)*

	<i>Approximate number of employees in Germany (in 1993)</i>	<i>Multi-employer bargaining</i>	<i>Co-determination</i>	<i>Initial vocational training</i>
<i>German companies</i>				
Big Bank	60,000	✓	✓	✓
Universal Bank	40,000	✓	✓	✓
Regional Bank	15,000	✓	✓	✓
State Bank	5,000	✓	✓	✗
Cooperative Bank	2,000	✓	✓	✓
Savings Bank	500	✓	✓	✓
Big Chemical	90,000	✓	✓	✓
Consumer Chemicals	20,000	✓	✓	✓
Big Pharmaceutical	10,000	✓	✓	✓
Applied Chemicals	5,000	✓	✓	✓
Oil Company	5,000	✓	✓	✓
Pharmaceutical Firm	1,500	✗	✓	✓
<i>US subsidiaries</i>				
US Branch Bank	4,000	✓	✓	✓
US Merchant Bank	300	–	–	✓
US International Bank	200	–	✗	–
US Investment Bank	100	–	–	–
US Commercial Bank	100	–	–	–
US Consumer Chemicals	9,000	✓	✓	✗
US Chemical	3,000	–	✗	✗
US Oil	2,000	✗	✓	✓
US Pharmaceutical	500	✓	–	✗
<i>UK subsidiaries</i>				
UK Merchant Bank	1,000	✓	✓	✗
UK Oil	4,000	✗	✓	✓
UK Chemical	2,000	✓	✓	✓
UK Pharmaceutical	1,500	✓	✓	✗

*Notes*

- ✓ full compliance.
- ✗ partial compliance.
- no compliance.

were conducted in a semi-structured style. For each sample firm a case-study report was written and fed back to the key informant. This contained general information such as legal form; organizational structure; data about the sample firm's compliance with German labour and IR institutions; and details about the use of human resource instruments such as appraisal and remuneration systems. The researcher inquired about the instruments used, what they looked like, whether they had changed and when they were implemented for the first time.

In order to facilitate a comparison with the foreign-owned firms which have a world-wide work-force of at least five thousand employees, only large German companies were included in the sample (see Table 1). Among these were well-known firms such as Deutsche Bank, Hoechst and Henkel. Due to sectoral factors having a possible influence on HRM and IR practices, only banks and chemical firms were chosen. One reason for selecting these industries was that in both of them a number of UK and US firms were operating. This sample selection had to be somewhat biased. The US subsidiaries in particular were relatively small, and this has to be taken into account in the following analysis. In the chemical industry it was possible to select pairs of companies with similar businesses, such as oil companies and pharmaceutical firms. In banking this was not possible, as German banks are usually universal banks which offer all types of banking services, whereas most foreign banks in Germany are merchant or investment banks. The proportion of managerial-level personnel in the foreign banks is similar to that in German banks. Although the foreign banks employ a relatively high proportion of university-educated graduates, they still have a significant number of bank clerks with initial vocational training.

Most of the MNCs seem to be relatively closely integrated in the business and human resource strategies of their parent companies. One indicator is that they usually employ a significant percentage of expatriates in managerial positions. Nevertheless, all heads of personnel, with the exception of US Chemicals, were German nationals. Another indicator is that they often use human resource instruments that they have imported from their parent company, as will be discussed in more detail later. In only two of the subsidiaries, UK Bank and UK Pharmaceutical, did the parent company seem to leave HRM and IR practices entirely up to local management. They both employ either very few or no expatriates and have not imported any human resource instruments from their parent. UK Pharmaceutical has an explicit policy that human resource policies and programmes are drawn up by their subsidiaries. An explanation for this behaviour may well be that, historically, UK managers have not been known for innovative personnel management practices.

The next section will discuss the compliance of the sample firms with the key labour and IR institutions of collective bargaining, co-determination and initial vocational training. The following examines the differences in human resource practices between foreign and indigenous firms.

## **Compliance with German labour and IR institutions**

### *Co-determination*

All German-owned firms in the sample have works councils in all major establishments as well as employee representatives on their supervisory boards. This also applies for the four UK subsidiaries as well as three of the US MNCs. In contrast, six of the US transplants studied do not comply with the requirements of co-determination (see Table

1). US Merchant Bank, US Investment Bank, US Commercial Bank and US Pharmaceutical have no works councils at all. US International Bank and US Chemical do not have works councils in major establishments. Furthermore, in 1991, the German subsidiary of US chemical chose the American legal status 'Inc.'. US Chemical's human resource director denied that avoidance of co-determination at board level is behind their decision to choose this legal form. A trade union secretary, who advised the works council of their biggest plant, suggested that co-determination *is* the main reason.

At this point it is worth emphasizing that, although works councils can be founded in all establishments with more than five employees, they are not compulsory. There has to be an initiative by employees to establish them. Nevertheless, employees in Germany are likely to set up a works council only if they have grievances that cannot be solved otherwise. A trade union expert suggested that the main reasons why employees of foreign-owned banks establish works councils are to secure better terms in the event of work-force reductions, unsatisfactory working hours and the unilateral withdrawal of social benefits such as canteens. According to the same expert, US International Bank's works council was founded by traders who were dissatisfied with their performance-related pay system. Thus non-works council firms operating in Germany that do not treat their employees fairly face the prospect of an employee initiative to establish a works council. Therefore, one strategy to avoid works councils is to minimize grievances and/or to give employees alternative means to voice their views.

Such a strategy seems to be carried out by the biggest non-works council firm in the sample, US Pharmaceutical. As this company has about 500 employees in two establishments and as its German subsidiary was already founded in 1960 (for the importance of age as a determining factor for the existence of works councils, see Frick and Sadowski (1995) and for the importance of size, see Mendius and Semlinger (1991)), it is somewhat unusual that it has no works council. US Pharmaceutical's human resource director explained that the reason for the absence of a works council is the involvement of employees by sophisticated communication methods. There are regular communication meetings during working hours to which a large number of employees are invited and attitude surveys are conducted regularly. Thus employee involvement measures which could have been developed by the parent company in the US to prevent union recognition may serve a similar purpose in Germany. Also, it is interesting to note that US Pharmaceutical is a member of the chemical industry's employers' association. Therefore even the worst performers are guaranteed the minimum conditions of the collective bargaining agreement. This means that grievances about pay are less likely to occur. Although these measures might decrease the need for a formal representative body among employees, the researcher was not told whether more active measures were used in addition to prevent the emergence of a works council. The above-mentioned trade union secretary knew several cases where employees of foreign-owned banks, suspected of establishing a works council, were dismissed with a large severance payment. Nevertheless, he was aware only of the US Commercial Bank being successful in avoiding the election of a works council over a long period. The same expert also reported that the US International Bank tried to dismiss its employee representatives, but was forced by the labour court to reverse this decision. These legal pressures for compliance with the German system could explain why the US Merchant Bank is the largest non-works council bank in Germany.

A reason why US subsidiaries are critical of co-determination is that works councils can slow down organizational change (Wever, 1995). Human resource managers of the

foreign-owned banks, as well as a trade union secretary and a consultant, confirmed that this is the main reason why US banks operating in Frankfurt avoid works councils. Similarly, the human resource directors of US Chemical and US Consumer Chemicals, which have works councils, complained that this form of co-determination leads to inflexibility, waste of time and delays. A particular problem for MNCs is that works councils can slow down or even stop the transfer of managerial practices from the parent company to the German subsidiary. Therefore, the US Branch Bank developed a European-wide attitude survey, on the basis of a similar survey from their parent company, in collaboration with its central German works council. Such an involvement of employee representatives in the design of attitude surveys is recommended, although it is still an open legal question as to whether management is required to get the approval of the works council for a survey questionnaire (Breisig, 1990). In other European countries where US Branch Bank is represented, there was no need to negotiate it with employee representatives. The questionnaire was without adaptation, transferred to the other subsidiaries. In two other MNCs, employee representatives prevented the introduction of a goal-appraisal system already used by their parent company. In US Chemicals' biggest German plant, in 1992 alone, management and works council were in the courts in order to solve four conflicts that could not be settled internally. These conflicts resulted from the opposition of the works council to the implementation of world-wide HRM policies. These were partly introduced before the works council had given its agreement.

MNCs can exert pressure on their employee representatives. Again the US Branch Bank illustrates this. In the early 1990s, it intended to introduce an automatic telephone dialling system used by the parent company. The central works council was worried that the new system would be used to control the performance of employees and would entail evening work. In order to overcome the resistance of the works council, the bank initiated and sponsored visits of works councillors to a bank in the UK where this system was already in operation. In addition, it threatened to transfer production abroad. Eventually a compromise was reached which met some of the objectives of the works council. This was accepted by the employee representatives, although their trade unions advisers recommended its rejection. The human resource director of US Consumer Chemicals also suggested that the disclosure of productivity comparisons and strategic options helped to get the agreement of works councils. Other means used by this company to overcome works council opposition were direct communication with the work-force and differences among employee representatives.

Employers' associations, business consultants and academics usually advise companies operating in Germany to establish a high-trust relationship with their works council (Niedenhoff, 1990). By following such a strategy, management hopes that employee representatives will not use their rights extensively and thus make it easier to achieve organizational change. Apparently a low-trust relationship was one of the reasons why the works council of US Chemical's biggest German plant opposed the transfer of home-country practices. Not surprisingly, similarly to the German sample, the management of all British and three of the US MNCs studied appear to co-operate fully with their employee representatives. This is also reflected in mission statements. US Oil, which has a non-union policy in the US, states in its management guidelines that it 'puts a great emphasis on the trustful collaboration with the works council'. Even the human resource director of US Chemical, who is English, suggested that, provided that there is a good working relation between works council and management, a condition not fulfilled in US Chemical's biggest German plant, the works council

structure is advantageous to a non-union system. According to him, the German co-determination system is a hurdle for management initially as it has to find an agreement with the works council. This then makes the implementation of decisions much easier, as they would be in a British non-union plant.

To sum up, the data presented seem to suggest that the US firms in the sample try harder to avoid co-determination than the German or British-owned firms. This is not surprising, as in the US most employers view the collective representation of employees with hostility (Wever, 1994: 480). Works councils can also make it more difficult to transfer human resource practices from the parent company to the subsidiary. Nevertheless, if strong grievances cause a desire among employees to elect employee representatives, it is difficult even for US transplants to stop such a move. At this point it is worth re-emphasizing the importance of size. Almost all medium and large companies operating in Germany have works councils. Larger subsidiaries have to comply with the co-determination system and can only try to minimize the influence of employee representatives. This explains the fact that only the smaller US subsidiaries in the sample can follow a co-determination avoidance strategy. Even they are somewhat constrained by the German system, as they have to offer functional equivalents and/or favourable terms and conditions, so that employees have few incentives to form a works council.

### *Collective bargaining*

Whereas the law leaves little room to avoid co-determination, firms in Germany are generally not legally required to comply with multi-employer bargaining. In most industries collective bargaining agreements apply only for employers organized by an employers' association. Although in theory these employers have only to guarantee trade union members the minimum terms and conditions of the collective bargaining agreement, in practice collective bargaining covers all employees. In the banking and the chemical industry about 95 per cent of firms are full members of an employers' association. Among them are all but one of the German sample firms (see Table 1).

Among the thirteen foreign-owned firms only six are covered by multi-employer bargaining. Two others have a company-level collective bargaining agreement with the chemical union IG Chemie. In the early 1970s, US Oil and UK Oil started to negotiate such an agreement. Since then they have gained a reputation for innovation in IR, as they have negotiated remuneration and general framework agreements that served as a model for collective bargaining in Germany (Muller, 1996).

In contrast to the other sample firms, five, all of which are US subsidiaries, are not covered by collective bargaining at all and thus do not comply with the German system of collective bargaining. The human resource managers of the four US banks that avoid collective bargaining suggested that they do this to be more flexible. Flexibility principally means, for them, that salary increases can be below the increase negotiated for the industry and that they can use the remuneration system of their parent company. In practice, salaries for individual employees are determined by their supervisors on the basis of salary surveys. The human resource director of US Chemical also explained his company's avoidance of central collective bargaining with their international remuneration system, which is perceived to be more flexible and performance-oriented than the German tariff system. An example is that in 1993 and 1994, US Chemical paid no salary increases at all, although tariff wages in the chemical industry increased.



Over the last decade, collective bargaining agreements in Germany have become less rigid. The flexibility concessions of the trade unions have been mainly in the area of working hours. As most medium- and large-sized companies in Germany pay higher wages than legally required, the wage gap has always provided an opportunity for management to influence the level of pay. In the collective bargaining firms most of the wage gap is accounted for by bonuses, which are a certain percentage of basic salary and are paid to the whole work-force. In companies which have a bonus system based on individual performance, the bonuses are usually relatively small. Also, the worst-performing employees will automatically get a salary increase after the annual bargaining round. All in all, it therefore appears that the five non-collective bargaining companies pay more performance-related pay than the other sample firms.

The avoidance of centralized collective bargaining does not seem to have an adversarial effect on employee relations. There has been no strike action in the five non-collective bargaining firms. Nevertheless, it is interesting to note that US Chemical's human resource director suggested that most of the conflicts with the works council are about compensation and salary administration. In contrast, managers and work councillors in collective bargaining firms mentioned working hours as the most critical point. There are also limits to non-compliance with central bargaining. Among these are the co-determination rights of works councils, the level of pay and the size of a company.

First, a non-collective bargaining firm is not free to introduce its world-wide remuneration system in Germany as it needs the approval of its works council. Often employee representatives are critical about performance-related pay. In 1992, US Chemical Germany introduced a new world-wide pay formula. By late 1993, management had introduced the new system only in the headquarters, which has no works council, and in two plants. The works council of US Chemical's third German plant still used its co-determination rights to block the introduction of the new system.

Second, the five non-collective bargaining firms in the sample pay higher wages than firms covered by multi-employer bargaining. Salary surveys by the consultants Towers Perrin show that remuneration in foreign-owned banks in Frankfurt is almost 10 per cent higher than for comparable positions in indigenous banks. The fifth non-collective bargaining firm, US Chemical, has a world-wide policy that average salaries should be at the mid-point of the compensation level of top employees in the country or region. A trade union secretary suggested that high salaries are one of the reasons why his union has so far been unable to force this company into collective bargaining. It is interesting to note that until 1988 one of US Chemical's plants, which was originally German-owned, had a plant agreement with the chemical union IG Chemie. The new owners offered the works council a package which guaranteed most parts of the collective bargaining agreement for the industry, but better conditions on some terms. This proposal was accepted by employee representatives against the advice of the trade union. Above-average terms and conditions could therefore explain why US Chemical is, together with Hewlett Packard, one of the biggest companies operating in Germany with no collective bargaining agreement at all.

Third, with the exception of US Chemical all non-collective bargaining firms are relatively small. For the banking sector, more detailed data confirm the importance of size. Of the 200 foreign-owned banks operating in Germany with branches or subsidiaries at the end of 1992, only about 24 per cent belonged to the employers' association of private banks. Thirty-six per cent of the French, 40 per cent of the UK,

but only 12 per cent of the US-owned banks were organized. Among the full members, however, were all foreign-owned subsidiaries with more than 500 employees (Muller, 1996). Thus it appears that for small banks it is an issue of choice whether they join the employers' association or not. In contrast to foreign-owned banks, almost all German-owned small and medium-sized banks belong to an employers' association.

All in all, the German system of collective bargaining leaves even large companies some room for manoeuvre. If MNCs are determined to follow a non-collective bargaining policy and are willing to pay higher wages than their competitors, they can hardly be forced into collective bargaining. The avoidance of collective bargaining gives them some scope to introduce world-wide HRM practices, but co-determination and labour-market pressures somewhat reduce their autonomy in regard to compensation. Therefore, even those firms that do not comply are still affected by the rigidities of the German system. The difference between the US firms that largely avoid collective bargaining and the UK firms that almost fully comply is at least partly a reflection of size differences. Nevertheless, the example of US Chemical and the above-cited banking statistics suggest that US firms are more reluctant to comply.

### *Initial vocational training*

Companies in Germany are not required to employ apprentices. Nevertheless, with one exception all German-owned sample firms comply fully with the system of initial vocational training (see Table 1). In 1992 apprentices accounted for between 3 and 12 per cent of their total work-force. Among the MNCs, three do not offer initial vocational training. In most of the other foreign firms, apprentice ratios are smaller than in the German-owned firms. For instance, US Oil and UK Oil have a smaller ratio than Oil Company, US Pharmaceutical and UK Pharmaceutical a smaller ratio than Pharmaceutical Firm and US Branch Bank a smaller ratio than Big Bank. Size alone cannot explain these differences, as small and medium-sized firms in Germany often have higher apprentice ratios than larger ones.

US Merchant Bank has an apprentice ratio of 3 per cent. The main reason why the three other Frankfurt-based US banks in the sample offer no initial vocational training is that, similar to their parent company, they put a high emphasis on numerical flexibility. This means that it would be more difficult for them to recoup the money invested in initial vocational training. Instead, they poach employees with vocational training qualifications from indigenous banks and, if necessary, provide them with a job-specific training. In contrast to these banks, the other foreign-owned firms emphasize internal labour markets and therefore should have no problem recouping the money invested in apprentices.

The headquarters' influence could also explain why, compared to German-owned firms, foreign-owned subsidiaries seem to be less enthusiastic about initial vocational training. US Pharmaceutical's German management had lengthy discussions with its headquarters before it got permission to start initial vocational training on a small scale in the mid-1980s. Initially the parent company was not convinced about the benefits of investment in its apprentices. US Oil began initial vocational training in their German headquarters in the early 1980s only after a controversial discussion with the parent company. This questioned its necessity. A further problem was the issue of whether apprentices are counted as normal employees in international productivity comparisons. Despite these problems, US Oil has always had apprentices for manufacturing occupations at their production sites. Similarly, US Chemical has a good training record

in production occupations, but does not train clerical occupations. According to its human resource director the initial vocational training of production operators and craftsmen is a strong point of German industry, but weak for clerical occupations.

Although some of the MNCs offer no initial vocational training, most do. A reason for this may well be public pressure for compliance with the German system (Muller, 1997b). An example of this is an initiative by the Chamber of Industry and Commerce in Frankfurt in the early 1980s, which tried to encourage foreign-owned banks to offer initial vocational training. The Chamber official in charge of this initiative reported that one argument used to persuade foreign-owned banks was the general shortage of apprenticeships at that time. A second one was tensions between indigenous and foreign-owned banks, as the latter were poaching young employees who had completed their vocational training. Besides exercising moral pressure, the Chamber of Commerce helped foreign-owned banks to meet the requirements of the training regulations for the occupation 'bank clerk' (*Bankkaufmann*). Unlike the typical German universal bank, foreign-owned banks usually specialize in certain types of business. They are not able to train for all types of tasks demanded by the training regulations. Therefore, the Chamber set up an organization that teaches certain types of businesses in external off-the-job seminars. The initiative by the Chamber had some initial success, as in the mid-1980s about 150 apprentices were trained by foreign-owned banks in Frankfurt. US Merchant Bank was one of the banks that started initial vocational training as a result of this initiative. Although the supporting infrastructure is still intact, the number of apprentices in all foreign-owned banks in Frankfurt fell back to fifty by 1994. By then only eight of more than 200 foreign banks with offices in this major European financial centre had apprentices. Of these, four were from Switzerland, two from France and two from the US. None of the ten UK banks operating in Frankfurt in 1994 had apprentices.

Similar to co-determination and collective bargaining, the system of initial vocational training also offers room for manoeuvre. Some of the US subsidiaries use this freedom and train no or hardly any apprentices. As initial vocational training can provide firms with a qualified and loyal work-force at a relatively low cost, it is unclear whether there are any economic advantages for organizations which evade it or if this reflects only a strong influence from their parent company. The vocational training record of the British subsidiaries in the sample falls somewhere between the German-owned and the US-owned firms. On the one hand, the higher apprentice ratio compared with US subsidiaries could reflect a lesser dependence of British MNCs on their headquarters. On the other hand, the smaller apprentice ratio compared to indigenous firms may well reflect a smaller exposure to public pressure to provide extensive vocational training. In total, it appears that foreign transplants are less enthusiastic about offering initial vocational training than German firms. However, only small and medium-sized foreign-owned firms, which are less exposed to public pressure, can avoid initial vocational training altogether.

Although the evidence presented is clearly limited, the extreme hypothesis that all UK and US firms in Germany comply fully with the requirements of German labour and IR institutions is not supported. An avoidance of labour and IR institutions makes it easier for them to transfer HRM and IR practices from their home country. Whereas, similarly to the indigenous sample firms, most British subsidiaries more or less fully comply, the US affiliates generally do not. They have this opportunity, as most of them are relatively small. Employment size is clearly important. Nevertheless, the example of US Chemical and some of the other evidence presented suggest that German institutions

provide a bigger cultural check for the US compared to the UK MNCs. At this point it is worth re-emphasizing that even those firms that do not comply with the German labour market and IR institutions are still affected by their rigidities. In particular, they are under pressure to offer comparable or more favourable working conditions and terms of employment.

### **Human resource practices**

The previous section examined the compliance of UK and US subsidiaries with German labour and IR institutions. This discusses in more detail their HRM (for a more extensive analysis of HRM practices in German-owned firms, see Muller (1996)). The question is whether they are similar or different from the indigenous companies studied. This analysis will look at the areas of human resource flow, terms and conditions, and communication

#### *Human resource flow*

Starting with human resource flow, we will examine HRM practices in the areas of selection, induction, appraisal, training and promotion. In all three areas works councils have some influence, as they have various co-determination rights. The initial vocational training system also has some impact, as most new employees in German firms start their career as apprentices (Muller, 1996).

Similarly to the German-owned sample firms, the MNCs usually select new employees on the basis of an analysis of application forms and job interviews. In comparison to other European countries, tests are rarely used by companies operating in Germany (Brewster and Hegewisch, 1994: Table 3.6 ). Among the indigenous and foreign-owned sample firms, these are usually used only for the *selection* of apprentices.

Most of the sample firms offer a structured *induction* training for newly recruited graduates. Whereas trainees in the German firms often rotate for up to two years through different departments to get a general introduction, trainees in the foreign-owned firms normally start in a particular job for which they become responsible after a short while.

Regarding *appraisal* techniques there also were only minimal differences according to national ownership. Most of the sample firms have a written appraisal scheme. In recent years, the traditional trait-rating system has been supplemented or replaced by goal appraisals, regular career development talks and management development assessment centres. Some US subsidiaries but none of the UK subsidiaries use innovative appraisal schemes which have been transferred from their parent company. For example, as part of a world-wide policy change, US Chemical abolished performance rating scales in 1992 and introduced a freely written appraisal. On a blank sheet the supervisor has to write an assessment of the development of the appraisee's performance and an assessment of the achievement of pre-defined targets.

It has already been suggested that the foreign sample firms appear to invest less in initial vocational training than German firms. In regard to further vocational training, most MNCs seem to invest as much as indigenous firms. Only the three smallest US banks offer relatively little formal training. Two Chamber experts suggested that foreign-owned banks in Frankfurt in general provide little off-the-job training compared to German-owned banks. No major differences with regard to training contents and methods emerged between the core sub-sample of German and foreign-owned firms.

Nevertheless, it seems that job rotation is more popular in the US subsidiaries than in the German and British firms. Cross-functional job rotation has for some time been essential for any career advancement for managers of US Consumer Chemicals, US Oil and US Pharmaceutical. These firms, as well as UK Oil, operate in world-wide internal labour markets that incorporate most levels of management. In addition, in all MNCs with the exception of UK Pharmaceutical and UK Bank, assignments abroad are an important management-development technique. At US Oil these explicitly aim to foster the development of a world-wide company culture.

The German banking and chemical concerns studied usually guarantee *employment stability* and emphasize internal labour markets. Most MNCs do not differ in this regard. Human resource managers from UK Chemical and US Oil mentioned that this makes them different from their parent companies which give less employment security. Again, the three smallest US banks are different. They have no internal job-posting system, no written commitment to internal promotion and a relatively high labour turnover. Their practices resemble those of their affiliates in London and New York more than those of indigenous banks. An exception is US Merchant Bank. In the US it is known for its more long-term thinking and its emphasis on internal recruitment. Its German subsidiary aims to recruit managers from within and also has a below-average labour turnover compared to other foreign-owned banks in Frankfurt.

The data presented in this section indicate that the German institutional environment does not prevent companies from using modern HRM practices. Nevertheless, particularly in the areas of training and employment stability, the German system exerts pressures to follow certain policies. Therefore, it is not surprising that only MNCs that do not comply with German labour market and IR institutions deviate radically.

### *Terms and conditions*

It has already been mentioned earlier that terms and conditions are largely determined by multi-employer bargaining. None the less, there is some flexibility, as all collective bargaining firms pay more than legally required. Significant differences were observed only between the non-collective bargaining firms and the rest of the sample. The five US subsidiaries that avoid collective bargaining appear to pay on a more performance-related basis, e.g. salary increases are sometimes not paid. Although most other terms and conditions, such as annual leave, are similar to those set by the umbrella agreements of their industry, working hours differ. In 1992, the central works council of US Chemical agreed to a demand by management not to reduce working hours from 39 to 37.5 hours and thus not to follow the example of the collective bargaining agreement of the chemical industry. In exchange, management conceded an improvement in the pension scheme and the introduction of an early retirement scheme. At the end of 1993, US Chemical's employee representatives even accepted an increase in working hours to 40 hours a week for one year. The employees of Merrill Lynch and Salomon Brothers also work 40 hours a week. This is one hour longer than bank clerks in other banks.

Whereas most employees are covered by collective bargaining, *exempt pay* is only indirectly affected. Exempts (*Außertarifliche Angestellte*) are all those employees who earn significantly more than those in the highest wage group of the collective bargaining agreement. This group normally accounts for about 15 to 20 per cent of the total staff. Exempt staff are indirectly covered only by collective bargaining, but are fully affected by co-determination. Only top management (*Leitende Angestellte*) is not represented by

the works council. Regarding exempt pay, we observed some differences between the German and the foreign-owned firms. One is the use of analytical job evaluation systems. Whereas the German firms started to use such systems only recently, UK and US Oil had already introduced them in the 1970s. US Pharmaceutical and US Oil are unique because they have committees of senior line managers and a human resource manager that determine annual salary increases by the ranking of their subordinates according to performance and potential. In works council firms, employee representatives have co-determination rights on the introduction and operation of formal job-evaluation systems. In order to get the necessary agreement of the works council for the introduction of such a system, management has had to assure each exempt worker a certain minimum increase. In contrast, human resource managers of the four smallest US banks, US Pharmaceutical and US Consumer Chemicals suggested that managerial employees with an inadequate performance get no salary increase at all. In addition, the bank managers claimed that performance-related pay in their firms is higher than in German banks. In regard to subsidiaries of US investment and merchant banks, this limited evidence is supported by press reports (e.g. Balzer, 1994).

A further difference is in *equity participation*. German firms usually offer only very limited schemes which enable employees to buy subsidized shares with a value of about 1,000 US \$ per year. In contrast, six US subsidiaries have transferred the equity participation schemes of their parent company. This enables the whole work-force, or, in three cases, senior managers only, to buy subsidized shares or share options for a significant percentage of their basic salary.

Another area where the foreign transplants have been innovative is *single status* for blue- and white-collar workers. The foreign-owned manufacturing firms introduced such a policy before German firms. UK and US Oil, which both bargain at the company level, introduced a unitary remuneration agreement for blue- and white-collar workers several years ahead of the industry. US Chemical is unique, as it uses the same world-wide unitary remuneration system for all non-managerial and managerial employees as well.

Taken together, terms and conditions are strongly affected by German IR institutions. Many home-country practices can only be transferred by those MNCs that can avoid these restrictions. Even they are somewhat constrained by labour-market pressures. The analysis of exempt pay and equity participation also indicates that there is some flexibility outside the institutional rigidities.

### *Communication*

The law assures the works council of an important role in employee communication. It not only stipulates that management must share information with employee representatives, but also gives them several means to communicate with the work-force. In this respect no differences between the German and the foreign-owned works council firms were observed. US Branch Bank, US Chemical, US Oil, US Pharmaceutical and UK Oil have been ahead of the other sample firms in regard to the introduction of direct communication techniques. For example, most of the German sample firms have started to conduct attitude surveys of their work-force only recently. US Oil and UK Oil already did employee surveys in 1969 and 1970 respectively. In contrast to the other MNCs, US Oil and UK Oil, as well as US Branch Bank, do not use a world-wide survey, but one developed locally. Another example of the pioneering role of foreign subsidiaries is that already in 1975 UK Oil introduced round-table discussions between

a limited number of employees from different hierarchical levels and departments, on the one side, and a senior manager, on the other. In 1994, US Chemical experimented with so-called 'listening sessions'. Unlike traditional questioning and answering sessions, senior managers just listen in the first part of the meeting to any issues raised by employees. Only in the second part do they give answers.

The US subsidiaries are also ahead in regard to the introduction of total quality management (TQM). US Branch Bank is the only sample bank with a TQM scheme. Whereas most of the German chemical firms are still in the process of implementing TQM elements, all US chemical firms have already introduced it. Usually this was part of a world-wide policy. Of the British subsidiaries only UK Oil has a TQM scheme.

Provided there is no strong opposition by the works council, which the researcher did not observe, companies operating in Germany are relatively free to introduce direct communication instruments. Compared to the German sample, the larger US subsidiaries, as well as UK Oil seem to have played an innovative role.

In conclusion, the hypothesis that the HRM of indigenous and foreign-owned firms differs is supported. Despite the restrictions imposed by German labour and IR institutions there is some scope for foreign transplants to implement innovative human resource practices. Some of the MNCs introduced modern human resource instruments, such as analytical job evaluation for exempt positions, attitude surveys and goal-based appraisal, years or even decades before these became popular in the indigenous sample firms. Some of these were directly imported from the parent company. As we have seen in the section on works council co-determination, such a transfer can fail if there is a clash of culture between human resource practices originating abroad and pressures exerted by German labour and IR institutions. An example of this is performance-related pay. Many of these innovations can be transferred as there is some flexibility outside the institutional rigidities and as German institutions can be used in an intelligent way.

Another ownership factor deserving attention is the difference between the UK and US MNCs. Among the British subsidiaries only UK Oil emerged as an HRM innovator. In the other three UK firms innovative practices are hardly used. It is worth noting the difference between the three smallest US banks and the other US subsidiaries. Although size is somewhat important, an explanatory factor seems to be their human resource strategies. In contrast to the other US firms, the three small US banks appear to follow a strategy of numerical flexibility and do not invest much in their work-force.

## **Conclusion**

This article has contrasted HRM and IR practices of US, UK and indigenous firms operating in Germany. From this analysis three groups of MNCs emerged.

The first group are those six US subsidiaries that either entirely or partly avoid the key German labour and IR institutions of multi-employer collective bargaining, co-determination and initial vocational training. Although some national constraints such as the labour law remain, this enables them to follow ethnocentric or geocentric HRM and IR policies. Some of the practices followed by these firms, such as a unitarist management style, an emphasis on numerical flexibility, a neglect of formal training and a high importance attached to performance-related pay are not encouraged by the German institutional environment. Hence there is a clash of culture between home- and host-country practices. Such a strategy of avoiding German labour and IR institutions is generally a feasible option only for small firms. This could explain why none of the UK

firms fall into this category. The example of US Chemical, as well as some of the other evidence presented, indicates that US MNCs try harder to avoid German institutions. Nevertheless, even these firms are constrained by the German system. Labour-market pressures, for example, prevent them from offering radically different working conditions and terms of employment.

The second group of MNCs, consisting of the three remaining US firms and UK Oil, show that even affiliates that comply with the German system can introduce world-wide human resource policies. These are often innovative compared to those of indigenous firms. A clash of culture can be avoided if the subsidiary can adapt the imported practices to the requirements of the German institutional environment. Also, foreign transplants can exploit 'trade-offs'. They can, for example, offer their employee representatives concessions in one area for not fully using rights in others. Most of the US MNCs in this category follow a non-union strategy in the US. The fact that they collaborate with trade unions and employee representatives in Germany is an indication of the strength of the German institutional context.

A third group of transplants is formed by three of the four UK firms. They hardly differ in their HRM and IR from indigenous firms. In these cases, the parent company does not seem to exert much influence on its subsidiaries' employment practices. This result is in line with previous research which suggested that British MNCs allow local autonomy and blend in more to the local style.

In summary, even in a highly regulated system there is some flexibility. In the German case, the degree of freedom for foreign transplants to import practices from their parent company is clearly linked to employment size, as there is more pressure on larger firms to comply with labour and IR institutions. Even taking the size factor into account, the US MNCs in the sample appear to be more centralized in their IR and HRM and use the room for manoeuvre more than the UK firms. Nevertheless, even for them, it is easier to transfer innovative human resource instruments than, for example, a union-avoidance ideology.

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