FOREIGN DIVESTMENT
AND
EMPLOYEE DISCLOSURE AND CONSULTATION
IN THE UK, 1978-1985.

by

Michael C. McDermott

Thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy.

School of Financial Studies, University of Glasgow,
August 1986.

This work is dedicated to my parents

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PART III

Acknowledgements

The author extends his thanks to the staff and research students of the School of Financial Studies at the University of Glasgow. Special mention is due to Dr. J.B. Holland, but in particular to Professor S.J. Gray, Head of Department and principal supervisor, for his comments and guidance.

I thank too the Economic and Social Research Council for its financial support.

I would also like to express my gratitude to Professor Slaven, Head of Department, and his staff in the Economic History Department at the University of Glasgow.

Collecting data was greatly facilitated by the numerous local librarians throughout the country who provided local newspaper cuttings. I am also most grateful to all those who agreed to participate in this study. For many, the memory of plant closure was an unpleasant one, and I am therefore particulary grateful to those who gave so willingly of their time.

I have always been given encouragement and support from both my parents. Their generosity and interest is cherished. I am particularly grateful to my mother for her invaluable advice and comments on the content and style of every draft.

Finally, I thank my wife Ann for her secreterial assistance and encouragement, but especially for the best incentive of all for finishing this project, Elizabeth Anne, our first child.

ABSTRACT

This thesis has two main objectives, namely, - to contribute to the theory of foreign divestment through a detailed analysis of the causes of UK plant closures by foreign-owned MNCs, - and to evaluate UK legislation on employee disclosure/consultation, with particular reference to its effect on foreign MNCs.

The Financial Times has recorded since 1978 the closure of 96 manufacturing operations majority-owned by foreign MNCs. This thesis analyses 13 of them which involved compulsory redundancy of 500 or more employees in four industrial case studies. A total of 11 MNCs from 5 countries are examined, and the impact of home country culture is assessed.

Of the three theoretical explanatory models of foreign divestment, condition-based theory emerges as far more appropriate than the motivation-based, and precipitating-circumstance based theories.

The plant closures by foreign MNCs were due to certain unfavourable changes in the business environment, though these were not always sufficient to explain some closures. Deteriorating conditions created strong motives to divest, and new Chief Executives were often appointed. The arrival of a new man should be seen, not as a cause of, but, as a signal to divestment.

The Department of Employment is content that workers receive the statutory minimum notification of redundancy, or pay in lieu of notice. Thus, not surprisingly, British employees' representatives were not consulted "at the earliest opportunity", but were informed some months after the decision had been made by the parent company at corporate headquarters.

Regardless of market conditions and the parent company's financial situation, Union Officials will always castigate

companies which close plants. It matters little whether they receive three months or three years notice, and whether or not their representatives meet the Chief Executive Officer of the parent company.

Proponents of greater information disclosure believe that employees would use the knowledge to save jobs, but in two closures, the fully-informed workforces voted against proposals in the knowledge that rejection endangered their plants.

The behaviour of the Dutch, French, German and Canadian MNCs conformed with cultural profiles. Home country culture appears to have had influence on the three European MNCs and on the Canadian firm, but the behaviour of the seven US MNCs is so disparate that national culture appears to have had little impact.

The British TUC has accused one foreign-owned firm of breaching the OECD's Guidelines for Multinational Enterprises during the divestment process. This case is analysed and reinforces the view that the key section on Employment and Industrial Relations is of little value. This crucial chapter of the Guidelines has no impact on corporate behaviour and is ineffective because it does not in any way supplement national law.

While the EEC's "Vredeling Proposals" would raise the minimum legal requirements, many firms already exceed the UK legal minimum in some respects, eg. period of notice of closure.

All of the plant closures examined in this thesis were part of a broader corporate restructuring strategy. Britain has not lost its attraction for foreign investors, though divestment will continue. Delays in restructuring may ultimately prove counter-productive. As the rate of technological change accelerates, the western world must come to grips with its fundamental economic and social problem, ie. a surplus of labour. Protracted debate and discussion on further legislation on employee disclosure and consultation has tended to divert attention from more pressing matters.

TABLES

PART I

CHAPTER 1

INTRODUCTION

1.1.: The Problems being Investigated

This thesis has a dual focus. Its first objective is to contribute to the theory of foreign divestment by identifying the causes of major plant closures by foreign MNCs operating in the UK. The second major objective is to evaluate the effectiveness of UK employee legislation on the foreign divestment process. Part IV of the 1975 Employment Protection Act states that employers proposing to dismiss as redundant 100 or more employees at one establishment are obliged to give the Department of Employment at least 90 days notice. Consultation with trades union representatives of employees facing this predicament should "begin at the earliest possible opportunity" [1975 Employment Protection Act, Part IV, Section 99].

Employees of foreign subsidiaries may feel they have less job security than employees of native companies since investment and divestment decisions are made abroad by executives who are beyond the reach of the employees' representatives and the scope of their country's legislation.

Between 1979 and 1986, unemployment in Britain has more than doubled, reaching an all-time high of 3.3m in the winter of 1986. Closure of foreign-owned plants contributed to this state of affairs. Since 1978, the Financial Times has reported the closure of 96 manufacturing facilities majority-owned by non-UK MNCs. Some of these plants had been the lifeblood of many local communities.

The town of Clydebank, acknowledged its dependence on The Singer Company by incorporating the sewing machine in its coat of arms. At its peak the US MNC's factory had a labour force of over 16,000, but at the time of closure in 1980, that number had fallen to 3,000. The Scottish town has since then redesigned its coat of arms, omitting the Singer symbol.

The true economic cost to Britain when MNCs divest is concealed by the gradual process of run-down, as in the Singer case. But this thesis does not aim to evaluate the economic and social consequences of foreign divestment, though they merit close study. The thesis seeks to contribute to the theory of foreign divestment, and identify signals of the likelihood of plant closure, in a way which may prove advantagous to those wishing to mitigate the adverse effects of closure and unemployment.

Recent research on foreign divestment suggests the relevance of an "eclectic" theory based on condition-based, motivation-based, and precipitating-circumstance based theories. Thirteen closures involving 500 or more compulsory redundancies are here examined in case studies of four different industries. The causes of divestment are identified in each case; this allows us to evaluate the existing theory of foreign divestment.

The thesis also seeks to assess how well divesting foreign MNCs adhere to British legislation. According to the managerial literature the divestment decision is the prerogative of the parent company's Chief Executive Officer. The latter is not legally bound to relay immediately his decision down the corporate hierarchy to the British workforce. Workers' interests are thus dependent to some extent on voluntary disclosure by foreign-based management.

Once a divestment decision has been reached, the CEO has various options to choose from. He can keep his decision secret and let foreign subsidiary management believe no such decision has been taken; or, he can reveal the news to whatever levels in the corporate hierarchy he considers expedient, with the specific instruction that it remains confidential information. Then again, he may inform subsidiary management and empower them to break the news to employees whenever appropriate. Or, he may directly inform those affected by his decision.

This example presumes centralised decision-making, but some firms have a decentralised decision-making structure which permits subsidiary management to allocate resources or withhold them. Trade union representatives may find it impossible to verify whether closure decisions have been made at parent company level or by subsidiary management. This uncertainty breeds suspicion.

The thesis evaluates the impact of home country culture on corporate behaviour in disclosing information to employees, and consulting with their representatives. Each case study examines the source of the divestment decision, and the period involved in imparting this information to subsidiary/plant management and, or, the workforce.

It should be apparent from this brief introduction that employee disclosure and consultation is deeply complex in the foreign-owned plant closure situation. Trade Union officials may be suspicious of corporate information received from sources other than the CEO of the parent company.

1.2.: Importance and Contribution of the Study

Multinational companies (MNCs) first emerged in the second half of the nineteenth century, and by the outbreak of World War Two many American firms had established manufacturing plants in Europe, and British MNCs had strong contacts with Commonwealth countries. But, it was not until the early 1960s that academics devoted considerable attention to developing a theory of Foreign Direct Investment (FDI).

Since the mid-1970s, many MNCs have restructured to meet changing conditions, and a growing number of foreign subsidiaries have been divested. During the past decade, some of the early foreign investors have ceased or reduced manufacturing within the UK. A perusal of the business press confirms that other industrial nations are having to contend with foreign divestment. Indeed, most of the firms examined in the four case studies have closed factories throughout the world.

As academics realised the growing importance of foreign divestment, a small number, mainly at American universities, undertook elaborate descriptive studies. The past couple of years has seen the first attempt by Boddewyn [1983] to construct foreign divestment theory. This thesis evaluates this prototype theory, and seeks to highlight its strengths and weaknesses.

The key feature of this study is its contribution to a debate that has raged in all the Triad countries (ie. Europe, Japan, and the US). The cause of this trans-national verbal battle, and heated exchanges between Europe's labour movement and the world's corporate giants, has been the EEC's Draft Directive on Employee Disclosure and Consultation, which was prepared by the Dutch EEC Commissioner, Henk Vredeling.

Since the "Vredeling Proposals" introduction in 1980, the European Trade Union Confederation has spearheaded labour's campaign to have the controversial proposals pass through the EEC's labyrinth of legal channels and become legislation. The "Vredeling Proposal" were doomed to a lengthy passage by the EEC's cumbersome decision-making process, and perhaps this was not fully appreciated by American and Japanese business interests. The original proposals had no sooner been submitted when employers organisations from both countries lent their full support to the opposing group led by Europe's employer organisations. The most expensive lobbying campaign ever witnessed by the EEC was launched in a frantic bid to bury the Draft Directive. Large individual MNCs played a prominent role in the campaign backed by US and Japanese employers who threatened to curtail investment in the EEC, and indeed divest, if the Proposals were enacted.

Despite this intimidation, the European Parliament has approved the diluted 1983 version, but in order for it to become legislation <u>all</u> EEC member governments must agree to accept the "Vredeling Proposals". Prior to Spain and Portugal joining the Community in January 1, 1986, the majority of EEC governments supported the Draft Directive. "Vredeling's" major opponent was, and remains, Britain's Conservative Government.

The UK Government argues that "Vredeling" is inappropriate to British industrial relations precisely because it proposes legislation, rather than a voluntarist approach. The Government has indeed argued that "Vredeling" is unnecessary precisely because MNCs already adhere to Guidelines issued by the International Labour Office (ILO), and the Organisation for Economic Co-operation and Development (OECD). As former Employment Minister, Mr. Tom King said:

> **"The Government believes that if these proposals were to become law they would discourage investment in the Community. There are, in any case, already OECD and ILO (ie. International Labour Office) voluntary guidelines on informing and consulting employees and the Commission has produced no evidence that these are not working satisfactorily"** [Mr. King, Press Notice Issued Jointly by the Department of Employment and the Department of Trade and Industry, November 9, 1983].

This thesis concentrates on the Employment and Industrial Relations chapter, the key section, of the OECD Guidelines. In the past the ETUC has presented a number of carefully selected plant closures to highlight the alleged inadequacy of national legislation and of the Guidelines. All of these celebrated cases occurred in Continental Europe, but this study focusses on large plant closures in the UK. It is hoped that the results of this study may prove valuable to those embroiled in the current debate on the efficacy of the Guidelines and the need for and desirability of "Vredeling".

1.3.: Outline of the Study

This thesis is a three Part Study. Part 1, Chapters 2-4, concentrates on foreign divestment. These chapters illustrate the growth of this phenomenon, and examine its causes, and highlights the strategy and employee discloure policies of divesting firms. Part 2, Chapters 5-7, focuses on national cultural values, and the legal and voluntary measures which MNCs should adhere to when issuing redundancies. Parts 1 and 2 provide the groundwork for Part 3 which comprises a Chapter on research methodology, four industrial case studies, and the overall conclusions.

Part 3 reviews foreign divestment in the UK and relates findings to those presented in Part 1, and at the same details the conduct of foreign divestors in the UK and allows an assessment of whether home country culture appears influential on corporate behaviour. It also provides for an assessment of current UK legislation and the OECD's voluntary code of conduct. With this insight of the divestment process, one can identify whether the controversial "Vredeling Proposals" are either desirable, necessary, or both. A more detailed outline of each individual chapter follows.

Chapter 2 reviews the descriptive literature on foreign divestment. These studies have been undertaken mainly by US-based academics who, not surprisingly, have concentrated on foreign divestment by US MNCs. However, Sachdev [1976] has done a major study on UK foreign divestment while several studies have reviewed foreign divestment within the entire EEC or part of it, and all of these point to a significant increase in foreign divestment during the late 1970s. One of the most detailed studies was by Hood and Young [1982].

Since the 1960s the theory of foreign direct investment has been subject to major development and refinement; but it is really only in the past decade that foreign divestment has attracted academic analysis. The early studies were descriptive, but the more recent literature, reviewed in Chapter 3 has sought to foster interest in constructing a theory of foreign divestment.

Chapter 4 examines a topic already mentioned in this thesis: employee disclosure and consultation. The chapter details when and how the various layers of management become involved in the divestment process, and the factors which determine the speed of its implementation. A summary of notorious cases indicates that, on occasions, employees receive the bare minimum of notice, and in a time of recession, how they can react angrily to the threat of job losses. These examples illustrate that the divestment process can prove a costly corporate nightmare.

The Chapter also highlights the determination of potential host countries to attract inward investment: - some EEC countries apparently even offer illegal financial inducements. It is only to be expected, therefore, that host country governments will fiercely resent the closure of plants, especially those which have enjoyed substantial government aid. Foreign divestors violating host country laws have met with fines, but, to the best of the author's knowledge, no industrialised country has imposed an import ban on the products of a divesting company. Foreign divestors have an obvious interest in avoiding a ban on imports, the ultimate sanction, and must seek to implement closures without treading too heavily on the toes of the host government which might in turn carry out economic reprisal.

Chapter 5 presents profiles of the national culture of MNCs from five home countries - Canada, France, the Netherlands, the US, and West Germany. Studies of cultural relativism indicate that certain characteristics encourage frankness, while others have the opposite effect and promote secrecy. Consequently, one would anticipate that Dutch MNCs followed by Canadian would furnish employees with most information while those from France and Germany would be prone to secretiveness, and US MNCs would be somewhere in the middle.

National culture is supposedly reflected in all aspects of the social framework including the legal system. Employment protection legislation is reviewed in order to assess how it conforms with the value system explicit in the profile of national culture. The behaviour of foreign firms divesting in the UK would be expected to reflect home country standards, and these may vary from absolutely no legal obligations to rigorous requirements of notice and compensation.

In order to overcome the inadequacies of national legislation and ensure uniform behavior internationally, firms normally adhere to the Guidelines for Multinational Enterprises which were introduced in 1976 by the OECD. This claim is made by supporters of the OECD initiative who oppose the EEC's "Vredeling Proposals" which, if enacted, would harmonise and extend employee disclosure and consultation throughout the EEC.

Chapter 6 traces the origins of the Guidelines and examines why the OECD chose to introduce them when it did. It outlines the administration of the Guidelines with reference to celebrated cases. Their value to Trades Unionists are then assessed.

Chapter 7 deals with the EEC's controversial draft Directive on Employee Information and Consultation, otherwise known as the "Vredeling Propsals". The draft Directive's journey through EEC legislative channels is explored, together with the main arguments of its supporters and its critics. The UK's Conservative Government has been identified as the major stumbling block to its enactment as Community legislation. The Government argues that the Directive is unnecessary as MNCs already voluntarily adhere to the OECD Guidelines which differ from "Vredeling" only in terms of legal status.

Chapter 8 outlines the methodology of the thesis, the data collection strategy, and reveals which companies and Trades Union organisations agreed to participate, as well as those which refused. It provides too, aggregate data on foreign plant closures in the UK since 1978.

Four industries are studied in Chapters 9-12: Man-made Fibres; Domestic Appliance and Consumer Electronics; Tyre and Rubber Industry, and the Farm and Construction Equipment Industry. Each case study seeks firstly, to analyse the causes of closure in order to contribute to foreign divestment theory, and secondly, to gauge the employee disclosure and consultation practice of these firms against current UK legislation, and in the process assess the impact of home country national culture on corporate behaviour during the divestment process.

The thirteenth, and final chapter, summarises the findings, offers recommendations to interested parties, and suggests areas worthy of future research.

CHAPTER 2

THE MAGNITUDE AND NATURE OF FOREIGN DIVESTMENT

A: INTRODUCTION

It is abundantly clear that foreign divestment by MNCs has grown dramatically over the past two decades, and that the increase was most marked in the 1970s. Empirical documentation of these divestitures, however, is confined to a very small number of sources (eg., Boddewyn and Torneden, 1973; the Business International study, 1976; Chopra, et al., 1978; Curhan, et al, 1977; Sachdev, 1976; Wilson, 1980).

Although data on US and UK foreign divestment is lacking altogether for recent years (ie. mid-1970's-present), a casual perusal of the business press suggests that the 1970's trend shows little sign of abating. Difficulties experienced by the above researchers may have discouraged others from attempting to gain access to data on divestiture.

A number of researchers (eg. Torneden, 1975; Sachdev, 1976) have warned that gathering information on divestitures is, at best, extremely difficult due to the secrecy and stigma enshrouding divestment decisions. Although executives' attitudes are changing concerning the role of divestitures in a firm's overall strategy, many executives continue to regard divestment as an admission of failure; even those who use it as a means of restructuring the enterprise are often reluctant to provide details due to the strategic content of their decision. Despite these problems, a few major studies have been undertaken.

The earliest literature on foreign divestment was mainly prescriptive in nature and highlighted the role of divestment in fostering or impeding the development of host nation economies, especially those of Latin America [Behrman, 1972].

In recent years, academic interest in this subject area has been stimulated by divestment's apparent increasing importance in corporate strategy, and by the aforementioned works which proposed several hypotheses worthy of further testing.

This chapter, by comparing several descriptive studies, presents the major findings of the literature on the magnitude and nature of foreign divestment from both the home and host country perspective.

Firstly, it examines US foreign divestment, then reviews Sachdev's [1976] thesis on foreign divestment by British MNCs. Having covered foreign divestment from a home country perspective, we will then examine it from a host country perspective. Hood and Young [1982] have examined the rationalisation programmes and investment strategies of foreign-owned firms in Scotland. The Scottish researchers focused on plant closures, but, not on employee disclosure and consultation, which is the main thrust of this thesis.

Undoubtedly, academics have concentrated mainly on US foreign divestments, reflecting the fact that America is the world's largest exporter of direct capital, and therefore likely to account for most foreign divestments. We begin by reviewing previous research on divestment activity by US MNCs.

B: US FOREIGN DIVESTMENT

2.1.: Its Magnitude

At the outset it is worthwhile repeating the warning issued by Chopra, et al. [1978]:

> **"the number of foreign divestments cannot be determined with a high degree of precision"** [Chopra, et al., 1978, p.14].

Obtaining accurate figures is extremely difficult. Firstly, the Securities and Exchange Commisssion (SEC) allows firms to withhold the names of certain subsidiaries if - "treated in the aggregate as a single unit - they would not constitute a significant subsidiary" [Chopra, et al., 1978]. Secondly, many divestments are not reported, and finally, identifying divested sub-units of subsidiaries, such as plants, proves particularly problematic. It can be safely concluded, therefore, that the results presented below understate the magnitude of US foreign divestment. Nonethless, a sizeable number of cases have been identified.

Curhan, et al. [1977], (ie. the Harvard MNE study), traced the development of the 187 largest based US multinationals from 1951 to 1975. These were selected on the basis of their inclusion in the Fortune lists of the 500 largest US industrial firms in 1963 and 1964, controlling manufacturing subsidiaries in six or more foreign countries (in 1965 or before).

The Harvard study includes some 13,795 foreign subsidiaries and from this sample it is possible to examine the growth and the pattern of exits or divestments by US MNCs (see Table 2.1. below). Between 1951 and 1975, 3,152 subsidiaries were divested, with 1,359 (or 43%) divestitures occurring between 1971 and 1975. While the Harvard Study indicates a total of 2,404 divestitures by US MNCs occurring between 1967-1975, Chopra, et al. [1978] report a considerably lower figure of 1,519 for the same period. According to the latter research team, more than 50% of these divestments were implemented between 1973 and 1975, whereas this same period accounted for only 35% of divestitures identified by the Harvard team.

Table 2.1.: The Growth and Patterns of US Foreign Divestment

Year	Method of Exit				Total
	Sold	Liquidated	Expropriated	Unknown	
1951-55	40	52	1	23	116
1956-60	47	80	54	26	207
1961-65	82	157	24	53	316
1966	41	60	0	8	109
1967	167	151	3	8	329
1968	110	117	2	3	232
1969	125	78	3	1	207
1970	171	103	2	1	277
1971	146	124	3	1	274
1972	148	89	8	3	248
1973	147	124	9	0	280
1974	158	112	18	2	290
1975	133	92	42	0	267
1951-75	1,515	1,339	169	129	3,152

Source: Wilson, 1980, p.6.

Table 2.2.: Overview of US Foreign Divestment Activities

Year	Curhan,et al. 1955-1975		Curhan,et al. 1967-1975		Chopra,et al. 1967-1975	
	No.	%	No.	%	No.	%
1951-1955	116	4	--	--	--	--
1956-1960	207	7	--	--	--	--
1961-1965	316	10	--	--	--	--
1966	109	3	--	--	--	--
1967	329	10	329	14	50	3.3
1968	232	7	232	10	66	4.3
1969	207	7	207	9	79	5.2
1970	277	9	277	11	135	8.9
1971	274	9	274	11	185	12.2
1972	248	8	248	10	181	12.0
1973	280	9	280	12	242	15.9
1974	290	9	290	12	246	16.2
1975	267	8	267	11	335	23.0
Total	3,152	100	2,404	100	1,519	100.0

Source: Table compiled from Wilson, 1980, p.6; Chopra, et al. 1978, p.16.

Differences in the nature of the sample firms and the definition of divestment in each study may be contributing to the disparity of results. A comparison of the number of foreign divestments detected by the two major surveys is presented in Table 2.2. above.

Boddewyn and Torneden [1973] selected the Fortune 500 companies as their data base, and their study on foreign divestment by US MNCs 1967 to 1971 encompasses 465 (or 93%) of the Fortune 500. Their definition of foreign divestment is broad and refers to:

> **"a reduction of ownership percentage in an active direct foreign investment on either a voluntary or involuntary basis"** [Boddewyn and Torneden, 1973, p.26].

This definition aims to cover operations which employ foreign citizens for the production of goods and services and to exclude foreign corporations that have no visible business interests in the host country.

Chopra, et al. [1978], updating the Boddewyn and Torneden [1973] study, examined the period 1972-1975. Once again the Fortune 500 was the sample and their findings apply to 455 (or 91%) of that 500.

There were at least 1,519 divestments of foreign operations 1967-1975 and on an annual basis the number of cases increased seven times from over 50 in 1967 to a minumum of 335 in 1975 (see Table 2.2.).

Another way of assessing the extent of foreign divestment is by comparing the number of new foreign subsidiaries with the number of foreign divestments for various periods These ratios, calculated on the basis of the results of both major studies, are presented in Table 2.3. Although the two sets of ratios are out of step for the years 1967-69, both show a similar trend and are almost identical for the years 1972-75. The drop in these ratios during the 1970's reflects both the impact of a fall in the number of new foreign investments and an increase in divestment activity. The United Nations Commission on Transnational

Corporations revealed that in the period 1967-75, while the 180 largest US based multinationals added some 4,700 affiliates to their networks (more than double the number in existence at the end of 1966), a total of over 2,400 were divested.

According to Torneden [1975], approximately 78% of the 1967-1975 decline in net new establishments was accounted for by a deceleration in investment flow, and only 22% was attributable to divestments. Wilson [1980] observed that whilst the rate of increase in new subsidiaries had slowed, this was not accompanied by a commensurate decrease in foreign divestment. This suggests that disincentive to <u>investment</u> is not necessarily incentive to <u>divestment</u>.

Table 2.3.: US Foreign Divestments 1967-1975: Ratio of Entries to Divestments and Net Flows

	Entries	Exits	Net Flow	Ratio Entries/ Exits
<u>Curhan, et al. [1977]</u>				
1967	912	329	583	2.8
1968	1,006	232	774	4.4
1969	945	207	738	4.6
1970	853	277	576	3.1
1971	905	274	631	3.3
1972	646	248	398	2.6
1973	693	280	413	2.5
1974	619	290	329	2.1
1975	376	267	109	1.4
1967-75	6,955	2,404	4,551	2.9
<u>Chopra, et al. [1978]</u>				
1967	912	50	862	18.2
1968	1,006	66	940	15.2
1969	945	79	866	12.0
1970	853	135	718	6.3
1971	905	185	720	4.9
1972	646	181	465	3.6
1973	693	242	451	2.9
1974	619	246	373	2.5
1975	376	335	41	1.1
1967-75	6,955	1,519	5,436	4.6

Source: Spanhel and Johnson [1982]

It has been seen that a dramatic increase has taken place in the incidence of foreign divestment by US MNCs since the early 1950s. Between 1967-75 the annual rate of US foreign divestment has grown by over 600%. In addition to charting the growth of US foreign divestment, the major works have examined various features of US divestment such as:- geographic distribution, and method of exit. They have examined the characteristics of divested subsidiaries and of divesting parent companies. Their findings are reviewed in subsequent sections. We begin by considering the geographic distribution of US foreign divestment.

2.2.: Geographic Distribution of US Foreign Divestment

Europe has consistently accounted for the bulk of US foreign divestment since the early 1950s (see Curhan, et al., 1977; and Chopra, et al., 1978). Table 2.4. presents the findings of the Harvard study, and it shows that on a period to period basis, European divestments have ranged from 31% to 43% of total divestitures, with an overall rate of 42% for the years 1951-1975. Chopra, et al. [1978], focusing on the years 1967-1975, found European divestments ranged from 39% to 62% of the annual totals, and had an overall rate of 58% for that period (see Table 2.5.).

Divestments in Latin America peaked at 46% of all US foreign divestitures during the period 1956-60, and have since declined to 25% for the years 1971-75. They accounted for just over a quarter of total US foreign divestments between 1951-75.

Table 2.4.: US Foreign Divestment 1951-1975: Geographical Summary

Region/ Country	1951-55		1956-60		1961-65		1966-70		1971-75		1951-75	
	No.	(%)	No.	(%)	No.	(%)	No.	(%)	No.	(%)	No.	(%)
Canada	26	(22)	28	(13)	55	(17)	146	(13)	175	(13)	430	(14)
Latin America	24	(21)	96	(46)	85	(27)	313	(27)	334	(25)	852	(27)
Europe	46	(40)	64	(31)	121	(39)	524	(46)	583	(43)	1,338	(42)
N.Africa & M.East	5	(4)	4	(2)	9	(3)	24	(2)	45	(3)	88	(3)
E. & W. Africa	2	(2)	1	(1)	4	(1)	10	(1)	28	(2)	45	(2)
S. Asia	2	(2)	0	(0)	4	(1)	16	(1)	12	(1)	34	(1)
E. Asia	4	(3)	4	(2)	13	(4)	48	(4)	71	(5)	140	(4)
S. Dominions	7	(6)	10	(5)	25	(8)	72	(6)	111	(8)	225	(7)
Total	116	(100)	207	(100)	316	(100)	1154	(100)	1,359	(100)	3,152	(100)

Source: Curhan et al.[1977].

Table 2.5.: US Foreign Divestments By Area

Area	1967		1968		1969		1970		1971		1972		1973		1974		1975		Total	
	No.	(%)	No.	(%)	No.	(%)	No.	(%)	No.	(%)	No.	(%)	No.	(%)	No.	(%)	No.	(%)	No.	(%)
Europe	31	(62)	27	(41)	37	(47)	54	(40)	72	(39)	73	(40)	105	(43)	107	(43)	196	(58)	702	(46)
Canada	4	(8)	9	(14)	12	(15)	23	(17)	17	(9)	30	(17)	26	(11)	31	(13)	30	(9)	182	(12)
Mexico	3	(6)	2	(3)	4	(5)	12	(9)	18	(10)	12	(7)	18	(8)	11	(5)	20	(6)	100	(7)
Central America	3	(6)	3	(5)	6	(8)	8	(6)	17	(9)	13	(7)	12	(5)	15	(6)	13	(4)	90	(6)
South America	3	(6)	15	(22)	7	(9)	11	(8)	45	(24)	25	(14)	32	(13)	35	(14)	24	(7)	197	(13)
Other	6	(12)	10	(15)	13	(16)	27	(20)	16	(9)	28	(15)	49	(20)	47	(19)	52	(16)	248	(16)
Total	50	(100)	66	(100)	79	(100)	135	(100)	185	(100)	181	(100)	242	(100)	246	(100)	335	(100)	1,519	(100)

Source: Chopra, et al. [1978].

Apart from Europe and Latin America, Canada is the only other country/region with a relatively high incidence of US foreign divestment. It accounted for 14% of the total for the years 1951-1975.

Table 2.6.: US Foreign Divestment 1951-1975: Ratio of New Entries to Divestments: Geographical Summary.

Country/ Region	51-55	56-60	61-65	66-70	71-75	Total 51-75
Canada	6.8	8.8	6.3	3.6	1.6	3.6
Latin America	12.2	6.0	8.1	2.6	1.9	3.5
Europe	6.3	12.2	12.1	3.9	2.5	4.5
N. Africa & M. East	7.4	10.7	6.7	3.3	2.1	3.6
E. & W. Africa	16.5	25.0	19.2	13.1	3.6	8.1
S. Asia	5.0	35.0	12.5	2.3	1.7	4.5
E. Asia	14.2	23.5	18.4	7.4	5.2	8.0
S. Dominions	13.7	16.0	11.6	5.4	2.3	5.3

Source: Spanhel and Johnson, [1982]

Table 2.6. presents the ratio of new entries to divestment by geographic regions. It indicates that the effect of a decline in the flow of new investments combined with an increase in the rate of divestment is not a phenomenon confined to certain geographic areas of the world. After 1965, virtually all regions showed a decline in the ratio, though the effect was particularly prominent in Canada, Latin America, and South Asia.

Although Europe was the scene of the majority of US foreign divestments, it was fortunate in that for every subsidiary divested, another four were established. Europe was still very much an attractive location for many US MNCs.

2.3.: Method of Exit

2.3.1.: Involuntary Divestments

Involuntary divestments are likely to attract a glare of publicity, but host-government takeovers represent a very small proportion of total divestitures. According to the Harvard study, they accounted for just 3.7% of total divestitures for the years

1967-75, with a significant relative and absolute increase occurring in the latter years of this period; they accounted for 7% of total divestments compared with only 1% in the earlier period, 1967-71 [Curhan, et al., 1977]. Chopra, et al. [1978], on the other hand, found that the proportion of involuntary divestments remained pretty constant throughout the period 1967-1975 (see Table 2.7.).

A number of factors have been identified as affecting involuntary divestments. These include:- social unrest and general disruption of business activities, breakdown of law and order, local business groups with considerable political clout exercising their power when they are threatened economically by foreign firms, civil war, and armed confict.

Table 2.7.: Forms of Disposal

Forms	1967-71	1972-75	1967-71	1972-75
	Chopra, et al.		Curhan, et al.	
Sale	63%	66%	58%	54%
Liquidation	33%	29%	41%	39%
Nationalisation or Expropriation	4%	5%	1%	7%

Source: Chopra, et al., 1978, p.17; Wilson, 1980, p.6.

2.3.2.: Voluntary Sales

As Table 2.7. shows, sales of foreign subsidiaries as going concerns have been the most common form of divestment. This method of exit has accounted for almost half (ie 48%) of all US foreign divestments during the period 1951-75. Prior to 1966, voluntary liquidations occurred most frequently, but after 1967 the number of voluntary sales far exceeded that of liquidations. According to Chopra, et al., during the post-1967 period, for every liquidation, there were two sales.

Boddewyn and Torneden [1973] reported that voluntary sales accounted for 63% of US divestments between 1967-71, and voluntary liquidations accounted for 33%. Curhan, et al [1977] examined the same period and their results suggest that voluntary sales accounted for almost 60% (ie 58%) of total divestments, while voluntary liquidations accounted for 41%.

In its examination of the later period, 1972-1975, the Harvard study found that the relative frequency of both voluntary sales and liquidations had declined, and that the relative frequency of involuntary divestments had increased seven times. Chopra, et al. [1978] also analysed US divestments during the period 1972-75. Their results differed slightly from those of the Harvard study. They found that whereas voluntary sales had become more popular, accounting for 66% compared to 63% for the period 1967-71, voluntary liquidations had become relatively less common, and were down from 33% to 29%.

2.3.3. :Voluntary Liquidations

These merit special reference given that this thesis shall concentrate on plant closures, or in other words, the voluntary liquidation of the sub-unit of a subsidiary.

Unlike divestment by sale, liquidation results in the dissolution of the subsidiary as a legal unit. Often, however, MNCs rationalise their subsidiaries, and choose to amputate the subunit(s) considered surplus to requirements. In this thesis, it will be seen that while a number of foreign-based MNCs have retained their UK subsidiary, they have liquidated certain manufacturing facilities.

Liquidations prove costly to all parties involved. They are expensive to implement and the divesting firm may thereby incur heavy losses. The government of the host nation loses revenue and may have to increase expenditure on social welfare benefits. Employees made redundant, may remain unemployed. Rising unemployment reduces the potential membership and bargaining power of Trades Unions in the host nation.

It is therefore hardly surprising, that liquidations have aroused serious conflict between the management of the divesting MNC and the government, employees, unions, and public of the host nation, not to mention the media which is likely to lambast the divesting firm, if not all MNCs.

Consequently, MNCs wishing to liquidate all or part of a subsidiary, will take steps to soften the blow of liquidation, or closure, and thereby effect divestment with minimum damage to corporate image. According to one study, some MNCs seek to minimise the potential shock of liquidation to the host nation by gradually pruning their investments over a number of years [BIC study, 1976]. This notion implies that the decison to divest precedes its implementation by several years. It is certainly true that liquidation frequently follows a period of decline, but one should not assume that run-down is a direct consequence of the divestment decision. It may be that run-down is a last ditch attempt to turnaround an unprofitable operation, and that it is only when this fails that the divestment decision is formulated. This issue will be examined in detail in each of the case studies reported in this thesis.

2.3.4.: Summary

In short, all of the major research studies to date have found that voluntary sales and liquidations were far more common than nationalizations and expropriations. All of them found that voluntary divestments accounted for over 90% of total divestitures in the period 1967-1975, and liquidations accounted for at least one third of these. Therefore, it would seem fair comment to suggest that a large proportion of US foreign divestment has led to job losses throughout the world. In the section below, we examine the characteristics of foreign subsidiaries divested by US MNCs.

2.4.: Characteristics of Foreign Subsidiaries Divested by US MNCs.

2.4.1.: Principal Activities

Manufacturing subsidiaries have accounted for the vast majority of US foreign divestment. According to the Harvard data, manufacturing subsidiaries represented just under 50% of all foreign divestments between 1951 and 1975. During the same period, divestments of sales organizations and extractive subsidiaries comprised 23% and 5% respectively of all divestments.

Table 2.8.: Operations Divested, 1972-75, Categorized by Parent Company SIC.

Parent SIC Category	Industry	Parent Company's Divestments	% of Total
28	Chemicals & allied products	239	23.8%
29	Petroleum refining	123	12.2%
35	Machinery, except electrical	94	9.3%
20	Food & kindred products	82	8.1%
37	Transportation equipment	67	6.7%
	Others	399	39.9%
	Total	1,004	100.0%

Source: Chopra, et al., 1978, p.17.

Chopra, et al. [1978] classified each divestment according to the Standard Industrial Classification (SIC) of the parent, on the assumption that the divested operation was generally in the same category as that of the parent company. Five SIC categories ccounted for almost 60% of the divesting parent companies (see able 2.8.). Divestment occurred most frequently (23.8%) in the hemicals and allied products sector followed by petroleum efining (12.2%), machinery (except electrical) (9.3%), and then 'ood products (8.1%).

lowever, the value of the above table is questionable. It has een suggested that the wave of divestments in the first half of he 1970s was the result of rash and unsuccessful acquisitions lade in the 1960's, when many MNCs sought to diversify. Diversification often involved entering new areas quite unrelated o the parent company's central line of business. The assumption hat subsidiaries usually have the same SIC code as the parent companies therefore appears unwarranted.

.4.2.: Ownership Characteristics

Most divested subsidiaries were wholly-owned by the US parent. This is consistent with the pattern of foreign direct investment by US MNCs. According to the Harvard data base, 60% of all divestments for the years 1971-1975 were of wholly-owned operations; majority-, joint-, and minority-owned subsidiaries combined, accounted for only 30%; ownership characteristics of the remaining 10% could not be obtained. Other researchers have produced similar findings.

Boddewyn and Torneden [1973] found that 59% of all divestments for the period 1967-1971 involved wholly-owned operations, while 39% of the total number of divestitures involved the total elimination of the parent companies' equity interest.

Chopra, et al [1978] reported that for the period 1972-1975, 65% of the total number of divestitures were complete divestments of wholly-owned operations, and another 5% represented partial disposition. Almost 90% of all divestments saw the complete elimination of whatever equity the parent company owned.

2.4.3.: Size of Divested Operations

Boddewyn and Torneden [1973] and Chopra, et al. [1978] asked executives of their subject firms to estimate the sales volume of their divested operations. They found that most foreign divestments (69%) were of firms with sales up to $10m between 1967 and 1975 (see Table 2.9.). Relatively large firms (ie. sales of over $50m) accounted for only 3% of divested operations in their sample.

Table 2.9.: Divestments Categorized by Sales Volume ($m)

Approximate Sales Volume	Operations Divested (number)	Average Total Sales Volume
	1967-71	
0-10	330	$ 1,650
10-50	25	1,050
50-100	5	375
100+	6	600+
No reply	48	n.a.
Total	424	$ 3,675+
	1972-75	
0-10	654	$ 3,270
10-50	77	2,310
50-100	10	750
100+	26	2.600
No reply	237	n.a.
Total	1,004	$ 8,930+
Overall Total	1,428	$12,605+

Source: compiled from Boddewyn and Torneden, 1973, p.27; Chopra, et al., 1978, p.17.

The findings presented in Table 2.9 are imprecise, but they still provide an order-of-magnitude estimate of the aggregate size of divested operations. Companies were often reluctant to divulge the relevant information, and a subsidiary's sales and profits at time of exit may not be an adequate gauge of its overall value and overall performance. Divesting MNCs may, as was seen earlier, selectively run down their investments over a number of years before final sale or liquidation.

2.4.4.: Summary

The assumption that subsidiaries usually have the same SIC code as their parents, probably produces misleading results. Evidence for this is seen in the diversification policies of US MNCs such as ITT during the Presidency of Mr. Harold Geneen. Before retiring in 1979, he created a massive conglomerate with interests in totally diverse fields from insurance to electronics.

What is quite clear though is that most US foreign divestments have been of wholly-owned operations, and in virtually all cases, the firm has totally eliminated whatever equity it owned. Assessing the true value of the investment of divested subsidiaries is problematic because in many case divestment is preceded by a gradual run-down of operations. Sales volume at the point of divestment may not be an accurate reflection of a subsidiary's significance. Perhaps this explains why so many divested subsidiaries (69%) were relatively small, ie their sales volume was less than $10m. Sales volume at the peak of a subsidiary's activity would have provided a more accurate indication of a subsidiary's significance.

2.5.: Characteristics of Divesting Parents

2.5.1.: Number of Divestments per Parent

Previous studies indicate that a few firms account for a substantial number of total divestment activity. Boddewyn and Torneden [1973] found that between 1967-1971 only 149 companies in the Fortune 500, (ie 31%), had divested abroad (see Table 2.10.).

Torneden [1975] reported that of the 460 responding companies in the Fortune 500 , 256, or approximately 56% had not divested abroad. Of the 204 divesting companies, 78% made three or fewer divestments. As Table 2.11 reveals, a small number (17%) of divesting firms accounted for almost half the number of divestments (48%).

Table 2.10.: Number of Foreign Divestments Per Parent Company, 1967-1971.

	Number of Divestments 1	2	3	4	5	6	Total
Number and (%) of Divesting Parent Companies	62 (42)	35 (24)	14 (9)	8 (5)	11 (7)	19 (13)	149 (100%)
Number and (%) of Divestments	62 (16)	70 (19)	42 (11)	32 (8)	55 (15)	115 (31)	376 (100%)
(%) of Parent Companies Divesting	(13)	(8)	(3)	(1)	(2)	(4)	(31%)

Source: Compiled from data in Boddewyn and Torneden, 1973, p.28.

Chopra, et al. [1978], using the same data base, examined the period 1972-1975. 203 (47%) of the responding firms in the Fortune 500 had not divested a foreign subsidiary. It was also discovered that a small number of firms, nineteen (8%), accounted for almost half (45%) the total number of divestments.

Table 2.11.: Number of Foreign Divestments Per Parent Company, 1967-1971.

Number of Divestments	Parent Companies Number	% of Total	Divestments Number	% of Total
1	90	44.1	90	16.0
2	45	22.1	90	16.0
3	25	12.3	75	13.4
4	10	4.9	40	7.2
5	10	4.9	50	8.9
6	11	5.4	66	11.8
7	3	1.4	21	3.7
8	1	0.5	8	1.4
9	1	0.5	9	1.6
10	8	3.9	112	20.0
Total	204	100.0	561	100.0

Source: Torneden [1975].

2.5.2.: Average Size of the Divesting Companies

Torneden [1975] found that those companies with most divestment experience were relatively large companies among the Fortune 500. Table 2.12 shows that, apart from a few exceptions, the number of foreign divestments varies directly with the average Fortune 500 ranking Indeed, he found that 34 firms in his sample accounted for almost one-half of all divestment activity. This finding is consistent with the notion of organizational learning as well as the case literature on divestments which often suggests that a parent company finds its first divestment the most difficult. As the necessary procedures and analytical concepts are learned, divestment becomes much easier to implement both psychologically and operationally [Boddewyn, 1981]. Perhaps, too, host nations are learning from experience to expect divestment.

Table 2.12.: Average Fortune 500 Ranking of Divesting Companies

Number of Divestments	Average Ranking	Number of Companies[a]
0	288	242
1	237	90
2	195	44
3	166	25
4	179	10
5	177	10
6	173	11
7	84	3
8	71	1
9	8	1
10 or more	76	8
Total	248[b]	445

[a]Excludes 15 largest retailers
[b]Average of sample
Source: Torneden [1975]

A positive relationship existed too during the period 1972-75 between company size and number of divestments

> **"with a few exceptions, the average Fortune 500 ranking increased with the number of companies divested per parent company...Hence, a small number of relatively large US multinationals account for a large portion of foreign divestments"** [Chopra et al., 1978, p.17].

Table 2.13 :Foreign Significance of Parent Companies

Number of Divestments	Foreign Significance (in percentage)	% of Companies in Fortune 500 Ranking*
0	17	32
1	18	48
2	19	66
3	21	76
4	30	60
5	20	76
6	16	60
7	11	100
8	?	--
9	60	100
10 or more	38	75
Total		45

*See Table 2.12 , third column.

Note: Excludes 15 largest retailers. Foreign significance is equal to the percentage of foreign sales, the percentage of foreign income to total company income, or the percentage of foreign assets to total company assets. Selection of one of the three measures was accomplished on the basis of industry characteristics and data availability. For example, the asset ratio was utilized for international petroleum companies.

The question mark indicates foreign significance is unknown.

Source: Torneden [1975].

2.5.3.: Importance of International Operations

Torneden [1975] was able to obtain data on the importance of foreign operations for 200 of the 445 Fortune 500 companies. In most cases he took the percentage of foreign sales as the key indicator of international operations in the parent company. He claims to have found a positive relationship between the percentage of foreign sales of a company and the number of divestments during 1967-1971. The number of divestments per company increased from zero to four as foreign significance increased from 17% to 30%. However, the relationship between foreign significance and divestment experience appears rather tenuous: the number of divestments per parent company increased from four to seven as foreign significance decreased from 30% to 11% (see Table 2.13). Torneden [1975] explains:

> **".. it can be noted that most of the companies that divested five or more foreign operations experienced severe earnings declines just prior to divestment. The small foreign significance of their operations probably provided an opportunity for senior management to cut both its losses and its headaches. When the companies with serious earnings problems are disregarded, a positive relationship between increasing foreign significance and increasing divestment activity is assured"** [Torneden, 1975, p.34].

Chopra, et al [1978] found a positive relationship between these two variables for the period 1972-1975. It can be concluded that the more extensively a firm is involved in international operations, the more it is likely to be involved in foreign divestiture.

2.5.4.: Summary

Researchers covering the years prior to 1975, conclude that the likelihood of a firm divesting is related to the significance of its foreign operations. They found too, that a large number of the Fortune 500 had never divested abroad; a small number of firms were responsible for almost half of all divestments, and these MNCs were relatively large. It is suggested that once a company gains divestment experience, it will more readily resort to divestment in the future. Divestment, like diving into the swimming pool, has limited appeal: many never pluck up the courage to try it, some do but do not particularly enjoy it, while others take pride in their skill which they hope to improve with experience. But, as with the sport, it is potentially harmful to the participants and demands caution.

C: UK FOREIGN DIVESTMENT

2.6.: Its Magnitude and the Method of Exit

This thesis will concentrate exclusively on foreign divestment in the UK, and therefore the findings on foreign divestment by UK MNCs have no direct bearing on this study Nevertheless, it is worthwhile comparing the pattern and trends in UK and US foreign divestment.

Sachdev [1976] concentrated on foreign divestment 1968-74 by British MNCs in The Times 1,000 1973-74. He defines foreign divestment as:

> **"a process of elimination of corporate ownership in an active direct foreign investment by a multinational company, on a voluntary or involuntary basis"** [Sachdev, 1976, p.31].

He detected 628 cases of foreign divestment (see Table 2.14) but warned that this figure is an underestimate arising from lack of official records kept by any Government department. He therefore had to rely on his own investigative talents to compile a statistical record of foreign divestment and his efforts were hampered by lack of co-operation from companies reluctant to discuss this sensitive issue. Sachdev's results are particularly likely to have underestimated the number of involuntary divestitures because UK MNCs are only legally bound to refer to voluntary divestments in their annual reports, not involuntary ones.

Table 2.14 shows that the period 1968-1974 witnessed a steady increase in the extent of foreign divestments by UK MNCs, with the exception of 1973 when there was a slight decrease of 3.4% over the previous year. In 1968 there was a total of 39 cases, and by 1974 this figure had increased by over 300%, and 123 incidences of UK foreign divestment were identified by Sachdev.

Even allowing for in-built bias in Sachdev's methodology in determining the number of divestments, voluntary clearly outweighed involuntary divestments Table 2.14 shows that between

1968 and 1974, almost 85% of the total were "voluntary" divestments. Some of these were provoked, however, by developments which raised political risk in the host nation to an unacceptable level [Sachdev, 1976, p.135].

Table 2.14: Yearly Distribution and Growth of Foreign Divestment by British Multinationals, 1968-74.

	Year of Divestment							
	1968	1969	1970	1971	1972	1973	1974	Total
No. of Divestment Cases:								
(a) Voluntary	28	50	68	88	92	101	105	532
(b) Involuntary	11	11	7	10	26	13	18	96
(c) Total	39	61	75	98	118	114	123	628 G. Total
Percentage of Total:								
(a) Voluntary to G. Total	4.5	8.0	10.8	14.0	14.6	16.1	16.7	84.7
(b) Involuntary to G. Total	1.7	1.7	1.1	1.6	4.2	2.1	2.9	15.3
(c) Total	6.2	9.7	11.9	15.6	18.8	18.2	19.6	100.0
Year to Year Growth				Percentage				
(a) Voluntary	Base	78.6	36.0	29.4	4.5	9.8	4.0	
(b) Involuntary	Base	Nil	-36.4	42.9	160.0	-50.0	27.8	
(c) Total	Base	53.8	23.0	30.7	20.4	-3.4	7.9	

G-Total = Grand Total

Source: Sachdev, 1976, p.135.

2.7.: Geographic Distribution of British Foreign Divestment

Whereas Western European subsidiaries accounted for 40% of total divestments by US MNCs during the period 1967-75, British foreign divestment is much more evenly spread. This is reflected in the fact that although Western Europe experienced the largest number of divestments by UK MNCs, it accounted for only 22.9% of the total (see Table 2.15) On a year to year basis, divestment by UK MNCs in Western Europe ranged from 14.5% to 31.7% of the annual total during the period 1968-1974.

A significant number of divestitures were made in African and Asian Countries. A high percentage in Africa and in India were in response to the policies of the respective host nations' governments on "the localization of foreign operations, development of indigenous industries, and change in political and economic alliances over a period of time" [Sachdev, 1976, p.146-147].

2.8.: Characteristics of Foreign Subsidiaries

2.8.1.: Principal Activities

US foreign divestment, 1967-1975, was concentrated in five SIC categories. Sachdev [1976] found four industrial sectors responsible for nearly 60% of the total number of British foreign divestitures over the period 1968-1974 Mechanical engineering (SIC Order VII) accounted for the highest share (18.2%), followed by electrical engineering (SIC Order IX) (14.6%), food and drink (SIC Order III) (13.4%), and chemicals and pharmaceuticals (SIC Order V) (13.1%) (see Table 2.16 below).

Table 2.15: Geographical Spread of Foreign Divestment Cases, 1968-74

Year of Divestment	Country Groups							
	1 Western Europe	2 Asia	3 Far East	4 Africa	5 North (	6 South America	7 Central)	Total
1968								
No.	6	9	4	15	3	1	1	144
%	15.4	23.2	10.3	38.4	7.7	2.5	2.5	22.9
1969								
No.	13	12	6	12	11	5	2	105
%	21.3	19.7	9.8	19.7	18.0	8.2	3.3	16.7
1970								
No.	17	18	15	12	10	3	-	103
%	22.7	24.0	20.0	16.0	13.3	4.0	-	16.4
1971								
No.	27	15	12	18	19	7	-	142
%	27.6	15.3	12.2	18.4	19.4	7.1	-	22.6
1972								
No.	24	19	18	32	17	6	2	83
%	20.3	16.1	15.3	27.1	14.4	5.1	1.7	13.2
1973								
No.	18	12	31	23	16	9	5	37
%	14.5	9.7	25.0	18.5	12.9	7.3	4.1	5.9
1974								
No.	39	20	17	30	7	6	4	14
%	31.7	16.2	13.8	24.4	5.7	4.9	3.3	2.2
Total								
No.	39	61	75	98	118	124	123	628
%	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Sachdev, 1976, p.145.

Table 2.16: Standard Industrial Classification of Foreign Operations Divested

Standard Industrial Classification	Industrial Activities of Foreign Operations Divested	Number of Divestment Cases 1968-74	% to Total
SIC order			
III	Food and Drink	84	13.4
III T	Tobacco Products	17	2.7
IV	Petroleum Products and Oil Refining	12	1.9
V	Chemicals and pharmaceuticals	82	13.1
VI	Metal Manufacture	34	5.5
VII	Mechanical Engineering	114	18.2
IX	Electrical Engineering	92	14.6
XI	Vehicles	27	4.4
XII	Metal goods (hand tools and implements, metal cans and boxes, nuts, wire etc.)	39	6.2
XIII	Textiles	34	5.5
XVI	Glass, Cement and Building materials	43	6.8
XVII	Timber Products	11	1.8
XVIII	Paper and Packaging Products	26	4.1
XIX	Other manufacturing industries (Rubber and Plastic goods etc.	11	1.8
	Total:	628	100

Source: Sachdev, 1976, p.152-156.

2.8.2.: Ownership Characteristics

Table 2.17 below shows that most divested subsidiaries have been wholly-owned by the British parent. Wholly-owned operations accounted for 52% of all divestments in the years 1968-1974.

Absolute divestment accounted for only 60% of the British total, in contrast to 90% for US MNCs, and similarly, nearly 40% of British divestitures represented only partial diposal of the firms' equity, compared to 5% for US MNCs [Sachdev, 1976, p.141].

Table 2.17 represents the degree of divestment of 616 cases of divestment. Twelve cases could not be classified because of lack of information. This table shows that under each of three categories the number of absolute divestments has been the largest for each year except 1968 A definition of each category is given below:

- Wholly-owned = (equity held > 95%)
- Majority-owned = (95% < equity held > 50%)
- Minority-owned = (equity held < 50%)
- Absolute divestment = (equity held = NIl)

Table 2.17: Degree of Divestment for 628 cases of Foreign Divestment

Degree of Divestment		1968	'69	'70	'71	'72	'73	'74	1968-74
From Wholly-owned to:									
(a) Majority-owned									
	No.	8	8	10	6	13	18	95	32
	%	20.5	13.1	13.3	6.4	11.9	15.4	15.4	26.4
(b) Minority-owned									
	No.	1	7	2	3	4	2	25	6
	%	2.6	11.5	2.7	3.2	3.7	1.7	4.1	4.8
(c) Absolute Divestment									
	No.	9	19	14	39	40	49	201	31
	%	23.1	31.1	18.7	41.5	36.7	41.8	32.6	25.6
From Majority-owned to:									
(a) Majority-owned									
	No.	6	3	3	7	3	12	41	7
	%	15.4	4.9	4.0	7.4	2.7	10.3	6.6	5.8
(b) Minority-owned									
	No.	6	4	12	8	8	8	59	13
	%	15.4	6.6	16.0	8.5	7.3	11.2	12.8	10.4
(c) Absolute Divestment									
	No.	4	6	14	13	16	13	79	13
	%	10.2	9.8	18.7	13.8	14.7	11.2	12.8	10.4
From Minority-owned to:									
(a) Minority-owned									
	No.	3	-	1	6	6	4	28	8
	%	7.7	-	1.3	6.4	5.5	3.4	4.5	6.6
(b) Absolute Divestment									
	No.	2	14	19	12	19	11	88	11
	%	5.1	23.0	25.3	12.8	17.5	9.4	14.4	9.0
Unclassified *									
	No.	-	-	-	4	5	1	12	2
TOTAL	No	39	61	75	98	114	123	118	628
	%	100.	100.	100.	100.	100.	100.	100.	100.

*Unclassified cases are those in which correct ownership percentage could not be confirmed. In calculating percentages unclassified cases are excluded.

Source: Sachdev, 1976, p.141.

2.8.3.: Size of Divested Operations

The studies on US foreign divestment illustrated the size of the divested subsidiaries by estimating their sales volume. Sachdev [1976], on the other hand, took 21 divested subsidiaries as a sample group, and he presents their book-value in order to portray their size. As Table 2.18 shows, one single divestment was for £75m, 54.7% of the total, and so its inclusion in the calculation of the mean book-value would give a misleading result. Excluding this case, the average book-value is £3.1m in each case, compared to £6.5m if included.

Table 2.18: Book-Value of Divested Foreign Operations

Number of Divestment Cases	Book-Value £ millions	Average per case	Total £ million	Percentage
6	1.0	1.0	6.0	4.4
2	1.0-2.0	1.5	3.0	2.2
4	2.0-3.0	2.5	10.0	7.2
2	3.0-4.0	3.5	7.0	5.1
3	4.0-5.0	4.5	13.5	9.9
1	6.0-7.0	6.5	6.5	4.7
1	7.0-8.0	7.5	7.5	5.6
1	8.0-9.0	8.5	8.5	6.2
1	75.0	75.0	75.0	54.7
N=21		Total	137.0	100.0

Source: Sachdev, 1976, p.161.

2.9.: Characteristics of Divesting Parents

In conformity with studies on US foreign divestment, Sachdev [1976] discovered that a few companies accounted for a large percentage of the total number of British foreign divestments and that these companies tended to be the largest ones. The total number of companies involved in 628 cases of foreign divestment was 134. More than half (57.5%) of these companies were in the top 200 of The Times 1,000, and they accounted for over 70% of total divestments.

The average number of divestments by each divesting company over the period 1968-74 was 4.7 cases: - this is termed by Sachdev as the gross divestment rate. Table 2.19 indicates that the 49 companies in Rank 1 (ie those in the top 100 of The Times 1,000) each had 7.0 cases of divestment, or almost double the average, over the seven year period.

Table 2.19.: UK Company Size and Foreign Divestment

Ranks	Position in Times 1,000	Divestment Rate 1968-1974
1	1-100	7.0
2	101-200	3.4
3	201-300	3.0
4	301-400	4.1
5	401-500	3.1
6	501-600	4.6
7	601-700	3.1
8	701-800	4.4
9	801-900	5.0
10	901-1,000	4.6

Source: Sachdev, 1976, p.138

2.10.: Summary of UK Foreign Divestment

The period 1968-1974 witnessed a steady increase in foreign divestments by UK MNCs. In 1968 there was a total of 39 cases; by 1974 this figure had increased by over 300%, and 123 incidences of UK foreign divestment were identified by Sachdev.

Voluntary clearly outweighed involuntary divestments, accounting for 85% of the total number of divestments, and four industrial sectors - mechanical engineering, electrical engineering, food and drink, and chemicals and pharmaceuticals - were responsible for nearly 60% of the total. The geographic spread of UK foreign divestment was much wider than for American MNCs, and was particularly prominent not just in Europe, but Africa too. As was the case with US MNCs, a small number of major companies accounted for a large percentage of the total number of British foreign divestments.

D.: FOREIGN DIVESTMENT: THE HOST COUNTRY PERSPECTIVE: THE SCOTTISH EXPERIENCE

2.11.: Foreign-Owned Plant Closures in Scotland

In 1975 108,200 people were employed in 280 foreign-owned plants in Scotland. During the following six years foreign-owned plant openings just outnumbered foreign-owned factory closures. However, the new plants tended to be smaller and more capital intensive; consequently Scotland suffered a significant net loss of 20,000 jobs in the foreign-owned sector. By 1981, although there were 288 foreign-owned units, these provided only 80,457 jobs [Hood and Young, 1982, p.5].

Since 1981 the Scottish Development Agency's "Locate in Scotland" unit has attracted new investors, but, despite this, the country has suffered a net decline in employment at foreign-owned facilities. In 1985, there were 375 foreign-owned manufacturing units, almost 100 more than in 1981, but employing only 74,000, a drop of 5,000 in four years.

Between 1976 and 1981, 61 foreign-owned factories were shut down which at their peak level of employment provided nearly 45,000 jobs. The significance of these plant closures in terms of employment is put in perspective:

> **"the job loss is roughly equivalent to all the employment offered in US plants in Scotland in 1960. Put another way, it is comparable to the total employment in shipbuilding and ship repairing (but excluding marine engineering) in Scotland in 1960, the demise of which attracted so much attention in the subsequent decade"** [Hood and Young, 1982, p.2].

Some of these foreign-owned operations were very small and their closure accounted for a low percentage of unemployed, but most of the 45,000 jobs lost were due to the run-down and eventual closure of a handful of plants:- Goodyear, Massey Ferguson, Monsanto, Peugeot, and Singer. These closures are among the case-studies prepared for this thesis.

Tables 2.19.-2.24. present data on the closures of foreign-owned units during the period 1976 to 1981. Before commenting on the data, it should be pointed out that information is based on manufacturing units in separate geographical locations. If a multinational company has several plants in the same town or city, closure will not be recorded until all the factories cease operations, the data, therefore, underestimates the extent of foriegn divestment.

In Table 2.19. a distinction is drawn between maximum employment during the lifetime of the unit and the most recent employment figure available prior to closure. As Hood and Young [1982] point out,

> **"Both sets of figures inevitably pose some difficulties: the former tends to exaggerate the current employment impact of closures, while the latter often underestimates it substantially, in that unit employment invariably declines both prior to closure announcements and prior to closure. What is important is that closure was preceded by a period, sometimes a fairly lengthy period, of job attrition, representing for the workers concerned, a time of considerable anxiety and uncertainty"** [Hood and Young, 1982, p.31].

Table 2.19.: Overseas-owned Closures in Scotland (1976-81): By Year

Year	No.	Maximum employment	Latest employment
1976	8	2,654	2,049
1977	9	3,473	1,358
1978	9	2,814	441
1979	11	4,030	2,610
1980	14	19,976	1,946
1981	10	11,531	5,504
	61	44,478	13,908

Source Hood and Young, 1982, p.30.

Table 2.20: Overseas-owned Closures in Scotland (1976-81): By SIC

SIC	No.	Maximum employment	Latest employment
Food, drink and tobacco	3		
Chemicals & allied industries	5	1,473	1,006
Mechanical Engineering	9		
Vehicles	2	31,777	6,807
Metal goods not elsewhere specified	5		
Instrument engineering	5		
Electrical engineering	13	6,336	2,657
Textiles	5		
Leather, leather goods & fur	1	3,432	2,444
Clothing & footwear	3		
Timber, furniture	3		
Paper, printing & publishing	4	1,499	994
Other manufacturing	3		
	61	44,478	13,908

Source: Hood and Young, 1982, p.30

Table 2.21.: Overseas-owned Closures in Scotland (1976-81): By Country of Origin

Country	No.	Maximum employment	Latest employment
USA	35	27,575	5,785
Netherlands	6	4,630	2,017
Canada	7		
Denmark	2		
Sweden	2		
Switzerland	2	12,273	6,106
W.Germany	3		
Other	4		
	61	44,478	13,908

Source Hood and Young, 1982, p.31

Table 2.22: Overseas-owned Closures in Scotland (1976-81): By Peak Employment.

	No.	Peak Employment
Under 20	4	
and		311
20-49	7	
50-99	14	991
100-199	10	1,480
200 and over	26	41,696
	61	44,478

Source Hood and Young, 1982, p.31.

Table 2.23: Overseas-owned Closures in Scotland (1976-81): By last Known Employment.

	No.	Peak Employment
Under 20	7	
+		692
20-49	17	
50-99	12	769
100-199	11	1,488
200 and over	14	10,959
	61	13,908

Source Hood and Young [1982]

2.12.: Summary

Upsurge in divestments in EEC countries, by European and US multinationals coincided with the deepening economic recession of the late 1970's. This is perhaps indicative of the cause of some divestments. US MNCs, perhaps contrary to popular belief, have not been more more prone to close plants in the EEC than were MNCs with headquarters in the Community [Van den Bulcke, 1979].

Some countries and regions within the EEC are heavily dependent on foreign direct investment, especially in the high-tech industries. Scotland, despite stiff competition especially from Eire and Wales, has won major investment projects, but these have not compensated for job losses within the foreign-owned sector. Many of the major new investments have been in the electronics sector, but some of the firms in these high-tech industries have been forced to issue redundancies and/or abort plans for expansion. "Silicon Glen" is still heralded as Scotland's industrial salvation, but a worlwide glut has forced firms such as America's National Semiconductor to revise their forecasts, and cut production at its large Greenock, Scotland, plant.

Countries, such as Scotland, concentrate considerable time and resources to boosting the flow and stock of inward investment. The next chapter reviews foreign divestment theory, based mainly on studies of US MNCs. This has the potential to provide host government policy makers with a framework for evaluating the security of their inward investment.

CHAPTER 3

FOREIGN DIVESTMENT THEORY

3.1.: Introduction

A theory has been defined as,

> **"a set of inter-related concepts, definitions, and propositions that present a systematic view of phenomena by specifying relations among variables, with the purpose of explaining and predicting the phenomena"** [Kerlinger quoted in Boddewyn, 1983, p.1].

Boddewyn [1983] quoting Bagozzi, suggests that explanation is the more fundamental of the two purposes of theory. He adds that to some metatheorists in the logical-positivist tradition, "explanation is conceived as a deductive argument in which the phenomena to be explained is deduced through the specification of certain types of explanatory factors or premises and their inter-relationships" [Boddewyn, 1983, p.1].

In the early 1960's, Hymer wrote his seminal thesis on foreign direct investment (FDI) and MNCs, and since then the theory of FDI has been tackled by many international business scholars. Calvet has concluded that the works of these and other scholars points to the rise of the multinational firm as "the result of several forces that no single theory can encompass" [Calvet, 1981, p.55].

The growth in foreign divestment has prompted scholars to develop an appropriate theoretical framework. Some progress has been made, but work on the theoretical aspects is not yet as advanced as that on FDI. Existing theories of foreign divestment have certainly contributed to understanding certain aspects, but many "black boxes" remain.

Thus, Boddewyn [1983] believes that no single existing theory has fully explained the phenomenon of foreign divestment, and that an eclectic theory is necessary. This chapter reviews the major developments in the construction of divestment theory.

Existing theoretical models of foreign divestment have been classified by Boddewyn [1983] as emphasising primarily either:

(1) the conditions or prerequisites for divestment;

(2) the motivations for divestment;

or, (3) a divestment's immediate precipitating circumstances.

In most cases of foreign divestment, a mixture of internal and external factors are blamed for the decision. Companies do not operate in a vacuum, and so this combination is only to be expected. As the Business International (BI) study [1976] found,

> **"the survival, growth and profitability of a business are the outcome of a stimulus-and-response relationship between the firm and its environment"** [BI study, 1976, p.11].

The BI study [1976], based on a random sample of 32 MNCs (21 US firms, 9 European and 2 from elsewhere) known to have divestment experience, noted that divestment was largely due to a combination of adverse environmental conditions and poor performance. Of course, the former bears very heavily on the latter. The other key divestment factors listed are peculiar to the firm.

Table 1: Key Factors Triggering Divestment

Divestment Factors	Percentage of companies mentioning
Poor performance and prospects	94%
Adverse environmental conditions	72%
Bad acquisitions	34%
Lack of strategic fit (peripheral)	34%
Lack of managerial fit (too small)	31%
Lack of resources	22%
Problems elsewhere in the company	19%
Bad Management	13%

Source: Business International study, 1976, p.12.

Before reviewing each model some comments can be made. A theory based on condition(s) stresses that something is vital to the existence or occurrence of something else. For example, a parent company cannot divest a subsidiary which it does not own.

Motivation-based theory emphasises the impulse, desire, drive, intention etc., that leads an individual or group to decide on a certain course of action. Hence divestment normally occurs when someone concludes it would be beneficial. Finally, the theoretical model founded on precipitating circumstance(s) attaches major significance to elements that produce an outcome earlier than expected, needed, or desired. For example, a firm may have no plans to divest an operation until approached by a potential buyer.

3.2.: Condition-Based Theory

In recent years the theory of foreign direct investment (FDI) has advanced considerably; the theory explains the existence of the MNC, expansion of which is by means of controlled foreign subsidiaries "internalized" within the hierarchy of the multinational enterprise.

According to Dunning's [1979] "eclectic theory" of FDI overseas subsidiaries are established when all three of the following conditions prevail:

- the MNCs possess competitive advantages;
- it is more profitable to internalize these advantages within the firm than sell them to independent parties;
- there are certain benefits to be gained by exploiting the advantages outside the home country market.

By reversing the conditions, Boddewyn [1983] has employed Dunning's "eclectic theory" to develop a theory of foreign divestment. According to his "reverse theory", foreign divestment takes place whenever a firm:

"1. ceases to possess net competitive advantages over firms of other nationalities,

2. or, even if it retains net competitive advantages, it no longer finds it beneficial to use them itself rather than sell or rent them to foreign firms -that is, the firm no longer considers it profitable to "internalize" these advantages,

3. or, the firm no longer finds it profitable to utilize its internalized net competitive advantage outside its home country -that is, it is now more advantageous to serve foreign markets by exports and the home market by

home production, or to abandon foreign and/or home markets altogether" [Boddewyn, 1983, p. 3].

Dunning's [1979] eclectic theory of international production demands that all three conditions must exist simultaneously for FDI to occur. But in Boddewyn's "reverse theory", foreign divestment occurs when any one of the above conditions prevails.

According to Dunning's theory, the foreign investment must maintain its ownership or firm-specific advantages, otherwise the foreign subsidiary must be divested. However, even if the firm continues to possess these ownership advantages, it may decide to divest when the incentive to internalize and/or utilize them outside the home country has disappeared:

"in other words, internalization and location advantages can erode separately" [Boddewyn, 1983, p.348].

Change in foreign business environment were cited as key divestment factors by 72% of the respondents to the BI study [1976]. These changes include: recessionary conditions in the home or host markets, spiralling fuel costs, rising nationalist feelings, increased government controls, leftist advances, and monetary policy alterations which discourage further investment.

Particularly significant given the focus of this study, is the claim that the prospect of growing worker participation in decision-making encourages divestment [Boddewyn, 1979b]. It will be seen in Chapter 7 that European, American, and Japanese employer organisations have all predicted, even threatened a sharp increase in divestment in EEC member countries should various EEC Draft Directives become Community law. They have been campaigning vigorously against the Fifth Directive on employee participation, and the "Vredeling/Richards Proposals" on employee disclosure and consultation. Host-country governments can take comfort in the knowledge that MNCs have often resorted to this tactic, but have seldom implemented their threats.

Other external factors which may lead to divestment are market saturation, and declining demand, technological change leading to obsolescence of plant and equipment, changes in industry structure arising from mergers, changes in host government regulatory policy, and risk and uncertainty about political and economic developments [Spanhel and Johnson, 1982].

Wilson [1980] identified two categories of foreign investment: active investment to exploit a competitive advantage, and reactive investment to maintain industry stability. He hypothesised that divestment would occur when the reasons for the original investment had been eroded. Thus manufacturing plants which were active investments are likely to be divested as market competition increases and competitive advantage is lost, and factories set up for reactive reasons the probability of divestment grows as the structure of the industry changes.

His hypothesis was corroborated by his finding that those industries with mature, homogeneous products had the highest rates of divestment, while those with differentiated products had least divestments. Divestiture was also more common in developed countries where competition is stronger.

These environmental factors certainly appear to provoke divestment, but Boddewyn [1979b] has indicated that environmental conditions per se may not be the issue; instead, the uncertainty associated with a reduced ability to predict and control the direction of future change is much more important than the actual scale or character of change.

Management also tends to overstate the importance of external factors, at the expense of factors internal to the firm. This is understandable. Shareholders, employees, and the community are more likely to meekly accept divestment due 'to factors over which management has no control. No company is likely to explain away divestment with admissions of bad management or poor product.

Although Boddewyn's theory suggests that <u>foreign divestment</u> decisions are easier to reach on purely economic grounds than decisions on FDI, the managerial literature reveals that executives often find them very difficult to make [Boddewyn, 1983; Porter, 1976; Spanhel & Boddewyn, 1983; Torneden, 1975; Wilson, 1980].

As was seen earlier, the presence of "exit barriers" (such as hard-to-sell-assets, integrated units, lack of potential buyers, and managerial sentiment) inhibit divestment and their removal is essential if divestment is to take place. These obstacles to divestment are examined below.

3.2.1.: Exit Barriers

Thackray [1971] observed that the failure of corporations to divest when logic suggests they should was due to managerial attitudes/beliefs/sentimentality. Managers often looked upon divestment as almost a betrayal of their employees. He discouraged this notion arguing that the workforce "should not be treated as an insurmountable obstacle to the planning and effecting of divestment" [Thackray, 1971, p.57].

He noted that some companies, by their nature, can more easily than others effect divestment. Those with the most centralized policies, communications, and lines of authority are less likely to divest than companies with decentralized divisional management. He concluded that the rise of the professional manager combined with the solidification of the EEC will stimulate an increase in divestment in Europe.

Caves and Porter [1976] studied domestic divestment in the US They identified a number of features associated with unprofitable units that inhibited their divestment. The findings of this study led Porter [1976] to develop his theory of barriers to divestment, or exit barriers.

Porter [1976] hypothesises that not only do these "barriers to exit" discourage divestment but their impact is such that many firms continue to throw good money after bad as they desperately try to to restore lossmaking subsidiaries to profitability. Often these efforts fail and as a result valuable management time and capital has been squandered.

Mathews and Boucher [1977] suggested that these attempts were prevalent because management lacked a "planned exit" strategy. They recommended that, at the time of entry into a new venture,

> **"there should be an equally well-planned exit procedure and that key warning signals should automatically trigger efforts to evaluate the future of the venture, so that management is formally brought to consider the possibility of exercising its option to terminate the operation"** [Mathews and Boucher 1977, p36].

Exit barriers originated from the industry environment, the corporate strategy and decision-making process. These can be divided into three types:

> "Structural (or economic) exit barriers: characteristics of the technology and the fixed and working capital of a business which impede exit.
>
> Corporate strategy exit barriers: relationships between a business and other businesses in the company as a result of a company's corporate strategy which deter exit.
>
> Managerial exit barriers: aspects of a company's decision-making process itself which inhibit exit from unprofitable businesses" [Porter, 1976, p.21].

(a) Structural Barriers

Plant and equipment which lends itself well to manufacturing a broad range of products, will appeal to a number of potential purchasers, and is likely to fetch a good resale price. Losses to the divesting firm will therefore be relatively small. However, plants which are suitable for the production of one specific product are more difficult to sell. Poor market conditions and excess capacity in the industry may make such an operation impossible to sell. Management appreciate therefore that their only feasible method of exit is divestment by liquidation which is very expensive.

Closing a large manufacturing facility takes its toll, not just on the subsidiary affected, but also on the profitability of the parent which has to "write off" assets, and, if in Europe, has to offer compensation to redundant employees. The existence of structural barriers (such as specialised plant and equipment, specialised inventory, and intangible assets which are highly firm specific), or, durable and specific assets, diminishes the value of the divestment candidate to potential buyers, thus rendering the operation more difficult to divest.

Two studies have examined the effects of structural barriers, and these have produced conflicting results. Porter [1976, p.28], utilising "a unique data base assembled by the PIMS Program of the Strategic Planning Institute", found that US domestic operations with chronically subnormal returns and with high levels of durable and specific assets were less likely to be divested than those with a lower level of the same assets.

Wilson [1980] in his study of US foreign divestment, examined the impact of specific and durable assets by comparing the assets of a subsidiary with its sales. If a subsidiary is asset or capital intensive, the possibility of having specific assets increases. Likewise, subsidiaries with a low assets/sales ratio are less capital intensive, and the probability of specific assets is less.

Unlike Porter [1976], he did not find support for the hypothesis that the presence of specific assets in the subsidiary will reduce the likelihood of the subsidiary's divestment.

Wilson's [1980] divestment model (derived from various theories of foreign direct investment) was based on the assumption that divestment activity was related to the factors which caused or supported the original investment decision. He identified two categories of investments: active investment to exploit a competitive advantage, and reactive investment to maintain industry stability and thereby protect competitive advantage.

In both situations, it was hypothesised that divestment would occur when the reasons for the initial investment were no longer met. Subsidiaries established for active reasons are therefore more likely to be divested as competitive advantages are eroded, whereas those founded for reactive reasons are more likely to be divested as the nature of the industry changes. These developments either, reduce the value of the subsidiary to the parent company, increase the value of the subsidiary to a potential buyer, or result in a mixture of the two. Once the divestment value is greater than the value of the subsidiary to the parent, divestment is considered economically justified.

Table 3.1:Summary of Results of Tests of Hypotheses

Variable	Hypothesised Effect on Divestment*	Statistical Results	Case Analysis Results
Industry Concentration	Deter	Uncertain	Uncertain
Number of Products	Deter	Strong Support	Uncertain
Intrasystem Sales	Deter	Strong Support	Supported
Assets/Sales Ratio	Deter	Uncertain	Uncertain
Acquisition Dummy	Facilitate	Moderate Support	Uncertain
Subsidiary Sales	Deter	Strong Support	Uncertain
Entry Year	Facilitate	Uncertain	Uncertain
Change in Chief Executive Officer	Facilitate	Uncertain	Supported
Change in Chief Operating Officer	Facilitate	Moderate Support**	Supported
Decrease in System Earnings	Facilitate	Moderate Support**	Uncertain

* Assuming a high value or level for the variable
** With a one year time lag
Source: Wilson, 1980, p.74.

Table 3.2: Comparison of Results with Caves and Porter Study of Domestic Divestment

Variable	Effect on Divestment of Foreign Subsidiary	Effect on Divestment of Domestic Businesses
Industry Concentration	Uncertain	Facilitated Divestment
Number of Products	Deterred Divestment	Deterred Divestment
Level of Intrasystem Sales	Deterred Divestment	Facilitated Divestment
Asset/Sales Ratio	Uncertain	Deterred Divestment
Method of Entry Acquisition	Facilitated Divestment	n/a
Subsidiary Sales Level	Deterred Divestment	n/a
Time in System	Uncertain	Deterred Divestment

Source: Wilson, 1980, p.76.

(b) Strategic Barriers

The most significant difference in the results of the Caves and Porter [1976] study on US domestic divestment and the Wilson [1980] study of US foreign divestment is the effect of intrasystem sales on the probability of divestment (see Table 1).

Caves and Porter [1976] found that units with a higher percentage of sales within the system were more likely to be divested. They reasoned that businesses with sub-normal returns are likely to be suffering from production inefficiencies or inferior products. Compelling other subsidiaries to purchase from that business could transmit the aforementioned ailments to the healthy operations, and, therefore, intrasystem sales might provide a stimulus for management to divest the poorly performing business.

Boddewyn [1981], on the other hand, suggests that an integrated subsidiary may have to be retained, even when its results are poor, because it has a vital role to play which has a net benefit to the parent. Wilson [1980] too found that higher internal sales reduces the likelihood of divestment. His reasoning was that it is more difficult to evaluate the performance of a closely integrated unit, and hence formulate a divestment decision.

He also found strong support for another of his hypotheses: subsidiaries with a diversified product base, as indicated by the number of SIC product codes, were less likely to be divested [Wilson, 1980].

(c) Managerial Barriers

These are associated with the nature of a firm's decision-making process. Porter [1976] presented them as being critical, and divided them into two major categories: "information related" and "conflicting goals".

Information-related barriers may lead to decisions which are not in the best interests of the parent company. This problem arises most often in cases where financial data is not compiled for each unit in a system; eg., vertically integrated systems or systems with shared facilities. In such cases, any rotten apple(s) may remain undetected. Critical non-financial information such as the market conditions and competitive situation may not always be available to decision makers.

Poor communications have featured in many divestment decisions [Vignola, 1974]. They proved a key divestment factor in Sachdev's [1976] study. Irrespective of their profit performance, more than one third of the 21 UK MNCs which he examined were having organizational difficulties in conducting their foreign operations prior to divestment, but not necessarily with those subsidiaries which were divested:

> **"The main constituents of these difficulties were failure in communication channels and some disagreements in the general policies of the parent companies towards various foreign subsidiaries"** [Sachdev, 1976, p.121-122].

Sachdev [1976] beleives that structural and organisational factors are particularly important causes of foreign divestment:

"Organizational and personal characteristics are equally, if not more important to a divestment decision as are the objective application of concepts which attempt to maximize corporate profits" [Sachdev, 1976, p.265].

A much stronger barrier to exit exists when management's goals conflict with those of the parent. For many managers, the decision to divest is the most difficult they will ever make [Boddewyn, 1979a,b; Gilmour, 1973; Hilman and Soden, 1971; Vignola, 1974; Wallender, 1973]. Managers also fear that their superiors and shareholders will view divestment as an admission of defeat. They believe divestment bears the stigma of failure. Pride is not the only emotion to interfere with decision-making. Managers may be reluctant to divest a subsidiary because of their sense of loyalty to the business, their concern with the social and economic consequences of the decision on the community involved, and last but not least, their own interests may be adversely affected by divestment.

However, the spate of mega-mergers during the mid-1980s saw some predators acquiring firms only to hive off various divisions and product lines at a massive profit. Indeed, regulatory bodies sometimes only approved certain takeovers on the condition that certain divestments were made.

Long-established operations that were instrumental in the company's development, are particularly likely to secure excessive identification by managers [Porter, 1976]. Wilson [1980] by the use of proxy variables tested Porter's hypothesis that conflicting management goals deter divestment. He found that subsidiaries established by the parent company were less likely to be divested than those acquired from other firms. Aquisitions require comparatively little in the way of managerial resources, and thus, "greenfield" operations are more likely to invoke strong feelings of identification at all levels of the corporate hierarchy.

It is understandable therefore that managers, in some situations, refrain from divesting even when economic logic suggests they should. Changes in top management often facilitate divestment becuse these new men do not have any emotional ties to operations earmarked as divestment candidates. The motivation and stimulus to divestment is considered in detail below.

3.3.: Motivation-Based Theory

In this context, foreign divestment is attributed to poor target attainment (eg., Return on Investment [ROI], market-share growth) by either the subsidiary or the parent. A number of key divestment factors have been identified in the literature, and these will be examined before considering two theoretical models which attempt to explain why certain subsidiaries are divested. Grunberg's [1982] model relates divestment to intra-corporate rivalry, and Wilson's [1980] is derived from Vernon's [1971] Product Life Cycle (PLC) model.

It appears, at least to this author, that the factors which are said to trigger divestment by motivating executives to reach a decision, are often merely a barometer of the business climate. In other words, management cannot afford to allow a steady decline in market share and profits, but while these certainly jolt decision-makers into action, the root cause of deterioration is more often than not an adverse change in the business environment. This section on motivation-based theory should surely then be seen more often than not as an adjunct of condition-based theory.

3.3.1.: Poor Subsidiary Performance

Whether reflected in unacceptable Return On Investment, profit levels or losses, poor subsidiary performance is the most frequently cited reason for foreign divestment [BI, 1976; Boddewyn, 1979a,b; Chopra, et al., 1978; Sachdev, 1976; Torneden, 1975].

For example, of the 32 MNCs in the BI study [1976], 94% mentioned "poor performance and prospects" as the key factor triggering divestment. Torneden [1975] reported that of 38 divesting firms' executives, 60% listed an unacceptable ROI as the primary causal factor. Sachdev [1976] also stressed this factor under various headings: low profitability and losses; restrictions on fund transfer; and, inadequate liquidity.

Boddewyn stresses, however, that financial factors should not be overemphasized, as, often analyses of these factors were used merely to "rationalize" a preliminary divestment decision after the fact:

> **"Thus, other factors and processes were important, too, so that a poor financial situation is only a necessary condition but not a sufficient one to generate divestment"** [Boddewyn, 1979b, p.23].

Moreover, multinationals usually have a global strategy in which subsidiaries are integrated and so, for performance evaluation purposes a subsidiary should not be assessed as an individual component, but rather as a contributor to the whole entity. Management must therefore recognise that the value of a particular foreign investment cannot always be precisely determined if it is linked to other parts of the multinational entity.

Boddewyn [1979b] concludes that integration usually renders a portfolio view of foreign investments inappropriate as MNCs do not simply rank their subsidiaries and get rid of those at the bottom of the league. Indeed, the benefits derived from retaining what is ostensibly a loss-making operation, may far outweigh the costs:

> **"In other words, maintaining an apparently unprofitable investment in a particular country can be justified if it either reduces the risk to the whole corporate system or increases the yield to any part of it"** [Boddewyn, 1979b, p.23].

3.3.2.: Poor Pre-Investment Analysis

A number of divested subsidiaries had never come up to management's expectations, and in retrospect they should never have been established in the first instance. This is particularly true of foreign subsisiaries acquired during the 1960s. Poor pre-investment analysis is, without doubt, a key divestment factor.

In 1970, Lobb and Ellis predicted that just as the swinging 1960s was the greatest decade of mergers and aquisitions, the 1970's would be the greatest decade of divestment. The mistakes of the psychadelic, flower-power era would be remedied by more ruthless executives from a younger generation.

Their thesis has been corroborated by subsequent research [BI, 1976; Kitching, 1973; Torneden, 1975; Wilson, 1980]. It is now widely accepted that the significant upsurge in the number of US foreign divestments during the 1970s was due to the binge of foreign acquisitions that took place in the 1960s.

Boddewyn [1979a] says:-

> **"European firms appear to be more deliberate, careful and cautious in deciding about new investment. US companies, on the other hand, "plunge" half-locked into new ventures/many of them poorly analysed. The net result is that US firms end up getting involved in more initiatives but also in more failures and divestitures"** [Boddewyn, 1979a, p.24].

Torneden [1975] observed that the original investment analysis of a number of acquisitions failed to detect major financial and operating problems. Kitching [1973] found that at least 25% of a large sample of US acquisitions in Europe were subsequently judged failures for lack of sufficient consideration of external and corporate factors. 34% of the companies in the BI study [1976] mention "bad acquisition" as a key divestment factor.

Many of the acquisitions made in the 1960s were attempts at diversification by firms heavily dependent on a single mature product. Not surprisingly quite often these efforts only exacerbated rather than relieved the firms' difficulties, for, as Bane and Neubauer [1981, p.219] observed,

> **"It is well known that the process of diversification is fraught with difficulties and the risk of failure and furthermore that the process of setting up or acquiring foreign subsidaries is also a risky process so that when the two are combined the chance of failure is very high".**

3.3.3.: Structural and Organizational Factors

Poor managerial performance by both local and expatriate managers were mentioned as a reason for foreign divestment by 13% of the respondents in the BI [1976] study. Expatriate managers were not always able to adjust to conditions abroad, and often this problem was exacerbated by poor communications between head office and subsidiary concerning corporate goals and policies.

3.3.4.: Problems in the Parent/Lack of Fit and Resources

Parent company difficulties often leads to foreign divestment. Boddewyn [1979a] observed that many US MNCs were well-established before they made their first foreign investment, and consequently their foreign subsidiaries have received less top management commitment than domestic operations. A parent company in trouble often operates a last in, first out, policy, so it is usually a foreign subsidiary that is divested. This is understandable: the exit barriers are not so difficult to overcome, and the parent company escapes the barrage of criticism it would receive were it to close a domestic operation.

Torneden [1975] too found that in seven out of eight case studies, poor US earnings were associated with foreign divestment. In four of these cases the domestic earnings problem was compounded by poor foreign subsidiary performance and the prospect of a loss for the entire company.

During the 1970s, it became apparent that some companies' had pursued an excessively vigorous growth policy during the 1960s. They subsequently lacked sufficient managerial resources to satisfactorily monitor and control operations and were compelled to rationalise:

> **"A number of multinational corporations expanded too fast abroad and overextended their international division and ultimately this led to corrective action in the form of divestment"** [Van den Bulcke in Brooke & Buckley, 1982].

Torneden [1975] found that of sixteen cases, six mentioned excessive management time spent on problem foreign subsidiaries as the major admitted basis for divestment. Other studies have reported poor liquidity or overemployed resources, where foreign operations were sold in order to reduce debt or improve other balance sheet items of the parent company [Brooke and Remmers, 1978].

Financial or operating problems in the parent company, or lack of managerial and capital resources to sustain foreign operations, were cited as reasons for divestment by 41% of respondents in the BI study.

3.3.5.: The Internal-External Market Failure Model

Classical economic theory suggests divestment will occur only when a subsidiary has failed in the market-place, ie. when it fails to achieve certain goals, and, or when, returns are lower than those available elsewhere.

Like Torneden [1975], Grunberg [1982] supports Aharoni's claim that classical economic theory is not particularly helpful in understanding organizational decision making. His findings suggest that this theory does not fully explain the divestment phenomenon. He concluded that while there was some support in his case-study findings for the market-failure thesis,

> **"enough evidence is in the case studies to seriously undermine the conventional wisdom as it now stands"** [Grunberg, 1982, p.147].

Grunberg [1982] explored the causes and consequences of foreign divestment through three in depth case-studies; British Leyland (since renamed simply BL, but now known as Rover) which divested in 1975-76 its Italian subsidiary Leyland Innocenti; Litton industries, a US conglomerate which divested its British subsidiary, Imperial Typewriters, in 1975; and the Chrysler Corporation's attempt to divest its British subsidiary, Chrysler UK, in 1975.

The three subsidiaries named above were confronted with an unfavourable business climate and intensified international competition. While they were able to compete successfully with local rivals, they lost ground to foreign rivals which had lower operating costs. Moreover, these parents had major weaknesses, the most debilitating being their cash problems. This combination of factors seemed to provide the necessary and sufficient conditions to account for foreign divestment, but Grunberg [1982] says such a conclusion must be tempered.

After all, other firms operating in the British and Italian automobile and typewriter industries survived the recession. BL, Imperial Typewriters, and Chrysler had subsidiaries that performed well at the same time and in the same industry as those that did not. Grunberg [1982] concludes, therefore, that,

> **"the contextual factors (country, industry, and parent conditions) do not in themselves fully explain the decision to divest"** [Grunberg, 1982, p.146].

Classical economic theory assumes that it is possible to evaluate the market performance of a subsidiary and determine whether it has in some sense failed. Transfer pricing misrepresents the real value of a subsidiary to the parent company. But the real distortion is caused by subsidiaries lack of independence and the parent company's monopoly of a whole series of operational and strategic decisions:

> **"The parents seem to have encroached upon the discretionary power of subsidiaries to the point at which they have little or no independent capacity to determine what products they will produce, from what suppliers they will buy and in what markets they will sell their products. Such decisions, in addition to the control of financial and research and development resources, have been centralized at parent or regional headquarters"** [Grunberg, 1982, p.147].

Subsidiaries are constricted in their ability to respond to market incentives because, as part of a larger group, their interests become subordinated to those of the whole group, and they must compete with each other to ensure a role in the corporate plan which will prolong, if not ensure, their survival. Subsidiaries therefore must compete in two environments.

In addition to the external environment (the market) in which they compete for sales and revenue, they have the internal environment where various management enclaves exert their power and influence to protect the interests of their own subsidiary. Grunberg stresses that a subsidiary's ability to succeed in the internal environment of intra-corporate rivalry is just as important for its survival as its performance in the external environment. Indeed,

> **"the interaction between performance in the internal and external environments (is) such that success in one tends to ensure success in the other"** [Grunberg, 1982, p.149].

Under such circumstances, the decision to divest reflects not just the performance of the subsidiary, but the discretionary power of MNCs and the political struggles that take place within them. Once a subsidiary fails in either the internal or external environment, failure in the other is assured, and when this lack of success is identified, its days are numbered. The symbiotic relationship between internal and external market also precludes easy identification of a divestment's root cause(s).

3.3.6.: Product Life Cycle Models

One theoretical explanation for the occurrence of foreign divestment employed the Product Life Cycle (PLC) model of foreign direct investment developed by Vernon [1971]. He identifies four distinct stages in a product's developmental cycle.

New products are normally launched in the domestic market of the innovating company (stage 1), because, firstly, a new product invariably requires modification, and secondly, as a new innovation, it will be relatively price inelastic, and so the advantage of proximity to the market outweighs that of low-cost production.

A favourable reaction to the new product in the domestic market stimulates foreign demand and the firm begins exporting (stage 2). Local competition in the foreign market is non-existent due to strong barriers to entry (e.g., high costs for the production and distribution in small foreign markets, and a lack of technological expertise in the production process etc.).

As foreign demand rises, the attraction of these foreign markets increases, but once local firms close the technological gap between themselves and the original producer, they can enter their burgeoning domestic market. The emergence of competitors will prompt the innovating firm to commence manufacture in the foreign market (stage 3).

As the foreign market expands and more rival producers enter the market, the foreign subsidiary starts losing its competitive advantage and its market share may shrink. The gradual erosion by market forces of competitive advantage places all competing products on an equal footing, and subsequent price competition adversely affects the foreign subsidiary's financial performance. As Wilson says [1978]:

> **"At this stage in the life cycle, a product becomes a commodity, a non-differentiated product. The time frame in which this occurs depends upon the products. Some products arrive at the commodity status very rapidly, for example petrochemicals, while other companies attempt to prolong the life of their products through upgrading management skill, product design changes, heavy advertising, and other methods. If a company is successful in these "holding actions" a product may never reach the commodity stage".**
> [Wilson, 1978, p.13]

Once a product becomes a commodity, many firms choose to withdraw from the foreign market rather than continue to inject additional resources needed to remain competitive (stage 4).

Boddewyn and Torneden [1973] were the first to relate Vernon's PLC model with divestment. They observed that most ventures go through a normal "life cycle" in which they grow, mature and decline. They pointed out that managers should not consider their enterprises as eternal, and as evidence compared the 50 largest US "trusts", existing at the turn of the century, with the then latest Fortune 500 to reveal "a natural disappearance process even in the absence of a governmental environment not as hostile as has been encountered in recent times" [Boddewyn and Torneden, 1973, p.25].

The PLC model formed the basis of Wilson's [1978] thesis. He proposed that the frequency of foreign divestment is positively associated with increasing competition. Assuming that developed countries have more intensive competition than less developed regions, Wilson [1978] hypothesised that the former would have a higher rate of foreign divestment. His initial analysis supported this hypothesis, but a later study contradicted it. These conflicting results led Wilson [1980] to propose that,

> **".. the examination of the role of competition in disinvestment could be undertaken on a more detailed level. Such a study might focus on a specific foreign country and examine the disinvestment of subsidiaries by foreign parents"** [Wilson, 1980, p.78].

It has been seen that the PLC model of divestment suggests that divestment is most likely a result of increased competition related to mature products. Helle [1976], however, concludes that divestment is most likely to occur, not when a product has no competitive advantage, but at <u>any</u> point of transition in the life cycle. <u>Any</u> major change in demand for a product may precipitate a review of the product's future

Moreover, the PLC model is inadequate in that it fails to take account of diversified subsidiaries manufacturing a variety of goods in various stages of their life cycle. Neither does it come to grips with managerial and structural factors that bear strongly on divestment decision-making.

Some of these deficiencies are overcome in a model concerning the structure of industries which attempts to explain divestment in terms of a set of facilitators.

3.4.: Precipitating-Circumstance Based Theory

A number of researchers [Bower, 1970; Gilmour, 1973; Torneden, 1975; Wilson, 1980] have stressed the importance of the appointment of the "new man", psychologically detached from any particular operation, who overcomes the "barriers to exit", and is ready to consider divestment. It is easier for new senior executives to identify and remedy a discrepancy through divestment. They are not personally committed to prior decisions; nor are they emotionally tied to particular products or divisions, and they are confident that the divestment decision will not be interpreted as failure on their part.

Gilmour [1973], for example, examining three domestic divestments by as many US firms, found that in all three cases, the decision to divest "dogs" (the Boston Consultancy Group's description of poor performers) was only taken once new men were appointed to senior management positions. This author would suggest that the reverse sequence is the case. The first phase is when the Board recognises divestments can no longer be postponed, and it appoints a new man to implement the tough decisions which it believes necessary.

Torneden [1975] too emphasizes the importance of organizational changes. It was seen earlier that in the cases which he reviewed, divestments originated in most instances with new men who were not committed to past investment decisions and who were quite prepared to consider divestiture when they perceived it as beneficial to the parent company. He found that the arrival of new men precipitated foreign divestment in six of his eight case studies. They were clearly involved in making the divestment decision, as well as initially suggesting a divestment study, whereas subsidiary management rarely instigated the divestment process. He observed that:

> **"the foreign divestment decision typically reflected a shift in power from an international expansion executive to a loss termination executive"** [Torneden, 1975, p.106].

Wilson [1980] found that a change in Chief Operating Officer (COO), second only to the Chief Executive Officer (CEO) in corporate hierarchy, was an even more significant spur to divestment than the appointment of a new number one.

According to Boddewyn [1979b] the rapid inflation of the 1970's resulted in a shift in the balance of power within corporations to the Financial Controller's advantage and he used it to pinpoint and divest poorly performing divisions. The

Controller's victory in this internal power struggle has resulted in a complete U-turn in the corporate strategy of many US MNCs:

> **"At US companies that once stressed growth and expansion beyond all else, the job of measuring the costs of doing business - and cutting them - get the highest priority today. Indeed, in a dramatic turnabout from the strategies of the late 1960's and early 1970's, corporations today are far more interested in improving profit margins than in building up market share or new business"** [Boddewyn, 1979b, p.25].

3.5.: Summary

The divestment literature supports Aharoni's contention that classical economic theory is not particularly helpful in understanding organizational decision making. Grunberg [1982] concludes that subsidiaries do not just operate in the market-place. Instead, they must compete with other operations in the same parent group for finite resources. This intra-corporate rivalry represents an additional battlefield and subsidiaries successful in this internal market are more likely to succeed in the external market. Indeed a symbiotic relationship exists between the two.

The PLC model does not, as was seen, take account of diversified business units. Similarly, it fails to explain why some plants are closed and subsidiaries are divested, when others of the same age and with the same product-line are retained. Its value is also limited to explaining defensive divestments.

Divestments made during the 1960s tended to be defensive by nature; subsidiaries were divested only if they were loss-makers. By 1975, however, divestment was being acknowledged as a crucial aspect of corporate stategy and was offensive by nature:

> **"Such a development is clearly linked to the emergence of stronger planning units and to a more explicit strategic view of the company's opportunities and resources- however underdeveloped this perspective may still be. At minimum, it emerges when a surfeit of acquisitions, a declining major line of business, or a new managment team forces a good look at the company's overall course of action"** [Boddewyn, 1979b, p.24].

Most research on foreign divestment has focussed on cases affected in the late 1960s and early 1970s when MNCS had a very limited notion of the potential benefits to be gained from a successful divestment strategy. These studies found that most divestments were defensive, though a significant proportion were for strategic reasons.

Offensive, or strategic, divestments are still less common than those precipitated by financial or environmental factors, but they now constitute an important manoeuvre in many firms' overall corporate strategy [Boddewyn, 1979a,b; Wallender, 1973].

They are undertaken to restructure the enterprise, or to alter a firm's portfolio of businessses. A divestment designed to free management and obtain capital for more profitable or new technological ventures would constitute such a strategy [Van den Bulcke, 1979].

With MNCs, such divestments may serve to facilitate global rationalization of production and resources. As noted before, these disinvestments represent a change in attitude toward the function of divestment from one largely associated with managerial failure, to an offensive strategy designed to take advantage of new opportunities elsewhere in the firm or in new product markets [Sachdev, 1976].

Caves and Porter [1976] found that, contrary to classical economic theory, some subsidiaries which clearly fail in the external market place are not divested because management often refuses to acknowledge economic logic. This behavioural pattern led Caves and Porter [1976] to suggest that "barriers to exit" exist. Torneden [1975] and Sachdev [1976] stress that these may be more important in a divestment situation than purely economic considerations.

Boddewyn [1983] concludes that none of the existent divestment theories are sufficient in themselves to fully explain why and when foreign divestments occur. A better theory of foreign divestment demands the integration of the three theoretical models which have been examined in this chapter. He tentatively suggests that a summary statement for a better theory could be worded as follows:

> **"Foreign divestment takes place when a firm no longer finds it advantageous to internalize its remaining competitive advantages through a particular foreign investment, and this perception is implemented through either new leadership or newly internalized routines"** [Boddewyn, 1983, p.6].

The next chapter is related to the major issue of this thesis - Employee Disclosure and Consultation during the divestment process and considers the time, place, and instigator of foreign divestment decision making, and the time lag between formulation and employee disclosre.

CHAPTER 4

THE FOREIGN DIVESTMENT DECISION: EMPLOYEE and HOST GOVERNMENT REACTION

4.1.: Introduction

Advocates of increased quantitative and improved qualitative disclosure of information by MNCs include governments, trades unions and employees, investors (including financial analysts), bankers and lenders, the general public, accountants and auditors.

Employees and their representatives are interested, first and foremost, in information relating to the terms, conditions, scale, security and location of employment [Gray, 1984, p.32-37]. Consumption and lifestyle are determined by present and anticipated income, so employees are particularly anxious when uncertainty surrounds the future of their place of work. In order to avoid unexpected redundancies, Trades Unions want meaningful information, on the performance of individual plants which will allow them to evaluate the likelihood of job losses and total closure.

According to the BI study [1976],

> **"closure, when it takes place against a background of high unemployment and especially when it involves a foreign company, is a sure fire recipe for confrontation with employees and unions, backed as likely as not by pressure from the host government and public opinion"** [BI, 1976, p.85]

This chapter examines the length of the divestment process, and highlights the normal pattern of disclosure within the corporate hierarchy, and then to employees and the government of the host country. Factors determining timing of disclosure are also considered for multinationals divesting in foreign countries are walking a tightrope; while they are eager to avoid pre-mature disclosure which may upset their plans, they have a vested interest in being seen as acting with social responsibility.

This ambivalence has been particularly acute in the 1980s. Record high unemployment has apparently weakened the Trade Union movement in Europe, but organised labour is determined to halt the tide of more major closures. At least one US MNC has been threatened with a Europe-wide walk-out should any factory close. Firms announcing the closure of a plant may find it occupied by armed militants.

The chapter concludes by reviewing three cases in which one EEC country allegedly poached inward investment and jobs from another by offering illegal financial incentives. The purpose of this section is to illustrate the value placed on foreign direct investment by host country governments and its vital contribution to job-creation and employment stability. The examples may serve as a warning of the wrath incurred by MNCs if host country governments suspect that they are believed to be tip-toeing out of the country to take advantage of more government aid elsewhere.

4.2.: The Divestment Process

The length of the divestment process can be defined as the amount of time between the President or Chief Executive Officer's first consideration of a possible divestment to the moment when the divestment is substantially completed.

The BI study [1976], Nees [1978], and Torneden [1975] have estimated the average length of the divestment process and their results are discussed below. A number of specific cases of foreign divestment are then reviewed and an attempt made to determine the extent to which employees were kept informed.

Establishing the length of the divestment process is difficult because executives were unable to pin-point its beginning. The majority of respondents in the BI study [1976] could only give vague estimates:

"the thought process whereby executives and managers start

considering divestment as a real alternative is not well understood - as is true of all major decision-making and problem-solving" [BI Study, 1976, p.40].

Of the 32 MNCs reviewed in the BI study [1976], 15 estimated the first stage as taking 11 months. On average, the second stage, implementing the divestment decision took 9 months. Most respondents stressed that results worsened and prospects of improvement receded during the two to four years preceding formal divestment analysis. As one executive said,

> **"It takes three to four years before a problem gets big enough to be recognised as one that requires drastic action. The situation gets worse every year, the subsidiary is on 'the question list', but everybody keeps hoping it will get better"** [BI Study, 1976, p.41].

This quote and the one below underline the "barriers to exit". Executives clearly see divestment as a last resort:

> **"We tried to turn that subsidiary around for some three years. After that, it still took us two years to decide to divest"** [BI Study, 1976, p.41].

Torneden [1975] produced roughly similar findings. In his study on foreign divestment by US MNCs, on average the first stage of the process,- deciding which plant(s), if any, to divest - took 15 months, while the second stage, - implementing the decision - took 10.5 months.

Nees [1978] in an investigation of 14 specific divestment cases found that the divestment process ranged most frequently from 20 months to several years (see Table 3.1).

Table 3.1.: Estimated Duration of Divestment Decision Process

Cases Studied	Estimated Duration
2	1-10 months
3	11-20 months
4	21-30 months
5	over 30 months

Source: Nees [1978, p.90]

The divestment decision-making process is shorter in companies with better information systems that allow speedy detection of problems, and/or, possible divestment opportunities, previous divestment experience, or different management style or organizational culture [BI Study, 1976, p.40].

Time spent on deciding is commensurate with the potential and size of the subsidiary. Therefore the divestment process of a foreign subsidiary serving the entire European market would tend to be given prolonged consideration while management ascertain that there is no alternative.

The product range too determines the extent of the divestment process, since greater stigma is attached to management which has to acknowledge failure in its own field of expertise. Conversely, the divestment process is carried out with more alacrity in a peripheral business where management has comparatively little experience.

4.3.: The Role of Parent and Subsidiary Management

The BI study found that a divestment review is usually conducted at the behest of the parent company and unknown to the foreign subsidiary:

> **"Seldom does the foreign subsidiary itself initiate the divestment analysis, although it certainly provides some of the necessary data (forecasts, market analyses, plans, budgets, reports etc.). Typically it is unaware of an investigation or decision bearing on its fate - thus lending evidence to the criticism that decisions to close down, liquidate or lay off workers are "made in Detroit" rather than on the spot"** [BI, 1976, p.26].

Parent company executives sometimes seek to postpone informing managers of the subsidiary affected by the divestment decision, especially if they are natives of the host country, until their cooperation is essential; they fear that their sentiments towards the factory and local community outweighs their empathy for the company. The parent company's perception of subsidiary management bears on the handling of the divestment process:

> **"We kept the local managers in the dark because we felt that part of our problems in England reflected their lack of skills and leadership. Besides they were operating men who did not take a strategic view of their business within the**

corporate context" [BI, 1976, p.26].

Local management will usually comply with directives from parent company headquarters. Early disclosure of "bad news" is considered a gamble in that it may shift the balance of bargaining power in favour of trades unions and governments by affording them time to orchestrate industrial action and mount a campaign to reverse the original decision. Companies with other plants in the same country as the divestment candidate are particularly anxious that industrial production may be disrupted at all plants by secondary action in support of colleagues. Indeed, Ford was warned in 1985 by Trades Unions that if any European plant was closed, then it would face a mass walk-out at all its European operations.

A number of respondents in the BI study attached importance to ensuring that negotiations with host country governments are conducted by top executives from the parent company, or in other words, by the real decision-makers. Personal contacts with ministers and other key officials should be established, and subsidiary mangement should conduct negotiations with labour's representatives [BI Study, 1976, p.83].

4.4.: Implementing the Divestment Decision

Host government promises of financial assistance are unlikely to dissuade a MNC intent on closing a loss-making operation. Most respondents in the BI study [1976] rejected offers of this nature because the proposals did not seem viable, would merely have postponed divestment, or would have exacted restrictive commitments to maintaining the existing employment level. Executives of one MNC divesting from the UK were particularly cynical of intervention by Government Ministers and senior Trades Union officials:

> **"When the lay-offs start, the unions run to complain to the government. Then ministers must be seen talking to management, to demonstrate that they are concerned and are 'doing something' about the situation. Actually, the government inquiries are just a lot of whitewash to let the union leaders off the hook"** [BI Study, 1976, p.82-83].

According to one executive, once a company announces a closure decision, unions ostensibly oppose the decision, but, to a large extent they are merely acting out the role which they believe is expected of them:

> **"Although we worked closely with the union leaders right up to the end, they still had to react in public against our decision to close down. At one point they staged a protest march from the factory to the company offices, in order to dramatise and get national attention for the industry's plight. But they consulted us in advance, and we said it was alright with us provided it was orderly - which it was"** [BI Study, 1976, p.85-86].

The BI study [1976] provides a brief, but detailed, account of the strategy used by a US MNC closing a European operation. First, it sent a high-powered delegation from HQ to inform local management of its decision. Shocked subsidiary management proved cooperative and made no attempt to obstruct the closure. Indeed, it contributed to the carefully designed battle-plan which allowed for several awkward eventualities (see Insert A).

4.5.: Notifying Employees

The assumption, that adverse effects of closure will somehow become more palatable if advance notice is given to public authorities and employees, underpins national employment protection legislation in the EEC and most other Western European countries (as shall be seen in the following chapter). But multinationals are not unduly constrained by such legislation and this perception has sparked off demands, especially by governments and trades unions, for extensions in accountability. Various international inter-governmental bodies, such as the UN, OECD, and EEC, have produced codes and proposals of conduct which aim to bring MNCs into line.

Employers' plans for specific factories are seldom, if ever, included in company publications. Annual Reports of MNCs often include segmental reporting by geographic area and by product, but often neither is narrowly defined, and, therefore, information is of questionable value to shareholders, investors, and stakeholders, including employees and Trades Unions.

INSERT A

"They (parent and subsidiary management) all set to work on the details (including mock question-and-answer sessions) of the announcement of the plants' closure to workers, government and unions. The company did not negotiate with these groups but simply told them what it was going to do, since it felt there was no viable alternative to closure. Besides, the company had found the unions very obstructive during a prior dispute. The Ministry of Labour was notified first, but its objections were firmly resisted, with the company explaining the rationale of the closure as well as its generous fulfilling of all legal obligations.

By presenting the unions and the authorities with a 'fait accompli', this company was clearly risking an adverse reaction- particularly as the subsidiary concerned was a major and prestigious (if ailing) local company which had been acquired by the US firm a few years previously. The reaction was not long in coming. The unions, not placated by the company's offer of generous severence pay (based on years of service) above that required by law, appealed to the government to mount a rescue operation, and militant workers occupied the plant. Press coverage was heavy and hostile, and commentaries by local politicians played on the theme of the hard-nosed multinational corporation transferring production abroad in pursuit of its own economic advantage at the expense of the local economy and workers. In the end, the occupying workers were removed after several months by court action (involving sizable legal costs for the divestor); and the government, acting on the advice of independent consultants, tacitly acknowledged the company's rationale by turning down the appeals for it to step in with state financing to keep the business going. But the company was left with a lasting blot on its image in the host country" [BI, 1976, p.84].

Information on specific plants tends to emanate from local management, but, as was seen in an earlier chapter, the divestment decision is normally a centralised one, made by a handful of parent company executives, and it is not unknown for them to withold from subsidiary management details of decisions for as long as they consider expedient.

This time lag between parent decision, and disclosure to subsidiary management, may be repeated between subsidiary and plant management, and again between plant management and employees. Most respondents in the BI study [1976] only consulted employees after the closure decision had been made. Firms divesting all its operations in the host country, and with no plans to re-invest in the foreseeable future, are more inclined to minimise or avoid consulting employees:

> **"For most companies, the preferred strategy is to "notify" unions and employees <u>after</u> the fact; and then to "discuss" with them and employee representatives (works councils, etc.) how to minimise the impact of layoffs .."** [BI, 1976, p.85].

US MNCs believed that the mere fulfilling of legal obligations (proper notice, severance compensation, payments of all business liabilities etc.) satisfies the requirements of good corporate citizenship, and were particularly likely to present governments, unions, employee representatives, and communities with a "fait accompli" [BI, 1976, ch. 10; Boddewyn, 1979, p.25].

According to Boddewyn, European MNCs have "a more pronounced sense of 'social responsibility' towards employees and society at large" than their US counterparts. He argues that this trait renders them unwilling to discuss past divestments because they have guilt feelings about closures and job losses [Boddewyn, 1979a, p.22-24].

During the time lag between the divestment decision and publicising of same, misleading information may be provided by plant and even subsidiary management, unaware that a divestment decision has already been made.

As the BI study says:

> **"It is well to realise that the local manager, for all his impressive legal title - President-Directeur General, Geschaftsfuhrer, Managing Director, etc. - is often nothing more than the equivalent of a plant manager in the home country, who is seldom consulted when divestment is being considered. Of course, his symbolic value is much greater abroad, and this fact can create serious psychological and social (external affairs) problems"** [BI, 1976, p.91]

Prior to announcing divestment proposals, MNCs' Public Relations Departments along with several others, notably Industrial Relations Departments, are busy preparing for the withdrawal by developing strategies and battle plans for dealing with the host government, the unions, and the press. The aim is to safeguard the image of the company, or as one executive put it, to allow the multinational to withdraw "looking beautiful and smelling like a rose" [BI, 1976, p.87].

Employees, in contrast,

> **"often have to prepare their initial defense in a matter of hours, with the purpose of preventing closure and saving jobs"** [Grunberg, 1982, p.27].

The two sections below review the two cases, involving British employees, which Grunberg [1982] examines, plus two proposed plant closures in France which became international news because of workers' violent opposition.

4.5.1.: Multinationals' Secrecy

In 1975, the UK Government, and UK employees of the US-based Chrysler Corporation, learned from press reports of the Company's intention to close its UK plants. Employee representatives prepared their case aboard the train to London where they had arranged to meet the Government.

If implemented, Chrysler's proposal would have had a grave effect not only on the British economy, but could have brought a potential political crisis to boiling point. Economically, it would have meant the loss of 55,000 jobs at a time of already high unemployment and it would have adversely affected the balance of payments. Politically, the closure of the Scottish factory at Linwood, a traditional Labour stronghold, would have provided the Scottish Nationalist Party, at the peak of its popularity, with even more support for an independent Scotland. In the October 1974 General Election the SNP had won 11 seats and were second to Labour in 35 out of 41 seats.

The Labour Government felt constrained to save Chrysler and so committed itself to supporting the UK subsidiary up to a maximum of £162.5m. The Corporation, for its part, committed itself to a planning agreement specifically designed to involve Trade Unions and Government alike in talks about the UK affiliate's future.

Despite this commitment and the huge injection of Government aid, Chrysler announced in early August 1978 that its entire European car and truck operations would be taken over by Peugeot-Citroen Neither the Government nor the workforce was given prior warning of the deal. Only three years later, in the face of massive losses for the entire Peugeot-Citroen group, the French MNC closed Linwood.

In 1975 the US MNC, Litton Industries divested its British subsidiary, Imperial Typewriters. At 3.30 pm., on January 17, 1975, it announced that its two British plants at Hull and Leicester would close on February 21, thereby giving the statutory notice. Only three days earlier shop stewards had asked the Hull management to elaborate on the future of Imperial. Management assured them that "there was no cause for panic" [Grunberg, 1982, p.131].

The workers at Hull in North East England fought the closure and occupied the factory for five months, but at Leicester in the Midlands, where the workforce was sharply divided on racial grounds, there was little resistance.

4.5.2.: Extreme Employee Reaction to the Threat of Divestment

In principle, no one questions management's prerogative in liquidating a losing operation. However, a time of world recession with high levels of unemployment creates a highly charged atmosphere in which a firm finds it difficult to break the bad news without damage to its own public image. In some instances bad publicity worldwide has even caused firms to rescind their original plans. One such case involved France's Peugeot-Citroen.

Peugeot announced in late 1983 that redundancies would be forthcoming at its Talbot plant at Poissy, near Paris. The reaction of the multi-racial workforce was extreme, heightening racial tension in the country and allowing more extreme political parties to gain momentum. One British newspaper dubbed the events at the factory as the "Battle for Poissy". Violent clashes had broken out between immigrants (who formed 80 percent of the workforce and whose strike action was backed by the pro-Socialist CFDT union) and the white, indigenous workers (who were backed by the Communist-led CGT union). The conflict was extensively covered by television which showed rival factions armed with guns and slings, segregated by riot police who had to resort to CS gas to disperse the opposing gangs. The Industrial Editor of the Sunday Times concluded that:

> **"(T.V. coverage) was doing incalculable damage to the Talbot image.Expensive efforts have been made to restore the Talbot reputation.'Yet now we see the cars being used as barricades in pitched battles', complained one dealer last week".** [Sunday Times, January 8, 1984]

Eighteen months later, at least 100 people were injured, some seriously, when clashes broke out between riot police and militant members of the pro-Communist CGT union at SKF's Ivry factory on the outskirts of Paris. The Swedish MNC's ball bearing plant had been at the centre of a dispute from the time that employees were informed in 1983 of the Company's plans to close Ivry with the loss of 639 jobs.

In June 1985 riot police were sent in to clear the plant which had been occupied throughout the previous eighteen months by the CGT and the Communists in a bid to avert closure. Violence flared, especially when "a commando of CGT militants made a dawn raid" on the factory. Ominously, for other firms contemplating plant closure, the CGT appears to have the full support of the local population [Betts, June 6, 1985].

The Talbot and SKF cases clearly highlight the potential problems of plant closures involving major job losses. It is not surprising, therefore, that concern in Britain and the other EEC-countries is very real.

Even before these violent eruptions in France, the ex-Prime Minister of Belgium, Mr. Leo Tindemans issued a plea for more and earlier information disclosure by MNCs:

> **"National authorities are usually glad to see multinationals come, they are not so glad when they go. But it belongs to the essence of multinationals that they constantly adjust to varying economic conditions, and that, when they set up an establishment somewhere, they want to preserve their freedom for the future. Disinvestment policies have therefore become a theme which the national authorities and the multinationals have to examine more closely. Perhaps, we in Western Europe should ensure that the urge for security, and stability for all, does not degenerate into the excesses of a stultifying paralysis. In the host countries, therefore, the national authorities will have to show understanding for the possibility of disinvestments. But is it asking too much that these national authorities be given adequate and ample notice of planned divestments, particularly when the enterprises concerned have enjoyed substantial government aid?"** [Van den Bulcke, 1979, p.56-57]

The next chapter will examine national cultural profiles and plant closure legislation. It will be seen that executives from different countries will have different value systems which may be reflected in their management systems. The problems identified in this chapter are likely to vary depending on the culture of the home country of the firm. National plant closure legislation will also be reviewed in order to assess whether it conforms to national culture. First though, we review some cases which illustrate the efforts of national and local governments to attract foreign direct investment.

4.6.: Foreign Direct Investment and Divestment: Host Governments' Reaction

The investment and divestment decisions of MNCs have major economic, social, and political implications for home and host country alike. In a time of recession and high unemployment, investment (and the jobs it creates) is a prize eagerly sought out by national and local governments. Evidence of this can be seen in their attempts to outbid each other in financial inducements to potential investors.

For example, when, in 1985, General Motors chose Tennessee for its "Saturn Project" it could have had any one of 1,000 sites throughout the country, inundated as it was by State Governors anxious to attract business which would create 6,000 jobs [Hall, 1985].

Just as General Motors was beseiged, so too was Nissan when it disclosed in January 1981 plans to construct a £300m manufacturing facility in the UK. No less than 40 councils submitted bids for the factory. After three years of deliberation, and stern opposition to the project by Nissan union president, Ichiro Shioji, Japan's second largest automobile manufacturer eventually chose Washington, Tyne-and-Wear, in the North East of England. Smaller than originally envisaged, the £50m car assembley plant will provide 500 jobs in an area which lost a third of its manufacturing jobs within a period of four years [Gooding, 1984; Hetherington, 1984; McLoughlin, 1984; Smith 1984; Vines, 1984].

In Europe competition for inward investment is intense between nations. Governments and unions are disturbed by the willingness of some firms to transfer production abroad simply because more financial assistance is available. Whilst resort to violence is rare, workers are no longer satisfied with just being told that their plant is unprofitable. They want to know why it is unprofitable and what could be done to remedy the situation. They want to employ outside consultants to check the firm's figures and investment plans. Armed with the support of the community, they appeal to the host government to put pressure on the firm and on the government of the home country. In recent years, a number of notorious examples have surfaced of companies being "poached" from one EEC country to another by allegedly illegal financial inducements. Below we review three cases involving Hyster, Allied Corporation, and Timex.

4.6.1.: Hyster

Hyster's 1983 rationalisation strategy involved cutting production and numbers employed at its Dutch plant, selling its Belgian components operation, and concentrating volume production of fork-lift trucks at Irvine whose workforce in 1978 had voted overwhelmingly against unionisation [Meredith, 1983]. The decision to launch a £40m investment programme at its Scottish factory was reached only after 491 of the plant's 502 employees agreed to accept a 9.8% cut in basic pay. Company President, James Kilkenny, had earlier warned that unless the workforce accepted the loss of earnings and fringe benefits, then the investment would go elsewhere:

> **"We have had other offers from other countries and we will have to look at that alternative"** [quoted in Hetherington, 1983].

Chairman of the workers' consultative committee, Mr. George Campbell, accused Hyster of blackmail:

> **"The workforce are convinced that they have had to buy their jobs from their American masters with no tangible guarantees"** [quoted in McCallum, 1983].

On the Continent suspicions arose that the Government had contravened EEC regulations by offering to subsidise the proposed investment in Scotland to the tune of £12m. State aid to industry must first be approved by the European Commission, and Mr. Frans Andriessen, the EEC Competition Commissioner, and himself a Dutchman, telexed the British Government demanding details of the aid package.

Meanwhile, Unions at the Dutch plant (in Nijmegen) reported

Hyster to the Commercial Section of the Amsterdam Court of Justice which is "empowered to reverse a management decision involving a substantial reorganisation, where the Court upholds a union claim that the decision is unreasonable". In order to prevent Hyster transferring production before the Court ruling, an interim injunction effective for three months was issued on July 14, 1983.

In November 1983, Dutch unions reached "an amicable settlement" with the company. The former agreed to accept a number of dismissals if Hyster could prove that the redundancies were due to collapse in world demand and were not a consequence of strategic restructuring. In exchange, the Portland, Oregan, based fork-lift manufacturer agreed to delay for two or three years the transfer of production from Nijmegen [Watson, 1984].

Finally, on January 23, 1984, the European Commission endorsed the UK Government's £20m aid package.

4.6.2.: Allied Corporation

Ironically, news of Hyster's proposals coincided with two US MNCs, Timex, and Allied Corporation, allegedly transferring production from the UK when other governments offered more attractive inducements. These two cases, which are examined in an internal Department of Employment document entitled "Two Recent Examples of 'Bad Practice' by Multinationals", are reviewed later in this chapter.

On the very day that the European Commission began investigating the Hyster case, Prime Minister Thatcher initiated investigation of the Allied Corporation case, following exhortations by Mr. Charles Irving, Conservative MP for Cheltenham [Johnson, 1983a].

On February 3, 1983, Allied Corporation announced the closure of its its two apparently flourishing Linotype-Paul typewriter plants in Cheltenham with the loss of 500 jobs. Employees discovered that the Company was transferring production to its Frankfurt plant, where corresponding vacancies were being created. The rationale underlying the Company's decision was obscure and lack of communication and consultation with employees, lead the UK Government to suspect that the German Government had poached the jobs by offering illegal inducements.

Opposition to the decision soon surfaced, and Mr. Signorovitch, Allied's Director of Public Affairs, admitted that news of the divestment decision had been withheld from local management [The Echo, February 19, 1983]. Two Directors resigned in protest at the decision, one being Mr. Klaus Schloessingk-Paul, Chairman and founder of the original firm of K.S. Paul in London in the mid-1950s [Johnson, 1983b].

The Secretary of State for Industry, then Mr. Patrick Jenkin, wrote to the Company "re-emphasising the Government's concern about their decision and about the lack of prior consultation with the workforce" [internal Department of Employment document entitled "Two Recent Examples of 'Bad Practice' by Multinationals"].

4.6.3.: Timex

The second case of "Bad Practice" involved Timex, one of the largest private companies in the West, owned by Mr. Fred Olsen, a Norwegian recluse, who has a reputation for obsessive secrecy. According to his compatriot, journalist Alf Jacobson,

> **"He wants to keep his dynasty intact and his businesses away from the public eye. No-one really appears to know what he plans until it is too late to object to them - even if one could"** [Jacobson quoted by Balfour, 1983].

According to a report in The Sunday Times, the Nordic tycoon is ruthless in his pursuit of profit, with no consideration for national interests:

> **"A born dealer, Olsen is always prepared to switch countries and trade assets in order to gain favourable tax treatment plus government aid"** [Gilbert, 1983].

On January 10, 1983, Timex, announced that 1,900 redundancies were necessary at its Milton plant (in Dundee Scotland) which had a 4,200 strong labour force. The loss of 500 jobs was directly attributable to the Company's failure to retain the contract for the Nimslo International 3-D camera. Estimates of Olsen's stake in Nimslo vary from 35%-50%, and the contract went to Fralsen, a French firm, wholly-owned by the Norwegian [Balfour, 1983; Gilbert, 1983].

The other 1,400 redundancies were due to the decision by Timex, the largest watch company in the world, to cease mechanical-watch production at Dundee, and instead increase output of quartz watches at its Besancon plant in France. The aid package offered by the French Government included £12m in grants and £43m in loans. The grants were quite legal but the Scottish Economic Planning Department wanted confirmation that the loans conformed with EEC rules [Dowle, 1983].

The EEC and Mrs. Thatcher demanded an investigation. The European Commission's suspicions had been reinforced by France's apparent failure to seek Brussel's approval of the aid package as is required by Community law. [Merrit, 1983] On February 7, 1983, the Commission initiated its inquiries and put a freeze on the French subsidies until the investigation was concluded.

The Prime Minister in a letter to Mr. Gavin Laird, General Secretary of the AUEW, noted that although Timex had assured the Government that no production was being transferred to France, "there is clearly a great deal of public concern about this question" [The Scotsman, March 2, 1983].

On March 29, 1983, local union officials leading the occupation of the Dundee plant released confidential Company documents which proved, they claimed, that production had been transferred to Besancon. They accused Mr. Olsen of duplicity and misrepresentation to mislead the Government [Glasgow Herald, March 30, 1983].

By April 5, Timex still had 200 employees in excess of its target, a 1,900 reduction in workforce. The majority had left voluntarily, but on April 7, the Company issued 197 compulsory redundancy notices. This action provoked an immediate response from Union officials at the plant and the following day more than 100 workers accepted their shop steward's recommendation to occupy Milton in a bid to avert compulsory job losses. On April 18, 400 workers returning from annual leave reported for sit-in duties [Glasgow Herald, April 18, 1983; Millar, April 8,1983].

On May 6, Milton plant management lodged a petition in Edinburgh's High Court "to suspend the unlawful trespass and to interdict those engaged in the sit-in from remaining on or entering unlawfully the company's property" [The Times, May 7, 1983]. Letters of dismissal for breach of contract were sent to 200 of those participating in the sit-in, the other 200 having already been made redundant. Another 100 redundancy notices were issued to employees even though they had indicated they did not support the union's action. Undeterred, union leaders said the occupation would continue until compulsory redundancies were withdrawn [Glasgow Herald, May 6, 1983; Millar, May 7, 1983].

On May 18, 1983, the six-week sit-in ended with Timex withdrawing the threat of compulsory redundancies, but by this stage these were largely unneccesary, 1,775 volunteers had already parted from the Company. The case brought by Timex to the Court of Sessions was adjourned and eventually abandoned.

These three cases involving the governments of Britain, France, West Germany, and the Netherlands, all partners in the EEC, underscore not just the value attached to foreign investment and the underhand methods employed to attract it, but also governments' blatant self-interest regardless of the consequences to other countries.

Self-interest of this kind is not peculiar to international competition. Even within the same country, levels of subsidy on capital investment and job-creation vary. Regional development agencies and local politicians are not slow to highlight these differences if it will help their cause.

Governments have even violated the fair competition terms of the

Treaty of Rome (i.e. Article 93) in their efforts attract inward investment. During 1981-82 the European Commission conducted 190 official investigations into dubious aid packages and ruled against EEC governments in 27 cases. During the whole of the previos decade, the Commission had examined a similar number of cases, and declared 21 incentive packages illegal. These contrasting figures bear testimony to the EEC's recent clampdown on unscrupulous governments. The Dutch and Belgian governments were each found guilty of offering illegal incentives to fourteen major MNCs. The Commission ordered the governments to withdraw these offers, and directed the MNCs to return in full illegal payments. The companies involved included Exxon, Shell, Philips, ICI, and Polaroid [Merritt, 1985, P.7].

4.7.: Summary

Some crucial points have emerged on the divestment decision and its implementation. First of all, a divestment review is usually conducted at the behest of the parent company and unknown to the foreign subsidiary. Secondly, parent company executives sometimes seek to postpone informing managers of the subsidiary affected by the divestment decision, especially if they are natives of the host country.

Thirdly, establishing the length of the divestment process is difficult because executives were unable to pin-point the start of the process but one investigation of 14 specific divestment cases found that the process ranged most frequently from 20 months to several years. Another investigation found that on average 20.5 months is the length of the divestment process for US MNCs

The fact that the divestment decision is centralised and enshrouded in secrecy, sometimes results in the parent witholding from subsidiary management, details of decisions for as long as they consider expedient. This time lag is repeated down the line until the decision reaches employees. MNCs withdrawing completely from a host country are likely to disregard employee disclosure and consultation.

According to Boddewyn US and European MNCs have different ideas of what constitutes good behavior. US MNCs believe that the mere fulfilling of legal obligations satisfies the requirements of good corporate citizenship. European MNCs, on the other hand, were said to have a more pronounced sense of 'social responsibility' towards employees and society.

This theme, the impact of home country culture on corporate divestment, is explored in the next chapter which examines national cultural charecteristics. National profiles have been constructed which indicate whether or not national culture encourages or minimises employee disclosure and consultation.

PART II

CHAPTER 5

HOME COUNTRY CULTURE and COLLECTIVE DISMISSALS LEGISLATION

5.1.: Introduction

This chapter begins by presenting profiles of national cultures, as compiled by Hofstede [1983, 1985]. His work and that of Gray [1985] allow us to identify those countries whose culture encourages employee disclosure and consultation, and those whose culture prohibits revelation. This suggests "conditioning" and the behaviour of firms reflects home country culture, even when those firms operate outwith their domestic environment.

Numerous definitions of culture abound, but according to Hofstede, the essence of culture is that it is collective mental programming:

> **"It is that part of our conditioning that we share with other members of our nation, region, or group, but not with members of other nations, regions, or groups"** [Hofstede, 1983].

As Hofstede says, national differences are determined by culture which itself is resistant to change because it has become,

> **"crystallised in national institutions such as: government, legal systems, industrial relations systems, family structures, religious organisations, sports clubs, settlement patterns, literature, architecture, and even scientific theories"** [Hofstede, 1983, p.76].

Thus, if national legislation reflects national culture it is logical to expect foreign firms divesting from the UK to be influenced by the legal framework with which they are most familiar, that of their home country.

5.2.: National Culture

Hofstede [1980, 1983, 1984] has carried out extensive research on international differences in work-related values in the context of a MNC. This may provide insights into employee disclosure and consultation by MNCs from different home countries.

Having conducted a questionnaire on employee attitudes in 50 countries, Hofstede [1983] had sufficient data from 40 to allow systematic analysis. Thus, he was able to identify four value dimensions. These are examined by Gray [1985] who provides brief definitions of each:

> "1. **Power distance - which is the extent to which people in a society accept the unequal distribution of power in institutions and organisations.**
>
> 2. **Uncertainty avoidance - which is the degree to which people in a society feel uncomfortable with uncertainty and ambiguity, leading them to prefer beliefs which promise certainty and to support institutions defending conformity.**
>
> 3. **Individualism - which is a preference for a loosely knit social framework where individuals tend to be responsible only for themselves, compared to collectivism which is a preference for a tightly knit social framework where individuals are part of a larger family of relatives, or clan, or other group, who look after them in exchange for unquestioning loyalty.**
>
> 4. **Masculinity - which is a preference for achievment, assertiveness and material success, compared to femininity which is a preference for caring relationships, the quality of life and sympathy for the unfortunate"** [Gray, 1985, p.8].

5.2.1. Large or Small Power Distance

The basic issue probed in this dimension is how societies respond to mental and physical inequality. Some societies create inequality in power and wealth by offering high rewards to the talented; in others, physical and mental attributes are not a source of inequality but inequality is enshrined by hereditary rights; while in others, efforts are made to iron out inequalities in power and wealth. [Hofstede, 1983, p.81]

Table 5.1: Value of four indices for fifty countries (with rank numbers)

Country	Power Distance Index	Power Distance Rank	Uncertainty Avoidance Index	Uncertainty Avoidance Rank	Individualism Index	Individualism Rank	Masculinity Index	Masculinity Rank
Argentina	49	18-19	86	36-41	46	28-29	56	30-31
Australia	36	13	51	17	90	49	61	35
Austria	11	1	70	26-27	55	33	79	49
Belgium	65	33	94	45-46	75	43	54	29
Brazil	69	39	76	29-30	38	25	49	25
Canada	**39**	**15**	**48**	**12-13**	**80**	**46-47**	**52**	**28**
Chile	63	29-30	86	36-41	23	15	28	8
Columbia	67	36	80	31	13	5	64	39-40
Costa Rica	35	10-12	86	36-41	15	8	21	5- 6
Denmark	18	3	23	3	74	42	16	4
Equador	78	43-44	67	24	8	2	63	37-38
Finland	33	8	59	20-21	63	34	26	7
France	**68**	**37-38**	**86**	**36-41**	**71**	**40-41**	**43**	**17-18**
Germany	**35**	**10-12**	**65**	**23**	**67**	**36**	**66**	**41-42**
G. Britain	**35**	**10-12**	**35**	**6- 7**	**89**	**48**	**66**	**41-42**
Greece	60	26-27	112	50	35	22	57	32-33
Guatemala	95	48-49	101	48	6	1	37	11
Hong Kong	68	37-38	29	4- 5	25	16	57	32-33
Indonesia	78	43-44	48	12-13	14	6- 7	46	22
India	77	42	40	9	48	30	56	30-31
Iran	58	24-25	59	20-21	41	27	43	17-18
Ireland	28	5	35	6- 7	70	39	68	43-44
Israel	13	2	81	32	54	32	47	23
Italy	50	20	75	28	76	44	70	46-47
Jamaica	45	17	13	2	39	26	68	43-44
Japan	54	21	92	44	46	28-29	95	50
Korea S.	60	26-27	85	34-35	18	11	39	13
Malaysia	104	50	36	8	26	17	50	26-27
Mexico	81	45-46	82	33	30	20	69	45
Netherlands	**38**	**14**	**53**	**18**	**80**	**46-47**	**14**	**3**
Norway	31	6- 7	50	16	69	38	8	2
New Zealand	22	4	49	14-15	79	45	58	34
Pakistan	55	22	70	26-27	14	6- 7	50	26-27
Panama	95	48-49	86	36-41	11	3	44	19
Peru	64	31-32	87	42	16	9	42	15-16
Phillipines	94	47	44	10	32	21	64	39-40
Portugal	63	29-30	104	49	27	18-19	31	9
S. Africa	49	18-19	49	14-15	65	35	63	37-38
Salvador	66	34-35	94	45-46	19	12	40	14
Singapore	74	40	8	1	20	13-14	48	24
Spain	57	23	86	36-41	51	31	42	15-16
Sweden	31	6- 7	29	4- 5	71	40-41	5	1
Switzerland	34	9	58	19	68	37	70	46-47
Taiwan	58	24-25	69	25	17	10	45	20-21
Thailand	64	31-32	64	22	20	13-14	34	10
Turkey	66	34-35	85	34-35	37	24	45	20-21
Uruguay	61	28	100	47	36	23	38	12
USA	**40**	**16**	**46**	**11**	**91**	**50**	**62**	**36**
Venezuela	81	45-46	76	29-30	12	4	73	48
Yugoslavia	76	41	88	43	27	18-19	21	5- 6

Source: Hofstede [1983b]

Inequality exists in all societies, to a greater extent in some than in others. Among EEC countries, France (68) heads the list of Large Power Distance countries, followed by Belgium (65), Greece (60), and Italy (50). Small Power Distance countries tend to be the Anglo, Germanic, and Nordic countries. Austria (11) and Israel (13) Denmark (18) were found to have the least inequality. Germany and the UK (35) tied in terms of inequality. The, Netherlands (38), Canada (39), and the US (40) were found to tolerate greater inequality.

In organisations, the Power Distance score reflects the degree of centralisation of authority and the degree of autocratic ownership. [Hofstede, 1983, p.81] Table 1 below, therefore, suggests greater centralisation in MNCs whose home base is in France, Belgium, Italy and Spain, than in those based in Sweden, Switzerland, Germany, the UK, Netherlands, Canada and the US.

5.2.2. Strong or Weak Uncertainty Avoidance

This dimension focusses on how societies react to the uncertainty of the future. Some socialise their people into calm acceptance of this uncertainty - "que sera sera". Citizens of these Weak Uncertainty Avoidance societies are less industrious and are averse to taking risks, but, are more tolerant of deviant behaviour and views than countries of Strong Uncertainty Avoidance which programme their people to conquer the future. These people exhibit higher anxiety, manifest in nervousness and aggression. Weak Uncertainty Avoidance countries include, Canada, the Netherlands, the UK and US. Strong Uncertainty Avoidance countries include France, Germany and Switzerland.

5.2.3. Individualism vs Collectivism

Countries characterised by Individualism are more likely to provide information since external influences bear on them more strongly than on collectivist societies where family loyalties are paramount. Hofstede found a positive relationship between a country's Individualism and its wealth. Affluent developed nations are Individualist and poor under-developed countries are Collectivist. From his sample of fifty countries, the US ranked as the most Individual, followed by Australia, the UK, and in joint fourth came Canada and the Netherlands. France and Germany ranked ninth and fourteenth respectively (see Table 1).

Ecuador, Guatemala, and Panama were very Collectivist, and Greece, with a score of only 35 on the Individualism scale, is the only Collectivist country in the EEC. The result of this value dimension suggests that EEC countries - apart from Greece - should be amenable to disclosure.

5.2.4. Masculine vs Feminine

According to Hofstede [1983], Masculine societies attach great importance to making money, whereas in Feminine societies human relationships are accorded priority; - the strong take care of the weak, and the environment is treasured with other factors which improve the quality of life.

Hofstede's results point to Japan as the most Masculine country, with Germany, Switzerland and the UK among the top ten, while the US ranked fourteenth. The four most Feminine countries are Sweden, Norway, Denmark and the Netherlands.

Having compiled indices on each of the above dimensions, Hofstede was able to identify clusters of countries which may be termed culture areas. Eight culture areas were identified - More Developed Latin, Less Developed Latin, More Developed Asian, Less Developed Asian, Near Eastern, Germanic, Anglo, and Nordic. Table 2 reveals the membership of each.

Table 5.2: Culture Areas

More Developed Latin	Less Developed Latin	More Developed Asian	Less Developed Asian
Belgium	Colombia	Japan	Indonesia
France	Mexico		Taiwan
Argentina	Venezuela		Thailand
	-		-
Brazil	Costa Rica		Hong Kong
Spain	Chile		Singapore
-	Guatemala		
Italy	Panama		
	Peru		
	Portugal		
	El Salvador		
	Uruguay		
Near Eastern	**Germanic**	**Anglo**	**Nordic**
Arab countries	Austria	Australia	Denmark
Greece	Israel	Canada	Finland
Iran	-	UK	Netherlands
Turkey	Germany	Ireland	Norway
Yugoslavia	Switzerland	New Zealand	Sweden
		USA	
		-	
		South Africa	

Source: Gray [1985, p.27]

Gray considers the relationship between Hofstede's value dimensions and accounting values. He suggests that there are "at least four significant accounting value dimensions which impact on financial reporting ..". These values are professionalism, uniformity, conservatism, and secrecy [Gray, 1985, p.11].

Our concern is with secrecy, which may be defined as,

> **"where there is support for confidentiality and the restriction of information about the business only to those who are closely involved with its management and financing"** [Gray, 1985, p.12].

5.3.: Culture and Secrecy

The Secrecy value dimension appears to have a strong positive relationship with uncertainty avoidance, given the desire to eschew conflict and competition and to maintain security. France, and Germany to a lesser extent, are Strong Uncertainty Avoidance countries.

The Secrecy value is moderately supported by the Power Distance relationship in that in hierarchical societies, outsiders arouse anxiety and are not to be trusted with information about the business, and by the Masculinity dimension as the machismo ideal may espouse confidentiality, unlike the feminine line which may encourage information disclosure, at least on social issues. Countries whose culture is characterised by Collectivism, Large Power Distance, Strong Uncertainty Avoidance, and Masculinity accept inequality, hold material success in high esteem, and loathe uncertainty, are least likely to produce managers willing to disclose information to employees and others.

Conversely countries characterised by Individualism, Small Power Distance, Weak Uncertainty Avoidance, and Femininity should generate firms and management which are "open", and willing to provide interested parties with details on the enterprise.

The case studies presented in this thesis will examine foreign divestment in the UK by Canadian, Dutch, French, German, and US MNCs. Only the Netherlands possesses all four charactistics conducive to disclosure, namely Individualism, Small Power Distance, Weak Uncertainty Avoidance, and Femininity. Canada could almost be described as possessing 3.5 features, given its borderline score of 52 on the Masculine-Feminine dimension. The US and UK are considered Masculine countries, (Britain being the more Masculine), and thus they possess only three of the four features associated with "openness". France and Germany bear only two features. The former is a High Power Distance and High Uncertainty Avoidance country, while the latter is High Uncertainty Avoidance and Masculine. Both countries are thus characterised by the feature most closely associated with secrecy, namely, High Uncertainty Avoidance.

National culture is not only reflected, but is moulded by a country's legislation. It seems reasonable, therefore, to expect an examination of redundancy and employee disclosure legislation to reinforce the above findings. The Netherlands, followed by

Canada are most likely to impose the most onerous obligations on firms, then the US and UK, with France and Germany least likely to have employee information disclosure legislation.

Cultural influences should be reflected in these countries' stance on the OECD's Guidelines for Multinational Enterprises and in their response to the "Vredeling Proposals". Culture should, according to Hofstede and Gray, be reflected in managerial style. One would therefore expect MNCs from Holland to be most forthright, just pipping management of Canadian MNCs, followed by US counterparts. Executives of French and German MNCs would be expected to withhold information.

5.4.: Convergence or Divergence?

Hofstede's views on the stubbornness of national cultures are not universally accepted. Indeed, the assumption underlying the marketing strategies created for major clients by the world's leading advertising agencies is that the needs and desires of people throughout the world are converging. The advertisement hoardings above Time Square, at Picadilly, or in downtown Tokyo are emblazoned with brand names which are recognised the world over.

Hardly surprising then that "Global Marketing" is a concept currently in vogue in international business. Advertising agencies confidently proclaim that the same products should be sold in the same way everywhere. The phenomenal success of Coca-Cola, Levi's, and McDonalds in global marketing strategy, has long been the envy of other MNCs. However, the "world car" concept declined in popularity following unsuccessful attempts by Ford and Cavalier to produce a model popular on both sides of the Atlantic.

Nonetheless, since 1983 global marketing has attracted the attention of academics and feature writers. Indeed its current popularity owes much to the US marketing guru, Theodore Levitt of Harvard, whose book, "The Marketing Imagination", carried this message to MNCs:

"A powerful force drives the world toward a converging commonality, and that force is technology. It has proletarianised communication, transport and travel. ... The result is a new commercial reality - the emergence of global markets for standardised consumer products on a previously unimagined scale of magnitude. ...Gone are accustomed differences in national or regional preference. ...The globalisation of markets is at hand. With that, the multinational commercial world nears its end, and so does the multinational corporation.

The multinational and the global corporation are not the same thing. The multinational corporation operates in a number of countries, and adjusts its products and practises in each - at high relative costs. The global corporation operates with resolute consistency - at low relative costs - as if the entire world (or major regions of it) were a single entity; it sells the same things in the same way everywhere.

The world's needs and desires have been irrevocably homogenised. This makes the multinational corporation obsolete and the global corporation absolute. ...Different cultural preferences, national tastes and standards, and business institutions are vestiges of the past" [Levitt, 1983, p.92-93]

An opposing school of thought is led by Philip Kotler, who is vociferous in his condemnation of Levitt's hypothesis. He believes companies would be foolish not to cater for specific markets and take account of important national/regional differences. He stresses that advertising has to be tailored to the local culture. Indeed, cultural differences remain the biggest hindrance to global marketing [Fisher, 1985, p.63].

Levitt's Harvard colleague, Michael Porter issues the caveat, however, that, "Ignoring country differences can be suicidal to international companies", but failing to identify or create common worldwide demand for a standardised product "can be equally devastating". MNCs would do better to concentrate more on similarities and less on idiosyncracies [Lorenz, July 16, 1984].

Kotler's and Porter's argument reinforces the conclusions of Hofstede that culture programmes are almost ingrained in the individual and can be changed only by isolating the individual from his or her culture. This realisation has compelled organizational scientists to reconsider one of the basic tenets which underlay managerial theory in the 1950s and 1960s [Hofstede, 1983, p.76].

During this period it was widely held, at least in Europe and the US, that management was something universal. Principles of sound management existed which were to be applied regardless of product or national environment. Consequently, executives successful and expert in one product-range were expected to match previous performance when transferred to another in which they had little or no experience. Small wonder so many diversification policies foundered. Secondly, deviation from these principles was not tolerated. National or local management had to abandon practices which it had evolved, and rigidly adhere to the imposed doctrine. Universal application of a single managerial style and practise was expected to have profound effects on society by eroding national differnces and culture:

> **"In the future, the universality of sound management practises would lead to societies becoming more and more alike"** [Hofstede, 1983, p.75].

This philosophy, which dominated the 1950s and 1960s, is known as the "convergence hypothesis". By the 1970s, it was no longer tenable as it became clear that there was an alternative set of management principles adhered to by numerous Japanese firms which had put paid to Western domination of key industries. Japan, only a century earlier a feudal country, had become capitalism's star performer. Its unique national culture had fostered a people, apparently highly compatible with modern industrial production methods, - and whose value system was conducive to economic progress. In Western boardrooms, agnostic executives realised that their previous faith had been neither one, nor true, nor catholic. The key to solving their problems lay in the east, in Japan where an obvious relationship existed between management and national culture.

This perception spawned a wave of bestselling books on management which prescribed "Japanese" cures for America's malaise - for example, "The Art of Japanese Management" by Pascale and Athos [1981] and "Theory Z: How American Business Can Meet the Japanese

Challenge" by Ouchi [1981].

According to Hofstede,

> **"It slowly became clear that national and even regional cultures do matter for management. The national and regional differences are not disappearing; they are here to stay. In fact, these differences may become one of the most crucial problems for management - in particular for the management of multinational, multicultural organisations, whether public or private"** [Hofstede, 1983, p.75].

Industrial relations practises vary from one country or culture to another. Multinationals are renowned for introducing host countries to home country customs. American employee incentive and assessment schemes, plus negotiation procedures have been transferred to host nations especially since 1945 when US FDI grew dramatically. In more recent times, Japanese firms have overcome their caution, and established manufacturing operations overseas. Companies such as Hitachi, NEC, Nissan, and Sony, have introduced British workers to Japanese industrial relations. Initial results suggest that either the two radically different labour traditions can fuse successfully, or, alternatively, these firms have been able to superimpose their work ethic on British employees. Nevertheless, it would be foolish to deny that a clash of cultures has been known to occur. In the past few months, the Japanese firm, Hitachi has asked its British workers to volunteer for redundancy if they are over 35 years of age, and employees of Tatung, a Taiwanese computer company, have been banned from laughing at work.

The British experience clearly indicates that home country culture is reflected in the management style of foreign subsidiaries. This thesis seeks to assess its impact on the divestment process. This will be achieved by evaluating conduct against Hofstede's model, but according to Hofstede [1983], national culture is reflected in national legislation, and so we examine whether mass dismissals legislation is consistent with dominant national cultural values.

5.5.: Plant Closure Legislation and Culture

Hofstede's Strong or Weak Uncertainty Avoidance dimension of national culture measures a people's view of uncertainty and the future. Members or a Weak Uncertainty Avoidance society "have a natural tendency to feel relatively secure". In contrast, the population of some countries are manifestly anxious because "the future remains essentially unpredictable" [Hofstede, 1983, p.81]. These Strong Uncertainty Avoidance countries which strive to create security have three instruments at their disposal: technology; religion/or ideology; and, law. Technology is used to protect society from "Acts of God" and war. Marx's observation of religion's function is well known. Hofstede, like Marx, believes religion "helps us to accept the uncertainty of today because we interpret experiences in terms of something bigger and more powerful that transcends personal reality". Society's pass laws to outlaw deviant and unacceptable behaviour as a shield against unpredictable behaviour. Where the Courts cannot offer this service, committees of experts serve as a substitute because their knowledge is accepted, and so too are their findings, thus reducing uncertainty [Hofstede, 1983, p.83].

Chapters 9-13 comprise case studies of MNCs from five countries:- Canada, and the US, and from Continental Europe, France, the Federal Republic of Germany, and the Netherlands. Hofstede [1983] marked these countries and from this small sample Britain's score (36) indicates that it is more Weak Uncertainty Avoidance, than the US (46) in second place, then Canada (48), and the Netherlands (53). Germany with a score of 65 is a high Uncertainty Avoidance society, but much less so than France with (86).

The figures for Uncertainty Avoidance suggest that France, and then Germany are most likely to have tough redundancy laws, while the two North American countries and the Netherlands should have fairly similar employment protection policy. The Netherlands, however, scored as a Feminine country and as such is expected to show special concern for social welfare and discriminate in favour or the underdog. This trait may outweigh the weak

Uncertainty characteristic, and thus the Netherlands may have legislation similar to French and German legislations even if the root motive for it differs.

The UK is least likely to have stringent dismissal regulations. Before analysing national redundancy law in these countries a brief synopsis of the benefits to employees and costs to companies of disclosure are considered.

Giving advance notice can confer significant benefits on those effected. Workers are offered time to brace themselves psychologically and financially for the readjustment which closure demands. They can seek alternative employment and are at an advantage over applicants who are unemployed for research confirms the common belief that firms prefer to recruit people already in employment. They can also obtain references and counselling from the divesting company during the advance notice period [Carroll, 1984, p.133].

Advance notice has its drawbacks however for the firm. It may weaken the confidence of financial institutions and customers, thus precipitating a spiral decline in production, and it may have an adverse effect on employees' motivation. According to Carroll,

> **"Employee morale, pride in work, and productivity declines can be expected. Absenteeism may increase as workers begin to seek other employment. In addition, there is the likelihood of vandalism, pilfrage and neglect of property as employees lose interest"** [Carroll, 1984, p.134].

Ironically, providing advance notice can have precisely the opposite effect! One executive interviewed by the author attributed closure partly to the indolence of the labour force and very poor labour relations, but as soon as news of the divestment decision was disclosed the plant became a hive of activity and labour could not have been more co-operative.

The following sections examine how much advance notice, if any, employers must give employees about to be made redundant by plant closure. But before doing so, it may be worthwhile considering

Milton Friedman's view of "corporate responsibility":

> **There is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud... Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stakeholders as possible"** [Friedman cited in Rivlan, 1983, p.153].

5.5.1.: United States

Bluestone and Harrison [1982], authors of "The Deindustrialisation of America", conclude that during the 1970s, 32 to 38 million jobs were lost due to plant and business closings. Divesting firms are being confronted with increasingly hostile reaction from affected communities:

> **"union, employee and community anger .. is reaching unprecedented heights".** [Carroll, 1984]

Nonetheless, among developed industrialised nations of the West, the US is unique in that employers serving redundancy notices have no legal obligation either to compensate, or consult with employees. Most American employees have contracts permitting a single week's notice [The Economist, April 17, 1976, p.85]. There is no national (ie. Federal) legislation requiring advance notice or severance pay:

> **"American corporations ... continue to have, by European standards, an extraordinary freedom to lay off workers when orders shrink"** [The Economist, April 14, 1979, p.80].

The first major effort to introduce plant closure legislation was undertaken in 1976 by Representative William D. Ford and co-sponsor Senator Walter Mondale, defeated Democratic candidate in the 1984 Presidential election. The National Employment Priorities Act of 1974, HR 13541, "made little progress in Congress but subsequently plant closure bills have been regularly introduced in Congress and various state legislatures" [Sweet in Cross, 1985, p.21].

Ford's pioneering work succeeded in placing employment protection legislation on the political agenda and in 1983 he introduced a revised bill, National Employment Priorities Act (NEPA), HR 2847, which covers firms with fifty or more employees. [cited by Sweet in Cross, 1985, p.21]

NEPA would allow the Government to delay, but not prevent, plant closure. It has met with a hostile reception on Capitol Hill, particularly by the Reagan administration. It calls for advance notice when job losses in an establishment in any 18-month period equals or exceeds the lesser of 100 employees or 15 per cent of the employees. The notice given must be not less than six months where fewer than 100 employees are involved and one year where there are more than 100.

In 1982, twelve states considered collective dismissals legislation - California, Illinois, Indiana, Michigan, Minnesota, Missouri, New York, Ohio, Pennsylvania, Rhode Island, Vermont, and Wisconsin. Two years advance notice was a key provision in the 1980 Corporate Democracy Act, which Maine and Wisconsin, the only states which have plant closure legislation (and even then it is loosely enforced), included in their legislation [Carroll, 1984, p.133; Sweet in Cross, 1985, p.25]

Just as enticing financial inducements are offered to potential investors by legislators at national and state level, legislation discouraging to employers is avoided. They fear investors will gravitate to those states with minimal legislation. Connecticut's proposed legislation was abandoned altogether because of anxiety on this score.

In 1982, Philadelphia became the first city to enact legislation requiring firms to present employees with advance notice of closure. 60 days notice, or pay in lieu of notice, must be given.

In addition to advance notice, employees hope to receive severance payments which will serve to facilitate readjustment, and minimise financial hardship. [cited by Sweet in Cross, 1985, p.25]

5.5.2.: Canada

Under Federal jurisdiction, employers in Canada must provide advance notice of collective dismissals. In cases involving 100 or more redundancies, twelve weeks notice must be provided, rising to sixteen weeks when 300 or more employees are dismissed.

Table 5.3.: Canadian Pre-notification Requirements for Group Terminations

Jurisdiction	Minimum layoff period	Workers laid off	Length of pre-notification
Federal	4 weeks	50-100	8 weeks
		101-300	12 weeks
		over 300	16 weeks
Manitoba	same as Federal		
Newfoundland	4 weeks	50-199	8 weeks
		200-499	12 weeks
		over 499	16 weeks
Nova Scotia	4 weeks	10-99	8 weeks
		100-299	12 weeks
		over 299	16 weeks
Ontario	4 weeks	50-199	8 weeks
		200-499	12 weeks
		over 499	16 weeks
Quebec	2 months	10-99	2 months
		100-299	3 months
		over 299	4 months

Source: Cross, 1985, p.19

Incidences of foreign divestment involving 500 or more compulsory redundancies in the UK, will be examined later in case studies. These involve MNCs from just five countries - the US, Canada, France, Germany, and the Netherlands. We have looked at legislation in the US and Canada, and now a brief review of legislation in the three European countries.

5.5.3.: Europe

Most European countries have legislation which imposes obligation on employers to inform and consult employees in the event of collective redundancies. As is shown in Table 5.4., of the seventeen European countries, only Spain and Switzerland do not attempt to define a "mass dismissal". The majority specify a number and a time period for triggering off legislation. In seven of the countries the meaning of "mass dismissal" varies according to the size of the company's labour force [Van den Bulcke in Brooke and Buckley, 1982].

Eleven of the above seventeen European countries require that companies consult employees' representatives on collective redundancies - Spain, Greece, Switzerland, Luxembourg and Germany are the exceptions. In Switzerland this procedure is recommended, while Luxembourg and Germany require companies to consult the workers' council. Consultations with workers' councils are compulsory in nine of the seventeen countries [Van den Bulcke in Brooke and Buckley, 1982].

Advance notice of collective redundancies is mandatory in most European countries, and varies from fifteen days to six months, one month being the average notification period. Pay in lieu of notice to employees is permitted in most countries.

Table 5.4.: Definition and procedure of mass dismissals in European countries

Countries	Definition: Size of company (number of employees)	Number of dismissed persons	Time period
Austria	-	'considerable number'	'short period'
Belgium	20-59	6 or more	60 days
	60 and more	10% or more	60 days
Denmark	20-100	10% or more	defined in
	101-300	10% or more	collective
	300 and more	30% or more	agreements
Finland		30 or more	
France	less than 50	a) less than 10	a) 30 days
	50 or more[b]	b) 10 or more	b) 30 days
		c) 10 or more	c) 30 days
Germany	20 to 49	5 or more	4 weeks
	50 to 499	25 or more	4 weeks
	500 and more	30 or more	4 weeks
Greece	50 or more	2 to 10%	
Ireland	21-49	5 people	30 days
	50-99	25 or more	30 days
	100-299	10%	30 days
	300 or more	30 people	30 days
Italy[d]			
Luxembourg		10 or more	30 days
Netherlands		'substantial portion'	'short period'
Norway		10 or more	1 month
Portugal	a) 50 or less	a) 2 or more	3 months
		10 or more	3 months
	b) over 50	b) 5 or more	3 months
Spain	-	-	-
Sweden	-	5 to 25	
		26 to 100	
		more than 100	
Switzerland	-	-	-
United Kingdom		10 or more	30 days
		100 or more	90 days

<u>Notes</u>

a Mostly to the Labour Office

b Procedure differs according to the size of company

c If more than two years of employment

d Special rules; no compliance yet with EEC's Mass Dismissals directive

e Recommended

Source: Van den Bulcke in Brooke and Buckley, 1982.

Table 5.4. cont.: Definition and procedure of mass dismissals in European countries

Countries	Procedure: Consultation with workers	Consultation with works council	Prior notification period[a]	Special indemnity
Austria	x	x	30 days	
Belgium	x	x	x	x
	x	x	x	x
Denmark	x		30 days	
	x		30 days	
	x		30 days	
Finland	x			
France			15 days	x[c]
	x		30 days	x[c]
	x	x	30 days	x[c]
Germany		x	4 weeks	
		x	4 weeks	
		x	4 weeks	
Greece			1 month	
Ireland	x		30 days	
	x		30 days	
	x		30 days	
	x		30 days	
Italy			25 to 40 days	
Luxembourg		x	6 weeks	
Netherlands	x	x	3 months	
Norway	x		2 months	
Portugal	x	x	60 days	
	x	x	90 days	
	x	x	90 days	
Spain				
Sweden	x	x	2 months	
	x	x	4 months	
	x	x	6 months	
Switzerland	e	e		
United Kingdom	x	x	60 days	
	x	x	90 days	

In Denmark, France, Ireland, Italy, Luxembourg and the UK, employees fulfilling certain conditions (ie. length of service) are entitled to severance or redundancy payments. Among EEC member states, Belgian law is unique in that it stipulates a specific level of compensatory payment due by employer to employees "collectively dismissed", namely, half the difference between the previous gross monthly earnings (up to a maximum of 68,675 fr.) and State unemployment benefit entitlement. The payment is made for four months commencing from the dismissal date, but the period is reduced where notice entitlement exceeds three months. Severance payments are mandatory only in cases of mass dismissal [European Industrial Relations Review, February 1983].

As Table 5.4. reveals, it is ludicrous to attribute blame to labour immobility for Europe's stagnation, as Newsweek did in its cover story, "Europe in Decline". Readers of this article are told that in Europe firing workers is "practically impossible" [Sullivan, April 9, 1984, p.11]. Current levels of unemployment, due in no small part to large-scale redundancies, suggests that employers have had little difficulty firing labour.

5.5.4.: EEC Legislation : Mass Dismissals Directive

A United States of Europe had been the dream of European statesmen who witnessed two World Wars. Their drive for unity was inspired by a desire for lasting peace. They appreciated too, the economic benefits of political unity which would allow unfettered movement of capital, goods, and labour between member states.

After the publication in 1776 of Adam Smith's "The Wealth of Nations" it was recognised that the key to boosting productivity was the division of labour. But the Scottish political economist had warned that "the division of labour is limited by the extent of the market". In the late nineteenth century, the United States of America firmly established itself as the world's leading manufacturer, superceding Britain in the wave of new industries of the "second Industrial Revolution". America was undoubtedly a huge market and with the pioneering work of Frederick Taylor in "scientific management", the division and control of labour was greatly increased.

In the early twentieth century, as America's output in key industries continued to outstrip that of European rivals, Friedrich Naumann concluded that European nation states would continue to lose ground in world markets as they were no longer large enough to maintain their position in manufacturing [Swann, 1978].

The constitution and legislative powers of the EEC are enshrined in the Treaty of Rome which was first signed by the original six members of the EEC in 1957, and by the six other countries which have joined the Community. The signatories of the Treaty of Rome hoped that the EEC would reverse this trend and fulfill the desire for peace. There has been peace since 1945, but economic and political unity have not been fully realised. According to the European Regional Editor of Newsweek, the EEC,

> **"has failed lamentably to live up to its early promise as a stimulator of European unity and progress"** [Sullivan, April 9, 1984, p.15].

Some British Socialists have been highly critical of the EEC which they see as the multinationals' poodle:

> **"Far from allowing greater control over multi-national corporations, the EEC and its treaties have given them greater freedom. ... The EEC was set up by capitalism to protect itself during the period when it was developing more and more towards internationally organised capital. It was not set up to combat the multinationals; it was set up by them"** [Balfe et al, The New Statesman, date of publication not known].

Indeed, Europe's modern industries were increasingly dominated by US MNCs which had established a huge presence in the continent. In 1967, French journalist Jean-Jacques Servan-Schreiber's bestseller "Le Defi Americain" ("The American Challenge") contained an apocalyptic warning to European politicians and executives:

> **"Fifteen years from now it is quite possible that the**

> **world's third greatest industrial power, just after the United States and Russia, will not be Europe but American industry in Europe"** [Servan-Schreiber, 1968].

By 1983, the failure of politicians to fulfill the European dream of a strong united continent able to repel American and Japanese challenges had exhausted the patience of a number of notable European businessmen. Executives from seventeen companies, led by Volvo's Pehr Gyllenhammer, founded the "Roundtable of European Industrialists". The group which met in Paris in April 1983 for the first time had grown to twenty-two by December 1984. This elite body will concentrate on three areas of action - infrastructure, education, and capital formation and financing [Eales, 1985].

A large single market has yet to materialise and stubborn national differences remain. Their removal hinges on harmonisation of national legislation. Frustrated "Euro-philes" believe that such obstacles will only be overcome by redrafting the cornerstone of the EEC - the Treaty of Rome.

At present, unanimous support is necessary from representatives of member-state governments at the Council of Ministers before a draft Directive can become Community legislation. Friction is caused by members belief that a minority - perhaps of even just one - has used the veto to protect national interests, at the expense of the common good.

On the eve of the Milan Summit, in June 1985, Commissioner Delors, in a passionate appeal for reform, argued that progress in EEC legislation depended on abolishing the veto and accepting the majority view. Such a proposal was anathema to some member states which feared that Brussels would supercede national parliaments, and that national culture would disappear under a superimposed foreign culture.

Although the EEC has failed to become one single cohesive unit, some harmonisation has been achieved. One such example is the Mass Dismissals Directive of 1975 which established minimum notification and consultation rights for employees in the event of collective redundancies.

The Draft Directive on Collective Dismissals had been published in November 1972. It proposed firstly, compulsory consultation with workers' representatives on collective dismissals; secondly, compulsory notification of impending redundancies to public authorities; and, thirdly, powers for public authorities to postpone or prohibit dismissals in certain circumstances.

The Draft Directive met with a hostile reception from the then British Government. This partly explains the Draft Directive's long and tortuous progress through the EEC's legislative channels. Members States' Governments tended to argue at great length over the substance of the proposals and the extent of the harmonisation requirement to be imposed.

The UK Government was particularly opposed to the prospect of public authorities prohibiting dismissals and in June 1974 it effectively placed a temporary veto upon the Draft Directive. The December 1974 meeting of the Council of Ministers saw a compromise being reached. It was agreed that Member States should be allowed to choose whether or not their public authorities be granted veto power over Collective Dismissals.

Finally on February 17, 1975, the Council Directive on the approximation of the laws of the Member States relating to Collective redundancies was enacted. Its four sections deal with Definitions and Scope; Consultation Procedure; Procedure for collective redundancies, and, Final Provisions. The Directive is reproduced in Appendix I. Under Article 6 (1) Member States were given two years to create "the laws, regulations, and administrative provisions needed in order to comply with the Directive". The Mass Dismissals Directive did not affect the right of Member States to apply or to introduce laws, regulations or administrative provisions, more favourable to workers.

The legisation enacted by France, Germany, and the Netherlands, is examined below. It will be seen that Hofstede's scoring and ranking or countries on the Strong and Weak Uncertainty dimension is of limited value. Strong Uncertainty France and Germany, as expected, have rigorous legislation, but so too does Weak Uncertainty Netherlands

France: In France, the works' council must be consulted, informed, and allowed time to submit its case before **permission** can be obtained from the Labour Inspectorate to effect a collective dismissal, the Labour Inspectorate first having received a a copy of the minutes of Company-Union meeting at which employees representatives were consulted. This legislation is considered very stringent and in its 1985 review of the French economy, the OECD criticised France's rigid employment legislation which it described as "virtually unique in Europe". The OECD suggests that employers are reluctant to take on additional staff because they have no guarantee they will be allowed to issue redundancies should market forces demand it [Marsh, August 13, 1985].

According to one disgruntled French manufacturer: "It's easier to get rid of a wife of 25 years than a worker hired a few months ago" [Boyer, August 20, 1984, p.164]. The Patronat, the French employers' federation, claims companies have even gone bankrupt awaiting government approval for redundancies [Groom, July 3, 1985, p.12].

Not surprisingly, once the Socialist Government was defeated at the polls in the General Election in March 1986, change was imminent. The right-wing Chirac Government announced that, despite opposition from President Mitterand, it will introduce legislation allowing firms to issue redundancies without permission from the local labour [Housego, May 15, 1986, p.44].

Germany: In Germany, employers must notify and consult the works council, which can demand, under the Works Constitution Act of 1972 a "social plan" to minimise hardship to employees. Should management and works council fail to agree on the plan, the Arbitration Commission, (whose membership must include an equal number from each side and an appointed chairman accepted by both sides), is responsible for drafting the plan [Bosch in Cross, 1985, p.179].

The Netherlands: It was seen in the previous chapter that the Dutch Government has frequently flouted the Treaty of Rome in its attempts to boost inward foreign direct investment, and yet, almost paradoxically, Dutch employment legislation, even more demanding than that of France, acts as a major disincentive to investors, according to Mr. Patrick Sheehy, Chairman of B.A.T. Industries [Sheehy, 1984].

Not only must the Labour Office authorize redundancies, but it can declare notification void if it deems that unions and works council received insufficient information and consultations were inadequate. The Dutch government is currently considering relaxing legislation and speeding up redundancy procedures [Groom, July 3, 1985, p.12].

The obligations imposed on employers proposing dismissals in these countries are more onerous than those imposed by UK legislation which will be examined below.

5.6.: UK Plant Closure Legislation

The Employment Protection Act 1975 (EPA 1975), passed in November of that year, comprises five Parts and 129 Sections. Part one is entitled Machinery for Promoting the Improvement of Industrial Relations; Part II, Rights of Employees; Part III, Regulation of Terms and Conditions of Employment; Part IV, Procedure for Handling Redundancies; and Part V, Miscellaneous and Supplementary Provisions.

Although there was some controversy over the periods of consultation and notification necessary before collective redundancies could take place, Part IV of the 1975 Act had a relatively easy ride through both Houses of Parliament. Despite, or, perhaps because of, its smooth passage through Parliament, Part IV lacks clarity and precision.

The major innovation during the Bill's reading in Parliament was the inclusion of the paragraphs which form Section 107. This section grants the Department of Employment (DoE) the power to modify or exclude Part IV where a collective agreement exists which is "at least as favourable to those employees as the foregoing provisions of this Act" [Section 107].

The provisions of Part IV relate to two issues: firstly, the obligation to consult with trade union representatives; and, secondly, the requirement to notify the DoE of proposed redundancies. Given the focus of this thesis, we are mainly concerned with the former duty which is "much the weightier" of the two aspects of Part IV [Freedland, 1976, p.28].

Establishing Part IV's dictates is of crucial importance for the findings of this study, because the relevent sections of Part IV form one of two key yardsticks for assessing the behaviour of firms, the other being the "Vredeling Proposals".

5.6.1.:Part IV of the EPA 1975 Act

(a) **Definition and Scope:** The term "collective redundancies" is not defined because, unlike the EEC's Mass Dismissals Directive, Part IV is applicable to all redundancy situations regardless of the number of employees involved. Part IV even offers protection to the individual.

"Trade union representative" is defined as,

> **"an official or other person authorised to carry on collective bargaining with the employer in question by that trade union"** [Section 99 [2)].

(b) **Consultation Procedure:** The duty to consult with Trade Union Representatives arises when an employer proposes to dismiss as redundant "an employee of a description in respect of which an independent trade union is recognised by him" [Section 99 (1)].

The consultations required by Section 99 (3),

> **"shall begin at the earliest opportunity, and shall in any event begin -**
>
> **(a) Where the employer is proposing to dismiss as redundant 100 or more employees at one establishment within a period of 90 days or less, at least 90 days before the first of those dismissals takes effect; or**
>
> **(b) where the employer is proposing to dismiss as redundant 10 or more employees at on establishment within a period of 30 days or less, at least 60 days before the first of those dismissals take effect"** [Section 99 (3)].

Section 99 (5) states that the employer must disclose the following information to Trade Union representatives for the purpose of consultation:

> **"(a) the reasons for his proposals;**
>
> **(b) the numbers and descriptions of employees whom it is proposed to dismiss as redundant;**
>
> **(c) the total number of employees of any such description employed by the employer at the establishment in question;**

(d) the proposed method of selecting the employees who may be dismissed, and

(e) the proposed method of carrying out the dismissals, with due regard to any agreed procedure, including the period over which the dismissals are to take effect" [Section 99 (5)].

Having disclosed the above information, the employer is then required under Section 99 (7) to -:

"(a) consider any representation made by the trade union representatives; and

(b) reply to those representatives and, if he rejects any of these representations, state his reasons" [Section 99 (7)].

Freedland [1976] has questioned whether adherence to Section 99, paragraphs (3), (5), and (7) represents effective consultation. Section 99 (8) appears to imply that it does. This paragraph which represents an escape clause reads as follows:

"If in any case there are special circumstances which render it not reasonably practical for the employer to comply with any of the requirements of subsections (3), (5) or (7) above, the employer shall take all such steps towards compliance with that requirement as are reasonably practicable in those circumstances" [Section 99 (8)].

This escape clause only applies, however, to the particular aspects of consultation referred to in Section 99 (3), (5) and (7), and not to the fundamental obligation to consult - "which may well <u>not</u> be exhaustively defined by subsections (3), (5) and (7)" [Freedland, 1976, p.30].

It is important to be clear that the timetable presented in Section 99 (3) is subject to the overriding rule that consultation must begin "<u>at the earliest opportunity</u>"! [author's emphasis]. No guidance is offered, however, on what constitutes "the earliest opportunity".

Similarly, the above timetable is for dismissals within one "establishment", but no definition is offered of this imprecise concept.

Furthermore, The instructions contained in Section 99 (3) are, as

Freedland [1976] argues, based on a rather vague concept:

> **"at what level of management must the proposal be made, and what degree of definition must the proposal have? .. the problem is rendered partly theoretical by the fact that the consultation has in any event to be computed backwards from the date of the first dismissal concerned, so that the employer may have no incentive for keeping a tentative proposal secret, but a contrary incentive to begin discussion early. On the other hand, the more tentative the proposal, the greater may be its disruptive effect upon industrial relations. This is a paradox impossible to resolve"** [Freedland, 1976, p.30].

In situations where the above timetable applies, then it applies, as Freedland states, "only to give the minimum periods, and not to define the "earliest opportunity" [Freedland, 1976 p.30].

Unscrupulous employers can escape meeting these minimum requirements, however, by simply identifying particular employees for proposed redundancies and beginning consultations with them in advance of notifying another batch of employees. By reducing the number of redundancies in each group, the number of days notice required before effecting redundancies can be reduced.

(c) Procedure for Collective Redundancies: Where an employer is proposing to dismiss as redundant 100 or more employees at one establishment within a period of 90 days or less, he will notify the Secretary of State in writing of his proposal, at least 90 days before the first of these dismissals takes effect [Section 100 (1)].

Where an employer is proposing to dismiss as redundant 10 or more employees at one establishment within a period of 30 days or less, he shall notify the Secretary of State in writing of his proposal, at least 60 days before the first of these dismissals takes effect.

In both instances, he shall also notify representatives of the union acting on behalf of the employee(s) in question. In order to satisfy these requirements the employer must send a completed RP1 form to the DoE and to the unions in question. He must provide the date when consultations began, and name the unions involved [Section 100 (3].

Section 100 (6) provides the employer with a loophole, however. "If in any case there are special circumstances rendering it not reasonably practicable",he does not have to comply with the above requirements, though he is obliged to "take all such steps ... as are reasonably practicable in those circumsatnces" to meet them [Section 100 (6)].

(d) Sanctions: Most employers are entitled, under Section 30 (1) of the Redundancy Payments Act 1965, to a 41% rebate on redundancy paid to employees. Those entitled, but who fail to notify the Secretary of State of proposed redundancies, may find their rebate reduced "by such proportion (not exceeding one-tenth) as appears to be appropriate in the circumstances" [Section 104 (1)].

Where the Secretary of State reduces the rebate, the employer may appeal to an Industrial Tribunal. The Secretary of State is also empowered to fine those firms which fail to notify him of proposed redundancies. The employer "shall be liable on summary conviction to a fine not exceeding £400" [Section 105 (1)]. The Secretary of State is not permitted to impose both penalties. He can either reduce the rebate on redundancy payments, or impose a fine. The reduced rebate is clearly a potentially stiffer "sentence".

Where an appropriate Trade Union believes an employer has failed to comply with any of the requirements of Section 99, it may complain to an Industrial Tribunal. If the Tribunal finds the complaint to be well-founded, "it shall make a declaration to that effect and may also make a protective award" [Section 101 (3].

The protective award bestows entitlement to remuneration to the employees affected for periods not exceeding 90, 60, or 28 days, depending upon the total number and concentration of the dismissals or proposed dismissals concerned.

5.7.: Summary

Any firm in the UK proposing collective redundancies is legally obliged to provide advance notice to employees' representatives and the Department of Employment. In cases involving 100 or more collective redundancies, employees are entitled to a minimum of 90 days notice. Although employers are also bound to begin consultations "at the earliest possible opportunity", the Department of Employment overlooks this stipulation, and is quite satisfied as long as firms provide the minimum notice.

As a major host nation, Britain has attracted investment from countries with a different culture and view of employment legislation. Foreign subsidiaries have to adjust to host country business practises, but in some areas, notably labour relations, such firms expect their foreign workforce to adapt to the methods and ideals of their home country (see Chapter 4).

In this Chapter particular attention has been paid to the national cultural profiles and redundancy laws of the five countries which are the home base of the companies examined in Chapters 9-12: Canada, and the US, and France, Germany, and the Netherlands. It was seen that all three European countries had stiff legislation on collective dismissals, but that the national culture or France and Germany was quite different from that of the Netherlands. It was concluded that if a country's culture had any bearing on the conduct of domestic firms then Dutch companies would be more open and display greater concern for their workforce than the secretive, less socially conscious French and Germans.

In North America, Canadian culture bore a strong resemblance to the Netherlands' but its redundancy laws were considerably milder. Although the US was culturally very similar to the UK, America has no Federal legislation requiring firms to provide employees with advance notice of redundancies. It is not just redundancy legislation which US executives find difficult to swallow. Popular US magazines have regularly highlighted the tremendous differences in labour laws between the "new" and the "old world".

Based on national cultural profiles, one can expect that among foreign firms divesting from the UK, the Dutch should set the standard of good behaviour, closely followed by the Canadians, then the US, and finally, at the other end of this league table, the French and the Germans.

Some non-European MNCs have accepted that European redundancy legislation is unlikely to be abolished, and this acknowledgement has led them to reconsider their position. Although more flexible labour legislation is advocated by many MNCs, it would seem that labour leaders, and some MNCs themselves, believe that the MNC itself must prove flexible. As Mr. Henri Debuisser, Rank Xerox's International Personnel Director, says,

> **"We have to live with the labour laws as they are. I can't be happy with any rigid system, but we are a multinational and we can't change these things. Flexibility is not management doing what it wants, when it wants, where it wants with the workforce. It's an attitude of mind in a corporation. Management itself must be mentally flexible"** [Groom, June 28, 1985, p.20].

It appears that some western MNCs now believe that substantial benefits are to be derived from adopting the Japanese "job-for-life" approach. In 1983, the Dutch firm, Daf Trucks, lowered the average working week to 36 hours in order to avoid sacking employees for the first time since its foundation. Daf believes,

> **"dismissals are expensive, disturb internal relations, and are <u>inappropriate to European culture</u>"** (author's emphasis) [Groom, June 28, 1985, p.20].

CHAPTER 6

THE OECD'S GUIDELINES FOR MULTINATIONAL ENTERPRISES

6.1.: Introduction

The OECD evolved from the OEEC (Organisation for European Economic Co-operation) which was founded in 1948 as part of the Marshall Plan. OEEC was designed to ensure that countries devastated by war worked in a spirit of harmony and cooperation to achieve economic recovery. This objective had already been attained when, in acknowledgement of the common interests and growing interdependence among industrialized countries of the West, the United States and Canada joined with the original 18 members of the OEEC in signing a convention in Paris on December 14, 1960, bringing OECD (Organisation for Economic Co-operation and Development) into being in September 1961. Subsequently Japan (1964), Finland (1969), Australia (1971) and New Zealand (1973), became full members of the OECD. Yugoslavia participates in the body as a partial member.

All members are, therefore, from the rich, industrialized "North"; poor, developing countries from the "South" are conspicuously absent (see Table 6.1).

Table 6.1: Members of the OECD

Australia	France	Japan	Spain
Austria	W. Germany	Luxembourg	Sweden
Belgium	Greece	The Netherlands	Switzerland
Canada	Iceland	New Zealand	Turkey
Denmark	Ireland	Norway	UK
Finland	Italy	Portugal	US

The contract, signed on December 14, 1960, states that the OECD shall promote policies designed to:

- achieve the highest sustainable economic growth and employment, and a rising standard of living in Member countries, while maintaining financial stability, and thus contribute to the development of the world economy:

- contribute to sound economic expansion in Member as well as non-member countries in the process of economic development:

- contribute to the expansion of world trade on a multilateral, non-discriminatary basis in accordance with international obligations.

OECD member countries account for only 20% of the world's population, but 60% of its industrial output, and 70% of its trade. In 1976, 5,087 multinationals were operating in the 21 most industrialised OECD countries and employed almost 46 million people. The summer of that year, saw the OECD's attempts to formulate a Code of Conduct for MNCs.

These voluntary Guidelines suggest a code of procedure in dealing with: Disclosure of Information, Competition, Financing, Taxation, Employment and Industrial Relations, and Science and Technology.

The Guidelines were part of the "Declaration and Decisions on International Investment and Multinational Enterprises", a package designed to foster an environment favourable to foreign direct investment (FDI) and MNCs, the vast majority of which have headquarters in OECD member countries.

"Declarations" are not included among the legal instruments of the OECD, but "Decisions" of the OECD Council are "legally binding on the member states of the Organisation by virtue of its constituent treaty". The June 21 package included "Decisions" on "National Treatment", "International Investment Incentives and Disincentives", and "International Consultation Procedures". The Guidelines themselves, however, form an appendix to the "Declaration" and as such are not legally binding. Indeed the introduction states that "Observance of the Guidelines is voluntary and not legally enforceable" [OECD, 1976, p.12].

OECD countries are united, not by geographic location but by a common bond of affluence, by commitment to the capitalist economic system, and by common responsibility to the less fortunate developing Third World which has no share in that affluence but has more than a fair share in chronic poverty.

The oil crisis of the early 1970s and subsequent depression were severe set-backs to the capitalist economies which are still in 1985 battling to control inflation and somehow deal with a growing army of unemployed. But the OECD's problems were not confined to "within". The lesser developed countries (LDCs) were becoming increasingly disenchanted with the rich "North", and particularly with its large MNCs whose profits were allegedly culled by exploiting the backwardness of the Third World. It is suggested that this dissatisfaction rendered some LDCs malleable to the Soviet block which was anxious to spread its sphere of influence and the "Marxist" political and economic theory.

Some argue that the OECD's Guidelines for MNCs were introduced to safeguard the economic system and prosperity of OECD member countries and to combat the trends outlined above by presenting "the acceptable face of capitalism" to quell demands from lesser developed countries for stringent legal controls on the activities of MNCs [Robinson, 1983].

This chapter will proceed with an examination of this hypothesis before reviewing the administration of the Guidelines. By focusing on cases of alleged breach of the Guidelines, it will contrast the views of Trades Unions involved and those of the OECD's Committee on International Investment and Multinational Enterprises (CIME). The latter is responsible for clarifying the Guidelines. This exercise should illustrate what steps should be taken by firms contemplating closure. The Guidelines, as we have noted, are not legally binding, but neither are they to be ignored by those to whom they are addressed.

Unfortunately, it would appear that Trades Unionists have experienced firms who do just that. A number of MNCs have been accused of contravening the Guidelines, and many of the cases referred by the Unions to CIME have arisen from divestments involving major job losses. Paragraphs 3, 6, and 9 of the chapter on Employment and Industrial Relations are directly relevant to the plant closure situation, but these have proved ambiguous and required clarification by CIME.

Since this thesis focuses on employee disclosure and consultation in the context of plant closure, the primary aim of this chapter is to present readers with a clear outline of the Guideline's directions to firms proposing divestment. The author's ability to do so is dependent, of course, not only on the precision of paragraphs 3, 6, and 9, but also on the quality of CIME's clarifications. It must be stressed that in order to be effective the Guidelines must be meaningful, for if meaningless, they are worthless.

Our analysis commences with an overview of the Guidelines' origins.

6.2.: The Guidelines' Paternity

By the early 1970s, the carnival atmosphere surrounding celebrations for political independence, gained in the previous decade, seemed a distant memory as developing countries discovered that political independence did not automatically produce economic independence. It was disheartening for the peoples of the new, often monocultural nation states, or "banana republics" as some were wont to call them, to discover that political independence was a damp squib; the pace of economic growth and development was still largely determined by decisions made in boardrooms of distant continents. (Their predicament is actually glorified in an advertising campaign which depicts a figure in radiant white, "the man from Del Monte", descending from the skies to consent to the gathering of the crop and to offer life to those worthy of salvation).

This "remote control" posed a threat to the future prosperity of many Third World countries. With the break up of Empires of the old colonial powers, political independence was achieved theoretically, but in order to became a reality, the LDCs had to break the umbilical cord of economic dependence. Until they did they were at the mercy of the industrialised powers, and it was this realisation which prompted them to approach the United Nations demanding legislation to control the activities of MNCs:

"The Word "multinationals" became amongst other things a

> **rallying cry for those seeking to ensure the economic counterpart to political autonomy. Economic independence appeared to be equated with increased public interventionism and in particular with public control of multinationals"** [Robinson, 1983, p.116].

At the United Nations' New York Headquarters, delegates focused on international economic imbalance and the role played by MNCs in creating, or in mitigating that imbalance. But it was obvious tnat a tactical change was essential if LDCs were to strike a chord with politicians in OECD countries. Mr. Helmut Schmidt, one of Europe's post-war statesmen, was one of the very few - if not sole - prominent political figure to address this issue. In September 1973, Mr. Schmidt, then Germany's Minister of Finance, called for "an international Code of Conduct for the multinationals which would ensure that they will not shirk their obligations to the countries of residence" [quoted by Mr. Sydney Dell, Executive Director, United Nations Centre on Transanational Corporations, 1984].

The developing countries therefore launched a dual-pronged attack. They decided to divide their attention between the United Nations in New York, and the OECD in Paris, the city which centuries earlier had spawned revolution under the slogan "Liberty, Equality, and Fraternity". This was home to "the rich man's club", the OECD.

Their supplications to the OECD to introduce legislation making MNCs more accountable to host country governments fell on deaf ears. The OECD countries pointed to the economic theories of Adam Smith and Ricardo to justify their apparent lack of concern for the rest of the world, while adherence to Keynesian policies and the market conditions of the time produced steady economic growth. The OECD had no desire to risk incurring the displeasure of MNCs whose investment decisions had major economic and political implications for OECD member countries.

The OECD countries had, it seems, convinced themselves that international economic development would progress if only "the Western system was freely allowed to radiate its beneficial influence, multinationals and all, throughout the less developed countries" [Robinson, 1983, P.116]. But just as mid-Victorian Britain had failed to convince its rivals of the benefits to be derived from universal adherence to "laissez-faire" and the theory of comparative advantage, so too did the OECD countries fail to impress the LDCs.

Until a real economic dimension was added to the political argument, the LDCs were unlikely to secure any concessions from the OECD to control multinationals. This vital economic dimension was suddenly present in the far-reaching ramifications of the 1973 oil crisis which made a mockery of political manifestos and budget forecasts. Western politicians and executives were panic stricken as their best laid strategies crumbled. Oil prices quadrupled and in the major international stock exchanges share values plummeted. As the terms of trade moved, for once, in favour of the less developed countries, the industrialised world sprang into action to appease their demands. This sudden haste was in stark contrast to years of masterly inactivity. The economic balance of power had swung violently in favour of the developing countries and the LDCs siezed the opportunity to advance their ambition [Robinson, 1983, ch.8].

Results were immediately forthcoming. The United Nations' Sixth Special Section, in Autumn 1974, called for a new international economic order in which multinationals were to play a strictly defined role. Before the end of the year, the United Nations' Economic and Social Council called for a code of conduct on transnational corporations. The following September, the US Secretary of State, Mr. Henry Kissinger, "put forward the idea of a Code as one of the main themes of his address to the General Assembly of the United Nations" [Mr. Sydney Dell, Executive Director, United Nations Centre on Transanational Corporations, London, 1984].

The developing countries hoped that the United Nations would introduce a legally binding Code of Conduct on multinational companies, and this wish was shared by Trade Unions and sections of the Media within the OECD itself. By the mid 1970's it was clear that as a result of the oil crisis, the LDCs had the OECD countries "over a barrel".

The world's industrialized countries were quick to retaliate:

> **".. rocked by the economic crisis and recognizing the need to respond to the demands it provoked, they acted pre-emptively. ...just as the ILO [i.e. International Labour Office] was beginning the drafting ot guidelines for MNC "social" behaviour in developing countries, OECD ministers, at the urgings of the US Government, adopted their own multinationals' package, including a 'code' taking the form of voluntary guidelines addressed to MNCs. The speed with which the Guidelines moved from conception to decision was dramatic, and was a direct product of the rich world's belief that it had to go into the UN negotiations on multinationals with a coherent and apparently progressive position with which to confront the developing countries clamour - articulated by the so-called Group-77 of LDCs - for more radical and compulsory control"** [Robinson, 1983, p.117].

It had taken only eighteen months to negotiate and adopt the OECD "Guidelines for Multinational Enterprises" together with two declarations on national treatment of MNCs and international incentives. There is little evidence, as yet, to counter the claim that the OECD adopted its Guidelines in order to thwart ambitious plans of LDCs for compulsory regulation of MNCs, and in the hope that they would serve as a model which the UN could duplicate. The OECD member countries adopted the Guidelines, it has been argued, to put a brake on social change rather than to propel it [Robinson, 1983, ch.8].

Seen in this light, the introduction of the Guidelines, particularly during a depression seems less at odds with the interests of the OECD and its members. Nor is it surprising that the whole process was rushed through in what can only be called indecent speed, "totally uncharacteristic of the normal plodding rhythm of international diplomacy" [Robinson, 1983, p.115].

The OECD initiative cannot however, be explained simply by external pressure. Groups within OECD countries were becoming extremely concerned about the increasing "power" of MNCs. For example, the activity of Lonrho, a British MNC, in Africa, was denounced by the then Conservative Prime Minister, Edward Heath, as the "Unacceptable face of capitalism" and the US MNC, Lockheed, had been caught bribing senior members of the Japanese Government.

The image of US MNCs had been severely tarnished by their involvement in the Chilean coup of September 11, 1973. The US MNC, ITT, and other foreign multinationals had supported the Chilean armed forces in overthrowing the democratically elected left-wing Allende Government.

In 1975, America, still reeling from Watergate, suffered another bodyblow when it was revealed that throughout the world approximately 500 US public corporations were implicated in "a web of questionable and illegal activities" [Cressey and Moore, 1983, p.53].

These scandals reinforced arguments from within that MNCs had too much power, and they abused it:

> **"corporate officials were beginning to be perceived as 'little more than manicured hoodlums'"** [Cressey and Moore, 1983, p.53].

Appeals for greater governmental control of business grew and began to find popular support. Some prominent businessmen warned that unless corporate executives presented an image of integrity, "the public might 'sour on business as a whole' and precipitate a situation which could 'threaten the survival of the free enterprise system' itself" [Cressey and Moore, 1983, p.53].

Indeed, in the late 1970s pressure groups within the OECD countries were more vocal than the LDCs in their criticisms of MNCs and more forceful in their demands for a curb on MNCs' excesses. But some of this criticism arose from motives of self-interest. US labour was becoming increasingly anxious about the "export of jobs" and European trade unions were allegedly denied access to the real decision makers who were often based on the other side of the Atlantic. Such a situation rendered national employee disclosure and consultation legislation meaningless, and thereby eroded workers' rights. This problem was particularly acute in cases of projected plant closure.

The decisions of MNCs have not only serious economic consequences, but as Robinson [1983, p.1] says, "multinational business is now international politics". Investment protects and creates jobs, jobs mean votes, and votes mean power. Divestment by liquidation, on the other hand, triggers off a chain of events which can have the opposite effect. It loses votes as unemployment rises and unpopular cuts are introduced. It is, therefore, not just in the interests of employees and the local community to attract further resources to their plants, the Government of the day also has a vested interest in producing an economic, social, and political climate favourable to MNCs. Some would argue, therefore, that these firms wield power over society and that this represents a threat to democracy. This is the fundemental concern that has encouraged a number of Governments to seek novel ways of dealing with MNCs.

One way is by Codes of Conduct. After the OECD's hastily drawn up code, the United Nations Draft Code appeared and, in 1977, the International Labour Office (ILO) issued its "Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy".

In this section, it has been seen that the early 1970's oil crisis and its effects, coupled with mounting internal and external pressure, forced the OECD to appear at least to be concerned by the activities of MNCs. There was a real danger that the United Nations might introduce legislation and in order to minimize this possibility the OECD quickly adopted its voluntary Guidelines to dissuade the UN from imposing onerous legislation that would curb the excesses of MNCs.

Supporters of minimal regulation of MNCs, led by the US, with Britain, Japan, Switzerland, and West Germany in tow, thus scored a significant victory over a rival faction comprising Canada, the Netherlands and the Scandinavian states who did not share these ulterior motives and who wanted the maximum regulation possible [Hamilton, 1984, p.6] The latter group attached great importance to helping national based unions in their negotiations with international management:

> **"Thus two sections on Disclosure of Information and on Employment and Industrial Relations were included in the Guidelines. The notion of information and consultation was an expressly European wish of which the US, because of their laissez-faire system of management/worker relations, were highly suspicious"** [Hamilton, working paper, 1984, p.7].

This divergence of opinion between OECD member countries as to "voluntary" versus "legally binding" measures provides insight to how each group views industrial relations. In later sections of this chapter it will be interesting to note if those in favour of the voluntary approach are vigorous in seeing that enterprises within their sphere of influence adhere to the Guidelines in all dealings with employees and their representatives. For if they do not, then they must accept the charge that they merely pay lip-service to the control of MNCs.

In the following section we examine the functioning and effectiveness of the key OECD institution, vis-a-vis the Guidelines, namely, the Committee on International Investment and Multinational Enterprises (CIME). Within CIME, the "Levy Group", (named after its chairman) has a supervisory function. Establishing CIME's remit is of major importance in understanding the principles underlying the Guidelines, and it is to this we direct our attention.

6.3.: The Guidelines' Administrators

6.3.1: The Committee on International Investment and Multinational Enterprises.

The Executive Committee of the OECD first proposed the establishment of a Committee on International Investment and Multinational Enterprises (CIME) at its 8th Special Session on November 25 and 26, 1974. It hoped that CIME would strengthen Co-operation between Member countries on issues pertaining to foreign direct investment and the practises of multinational enterprises. On January 21, 1975, the Council adopted the Resolution and CIME came into being.

By June, 1976, CIME had prepared the "Declaration on International Investment and Multinational Enterprises" which included the "Guidelines for Multinational Enterprises". The Council or Ministers adopted the Declaration and the Guideline took effect .

The main function of CIME is to offer clarification on the Guidelines:

> **"The Committee shall be responsible for clarification of the Guidelines. Clarification will be provided as required"** [OECD, 1979].

This might be necessary when the Trade Union Advisory Committee (TUAC), representing labour's interests, refers a firm to CIME for "breach" of the Guidelines. In such a situation CIME will issue a statement offering its interpretation. CIME has no judicial function . The 1979 Review of the Guidelines sets out this principle:

> **"the Committee shall not reach conclusions on the conduct of individual enterprises"** [OECD, 1979].

This restriction, therefore, protects business from public denunciation of its behaviour. Indeed, Committee members are forbidden to refer to individual MNCs in <u>internal</u> discussions.

It must be stressed that CIME does not concern itself simply with alleged "breaches" of the Guidelines. Despite its limited function the Committee has, nonetheless, "become the central international forum in the Western World for governments and unions to air grievances on particular instances of MNC behaviour" [Robinson, 1983, P.120].

It is an eloquent testimony to the power of MNCs, however, that an entity as powerless as CIME is responsible for policing international business ostensibly to ensure justice for society and labour.

6.3.2.: The National Contact Points

These were established in all 24 OECD member countries, following CIME's recommendation in its 1979 review of the Guidelines. The National Contact Points (NCPs) perform CIME's function at a national level, but should they feel unable to meet a request for clarification of the Guidelines, they refer the case to Paris-based CIME:

> **"As the name suggests the national contact point is very much a focus for enquiries and approaches from both sides of industry and other government departments. This often involves a question of interpretation of the guidelines but the role of the contact point in this context is mainly to ensure that the parties concerned are fully aware of the content and nature of the guidelines, including the interpretations which have been issued by the OECD, and of their relevance to the matter in hand. Consistent with the role of the CIME, the UK National Contact Point is not an adjudicator, and does not as a rule form judgements on compliance with the guidelines in particular cases"** [letter to author, from the Department of Trade and Industry, February 29, 1984].

The four main elements of activity by NCPs are:

> **"(i) to disseminate, promote and explain the Guidelines to the business community and workers'organisations.**
>
> **(ii) to gather information on experience with the application of the Guidelines.**
>
> **(iii) to provide a forum for discussions with interested parties on particular problems which may arise.**
>
> **(iv) to engage in bilateral contacts with other National Contact Points in particular to exchange information"** [letter to author, from the Department of Trade and Industry, February 29, 1984].

The UK National Contact Point believes that the level of observance of the Guidelines is high. As evidence, it cites the limited number of approaches made to it although it admits that,

> **"this is not necessarily an infallible indication of compliance"** [letter to author, from the Department of Trade and Industry, February 29, 1984].

In its submission for the 1982 Mid-Term Report, TUAC passed to CIME the British TUC's criticisms of the UK National Contact

Point. The TUC had found the Contact Point disappointingly passive. Firstly, the UK Government had not consulted the TUC on the establishment of the NCP. Secondly, the NCP had not met with or consulted the TUC. Thirdly, the NCP had acted with apparent indifference to those cases brought to its attention. The TUC was aggrieved at the failure of the NCP to resolve cases which had been referred to it under the Employment and Industrial Relations section of the Guidelines. Fourthly, the TUC was also critical of the NCP's failure to take the initiative, and concluded that,

> **"the NCP cannot be seen as a watchdog or protector of the Guidelines at the national level. ...trade unions have not received support from the NCP in promoting knowledge of the Guidelines, nor has this been offered by the NCP"** [TUC quoted in Blanpain, 1983, p.74].

The TUC's exasperation with the NCP is clearly illustrated in its response to the OECD Questionnaire:

> **"The Contact Point has done little more than act as a post-box between unions and management, and has not initiated any moves between the parties towards constructive use of Guidelines. The Contact Point has failed to bring any formal or informal pressure to bear on MNEs that do not abide by the Guidelines, and the attitude of the Contact Point seems to have been one of grudging and minimal involvement"** [TUC quoted in Blanpain, 1983, p.78].

Trade unions in other OECD countries, including France, Germany, and Italy, were equally critical of their NCP. But the most damning indictement came from trade unions in Ireland who "reported difficulties in even locating the NCP" [TUAC quoted in Blanpain, 1983, p.87].

TUAC singled out five countries in which the unions had been actively assisted and consulted by the NCP. These were:- Belgium, Denmark, Finland, Netherlands, and Sweden [TUAC quoted in Blanpain, 1983, p.87].

6.4.: The Status and Effectiveness of the Guidelines

The Guidelines, as the name suggests and as the OECD text explains, are voluntary recommendations to multinationals. Although they do not constitute rules whose infringement can lead directly to legal sanction, they have, nevertheless, developed the status of what is known as international "soft law".

According to Robinson [1983],

> **"Soft law - politically agreed guidelines for behaviour which cannot be directly legally enforced but cannot either be legitimately infringed - is a new and, for many in international business, a disturbing concept. Soft law is disturbing because of its very open-endedness. For just as with soft law business is safe from legal sanction, so also companies accused by their adversaries... of contravening the OECD Code cannot definitely prove their innocence"** [Robinson, 1983, p111].

He argues that the price of contravening the Guidelines is high because they were finalised only after consultations with the Trades Union Advisory Committee (TUAC) and the Business International Advisory Committee (BIAC) who accepted them as 'the' rules of conduct which society as a whole requires MNCs to observe:

> **"In this sense they are morally binding: they indeed relate to societal principles of right and wrong in behaviour, which constitutes the essence of morality"** [Blanpain, 1979, p.59-60].

MNCs view the Guidelines as,

> **"an expression of moral pressure by the Western political establishment"** [Robinson, 1983, p.114].

Trade Unions regard the Guidelines as a step in the right direction, but they are of the view that legislation is the only effective means of restraining MNCs.

Governments of the OECD member countries realize that the Guidelines represent "official sanctification of the need to control MNCs" [Robinson, 1983, p.114]. The current UK government, led by Prime Minister Thatcher, supports the Guidelines because their voluntary nature is appropriate to British principles of industrial relations. The next chapter will examine the British Government's view of the controversial "Vredeling Proposals" which someday may become legislation in EEC member countries.

This chapter continues by analysing some examples of alleged breaches of the Guidelines. At the time of writing (ie June 1985), TUAC has referred some 30 cases to CIME, the majority of these have been in connection with the Employment and Industrial Relations chapter of the Guidelines, and on paragraphs 3, 6, and 9 in particular.

6.5.: Challenges to the Guidelines.

Campbell and Rowan [1983] and Robinson [1983] believe unions have been anxious to seek interpretation of the Guidelines, and Robinson [1983] says that this is particularly true of European unions:

> **"[they] have shown themselves energetic in exploring their application to the fullest extent"** [Robinson, 1983, p.122].

On March 30, 1977, less than a year after the OECD adopted the Guidelines, twelve cases were submitted to CIME by the International Metalworkers' Federation (IMF), through TUAC. IMF prepared a document highlighting the difficulties encountered by unions in their dealings with MNCs. The paper's "Table of Contents" reveals the issues about which the IMF had a grievance:

> **"Violation of trade union rights by <u>Motor Iberica</u>, Spanish subsidiary of <u>Massey Ferguson</u>;**
>
> **Refusal of trade union recognition by the multinational subsidiary of <u>Black and Decker Limited</u> in Great Britain;**
>
> **Refusal by central management of <u>Philips</u> to grant permission for leave of absence for participation at an international trade union seminar on developments within Philips, and continued refusal to meet with trade unions at world level;**
>
> **Lack of information by <u>Poclain</u> in a situation of economic difficulties, mass dismissals and possibility of takeover;**
>
> **International structural reorganisation within <u>Bendix</u> leads to confusing policies and the loss of employment despite job guarantees based on state subsidies;**
>
> **Closure of <u>Siemens</u> plant in Belgium and break-off of order and employment commitments between the Government and Siemens in Belgium;**
>
> **Policy of <u>Warner-Lambert</u> to close down its operations in**

Sweden;

Production transfer with plant closure in Sweden by Litton Industries;

Failure of the Philips Company to inform the trade unions and cooperate with them on plant closures in the Federal Republic of Germany;

Changes in company structure by International Telephone and Telegraph Corporation (ITT) in the Federal Republic of Germany to evade representation, direct information and participation by trade unions;

The need for meetings with Multinationals at the decision-making level" [IMF, March 11, 1977].

The filing or these complaints attracted publicity which these firms could certainly have done without; other MNCs feared that all would be "tarred with the same brush":

> **The Guidelines, although voluntary, were obviously not intended to be ignored. Yet, that the implementation of the Guidelines should involve 'cases' of alleged infractions by individual enterprises alluded to a judicial or quasijudicial function that the IME Committee [i.e. CIME] clearly did not have"** [Campbell and Rowan, 1983, p.7].

The power of CIME, as has already been shown, is limited. It was at first reluctant to express even interpretations of the Guidelines in cases of alleged infringements by individual enterprises. However, once member governments lent their support to unions' claims of alleged breaches of the Guidelines, CIME had little choice but to act.

On only five occasions have host countries supported claims of contravention of the Guidelines by MNCs. The governments of Belgium, Denmark, Holland, Finland, and Sweden have referred Badger, Hertz, British-American Tobacco, Philips, and British Oxygen's subsidiary, Viggo, respectively, to CIME [letter dated March 9, 1984, to author from Mr. John Blair, BIAC].

The Badger Company, a Belgian subsidiary of the US MNC Raytheon, and the Danish subsidiary of Hertz Rentacar, were the first cases to be challenged under the Guidelines. The complaints were taken up not only by TUAC, but also by the host country governments, and referred to CIME on March 31, 1977. The Badger and Hertz cases have become 'causes celebres', but the focus was on aspects of the Guidelines which this thesis does not address. Nonetheless, they demand brief consideration, not only because of their notoriety, but because they represent the height of trade union success with the Guidelines.

The Badger Co. was reported for having committed a breach of the Guidelines (Paragraphs 7 and 8 of Introduction). The complaint was made by TUAC and the Belgian Government. In February 1977, the plant had been closed with no compensation to employees because parent company refused to meet the redundancy payments on behalf of the subsidiary whose available assets did not cover its liabilities. The major issue at stake was parent company responsibility over a foreign subsidiary limited in liability.

Intergovernmental contacts, continuing union pressure, and debate within CIME, resulted in the parent company finally agreeing a settlement with the Belgian Government in April 1977. The unions hailed this case as "a victory for the OECD Guidelines, declaring that they had led to the unions' success" [Hamilton, 1984, p.8].

The second case arose when, during a strike at Hertz in Denmark, the Company sought to overcome its staff shortage problem by temporarily transferring employees from other EEC countries to Denmark. TUAC, acting on behalf of the Danish LO union confederation, argued that this action infringed paragraph 8 of the Employment and Industrial Relations section which stated that enterprises should not adopt practises "in order to unfairly influence negotiations or to hinder the exercise of a right to organise" [OECD, 1976,p.17].

CIME concluded that behaviour of this nature was not in contravention of the Guidelines, but recommended that paragraph 8 be amended. Accordingly, the 1979 Review of the Guidelines expanded paragraph 8 to read that MNCs must not "transfer employees from the enterprises' component entities in other countries to influence unfairly those negotiations or to hinder the exercise of a right to organise" [OECD, 1979, p.20].

Since the Bauger case, about 30 others have been referred to CIME and most of these have been in relation to the chapter on Employment and Industrial Relations. In its 1984 Review of the Guidelines, CIME wrote:

> **"To date, this is one of the chapters of the Guidelines to which the Committee has devoted most time and effort, reflecting the importance and complexity of the subject matter of these Guidelines, the special concern of employees with them and the wishes in particular of employees (as represented by TUAC) to seek further information or clarification on the scope and intent of these Guidelines"** [OECD, 1984, p.38].

It is to this chapter which we now turn our attention, and examine CIME's clarifications of paragraphs 3 (and to a lesser extent, 2b), 6, and 9. Under these paragraphs the issues at stake in the proposed plant closure situation are:- firstly, the provision of information for a true and fair view of the performance of the entity, or enterprise, as a whole, and secondly, "reasonable notice" of closure, and finally, access to the decision makers.

6.6.: The Employment and Industrial Relations Guidelines

Given the title of this section it is hardly surprising that it has proved the most controversial part of the Guidelines. The Employment and Industrial Relations Section is Reproduced in full below.

Paragraph 2b requires that enterprises provide employees' representatives with information "which is needed for meaningful negotiations on conditions of employment", while paragraph 3 requires that enterprises "provide to representatives of employees, where this accords with local law and practise, information which enables them to obtain a true and fair view of the performance of the entity or, where appropriate, the enterprise as a whole" [OECD, 1976, p.16].

6.6.1.: Paragraph 2b 3: Collective Bargaining and A True and Fair View

Most industrialised countries have national legislation covering disclosure of information to employees, but host governments find these laws unenforceable, and therefore useless in cases where parent company management withholds information thus precluding the meeting of legal obligations by foreign subsidiaries.

TUAC in its submissions to CIME has demanded that, before final decisions are reached, information on the enterprise as a whole should be provided so that Unions can influence corporate decisions. In March 1977, it referred a number of cases to CIME for alleged breach of paragraphs 2b and 3 of the Employment and Industrial Relations chapter of the Guidelines. Bendix, International Telephone and Telegraph (ITT), Litton Industries, Philips, Siemens and Poclain, made up the rogues gallery. A brief look at the last case reveals the difficulties trade unions have experienced. We can also examine CIME's clarification of paragraphs 2b and 3.

EMPLOYMENT AND INDUSTRIAL RELATIONS

Enterprises should, within the framework of law, regulations and prevailing labour relations and employment practices, in each of the countries in which they operate,

1. respect the right of their employees to be represented by trade unions and other bona fide organisations of employees, and engage in constructive negotiations, either individually or through employers' associations, with such employee organisations with a view to reaching agreements on employement conditions, which should include provisions for dealing with disputes arising over the interpretation of such agreements, and for ensuring mutually respected rights and responsibilities;

2.a) provide such facilities to representatives of the employees as may be necessary to assist in the development of effective collective agreements,

b) provide to representatives of employees information which is needed for meaningful negotiations on conditions of employment;

3. provide to respresentatives of employees where this accords with local law and practice, information which enables them to obtain a true and fair view of the performance of the entity or, where appropriate, the enterprise as a whole;

4. observe standards of employment and industrial relations not less favourable than those observed by comparable employers in the host country;

5. in their operations, to the greatest extent practicable, utilise, train and prepare for upgrading members of the local labour force in co-operation with representatives of their employees and, where appropriate, the relevant governmental authorities;

6. in considering changes in their operations which would have major effects upon the livelihood of their employees, in particular in the case of the closure of an entity envolving collective lay-offs or dismissals, provide reasonable notice of such changes to representatives of their employees, and where appropriate to the relevant governmental authorities, and co-opereate with the employee respresentatives and appropriate governmental authorities so as to mitigate to the maximum extent practicable adverse effects;

7. implement their employment policies including hiring, discharge, pay, promotion and training without discrimination unless selectively in respect of employee characteristics is in furtherance of established governmental policies which specifically promote greater equality of employment opportunity;

8. in the context of bona fide negotiations with representative of employees on condition of employment, or while employees are exercising a right to organise, not threaten to utilise a capacity to transfer the whole or part of an operating unit from the country concernec nor transfer employees from the enterprises component entities in other countries in orderto influence unfairly those negotiations or to hinder the exercise of a right to organise.

Source: OECD, 1979.

Confronted with severe adverse market conditions for its main products, hydraulic excavators, cranes, and other construction machinery, Poclain cut back on production as orders dried up and losses mounted. Mass dismissals were introduced at its factories in France and its two operating units in Spain, while the Belgian factory escaped unscathed [International Metalworkers' Federation, 1977, p.6-7].

In its submission to CIME , TUAC alleged that

> "The trade unions have been kept completely in the dark about the financial and economic situation, prospective orders, work on hand and management's basic intentions. Requests for information about the latest state of accounts were refused. The works council and the trade unions were confronted with the announcement of large scale dismissals, without being able to assess their justification and then negotiate about the need for such dismissals. These rights accorded by French legislation to works councils were ignored.
>
> There is no information at all given to the workers and their trade unions in the two subsidiary plants in Spain. The workers and the trade unions in the Belgian plant also have no way of obtaining information about the situation of the parent plant in France and the state of affairs of the whole group" [International Metalworkers' Federation, 1977, p.6-7].

On January 29, 1979, at a meeting with the Working Group of CIME, TUAC once again stressed its interpretation of paragraphs 2b and 3. It stated that meaningful information, must include information on the enterprise as a whole, and that in order to give a true and fair view of the entity or the enterprise, information on future plans must be included.

The 1979 Review of the Guidelines devote three paragraphs to "Provision of information to employees":

> "63. Provision of information to employees is usually dealt with under national systems of labour relations or, more recently, by legislation and is an area where national diversity is great. Given this diversity, the Guidelines, nevertheless, make some very relevant recommendations in this area.
>
> 64. Attention, is drawn in particular, in this connection to paragraph 2b which calls for the provision to employees of 'information which is needed for meaningful negotiations on

conditions of employment'. The word 'meaningful' has to be applied, of course, to the circumstances of each case; but it is a term which will be of operational value to persons experienced in labour relations. Again, paragraph 3 speaks of the provision of information, where this accords to local law and practise, enabling representatives of employees to obtain a true and fair view. A list of items which would be covered by this wording would not be practicable as it would differ from one country to another. This is particularly the case where information on future plans of the enterprise is concerned. As is known, this is still a very controversial area of industrial and social policy in a number of OECD Member countries. Consequently, recourse has to be made to the Introduction to the Guidelines referring to the framework of national laws, regulations and practices. Within such a framework, however, and subject to legitimate interests of business confidentiality, management is encouraged by this paragraph to adopt an open and co-operative attitude to the provision of information to employees relevant to the objective of this paragraph, which could include information on future plans.

Reference is made to paragraph 8 of the Introduction to the Guidelines in which the responsibilities of the various entities within a multinational enterprise are described. If an entity in a given country is not able to provide information to the employees in accordance with paragraphs 2b and 3, the other entities of the enterprise are expected to co-operate and assist one another as necessary to facilitate observance of the Guidelines. Since representatives of employees may experience difficulties in obtaining such information at the national level, this provision of the Guidelines introduces a useful supplementary standard in this respect" [OECD, 1979, p.36-37]

In recent years, many OECD countries have witnessed campaigns for greater disclosure of information to the public at large. In the UK, for example, the Liberal Party has campaigned strongly for a "Freedom of Information Act", based on the US model. Mr. Clive Ponting, a former civil servant, is regarded by some as a national hero because he disclosed to the public - via the media - information which the Government wished to suppress for the time being.

"Accountability" indeed appears to be a major issue throughout the Western world, and it has been particularly prominent in industrial relations. National employee disclosure legislation varies greatly, however, from one country to another. The Guidelines may in some cases be supplementary to national legislation. For example, few countries have legislation requiring firms to provide employees with a true and fair view of the group as a whole.

The Guidelines, unlike national legislation, ostensibly adopt an international perspective, and, as CIME stresses, the parent company must ensure that subsidiaries receive sufficient information in due time in order to be able to fulfil their obligations under national law and practice, and the Guidelines.

6.6.2 Paragraph 6: "Reasonable notice" in case of major change

Paragraph 6 has been one of the most invoked paragraphs of the Guidelines. TUAC has accused a number of MNCs when closing a plant of failing to provide "reasonable notice". These were Badger, British-American Tobacco, Firestone, and Ford, among others.

The key term in paragraph 6 is "reasonable notice". It needs to be clearly defined because it is open to wide interpretation and could therefore be a source of conflict between employer and employee, and of course the important third party, the government involved. Accordingly in 1979 the OECD's Committee on International Investment and Multinational Enterprises issued the following statement:

> "66. The management decisions to which the term 'changes in their operations', in paragraph 6 refers, would cover, in addition to the closure of an entity, which is specifically mentioned in the text, other measures 'which would have major effects upon the livelihood of employees'. The key notions in this paragraph [i.e. 6] are the 'reasonable notice' to be given of such changes and actions by management and co-operation with employee representatives and appropriate governmental authorities 'so as to mitigate to the maximum extent practicable adverse effects'.
>
> 67. It has seemed to the Committee that there is a link between these two notions. The notice given has to be sufficiently timely for the purpose of mitigating action to be prepared and put into effect : otherwise, it would not meet the criterion of 'reasonable'. It would be in conformity with the general intention of this paragraph, in the light of the specific circumstances of each case, if management were able to provide such notice prior to the final decision being taken" [OECD, 1979, p.37].

In order, therefore, to adhere to paragraph 6, enterprises should inform employees of their intention to close plants before their decision is final and irreversible. The wording 'in considering changes' seems to imply this interpretation.

Professor Blanpain, the Belgian representative on CIME, has inside knowledge which makes his comments on the interpretation of the Guidelines especially valid. As regards paragraph 6 he writes:

> "Co-operation with employee representatives and Governmental authorities does, following the drafters of the Guidelines, not include negotiations in the strict sense but means consultation. Mitigation to the maximum extent practicable of the resulting adverse effects, includes looking for alternative solutions (e.g. no overtime, work sharing), dismissing of less people, postponement of dismissals, terms of notice, golden handshakes, retraining, re-employment and the like. This does, of course, not take away that in certain countries national legislation and practise prescribes negotiations on the decision as well as on the social consequences thereof (e.g. Sweden)" [Blanpain, 1979, para. 190].

6.6.3.: Paragraph 9: Access to Decision Makers

Lack of access to decision-making management has proved another major area of complaint against MNCs. In its 1979 Review of the Guidelines, CIME devoted two paragraphs (i.e. 71 and 72) to "Access to decision makers":

> "71. When negotiations or collective leadership are proceeding in the context of any parent subsidiary relationship, there is clearly a possibility that the subsidiary may not be fully empowered to negotiate and to conclude an agreement. There may be special problems in the case of a subsidiary which is situated in one country whilst the parent company is situated in another. The purpose of the text of paragraph 9 was to lay stress on the access of employee representatives to management representatives 'who are authorised to take decisions on the matters under negotiation'. This is the key consideration and the management of an MNE should see that it is observed in the circumstances of each case.
>
> 72. There is also paragraph 8 of the Introduction to the Guidelines which is germane to the matter discussed under paragraph 9 of the Employment and Industrial Relations Guidelines. This text recalls that 'the Guidelines are addressed to the various entities within the multinational enterprise (parent companies and/or local entities)

> according to the actual distribution of responsibilities among them on the understanding that they will co-operate and provide assistance to one another as necessary to facilitate observance of the Guidelines'. Parent companies, therefore, are expected to take the necessary organisational steps to enable their subsidiaries to observe the Guidelines, inter alia, by providing them with adequate and timely information and ensuring that their representatives who carry out negotiations at the national or local level have sufficient authority to take decisions on the matters under negotiation" [OECD, 1979, p.38-39].

Some MNCs are highly centralised, while others prefer a decentralised organisational structure. Trade Unionists may experience difficulty in ascertaining the extent of local management's authority. Industrial relations may deteriorate when they discover that local management is no better informed than they are themselves of the parent company's plans, and indeed may only be informed about strategic decisions which affect the subsidiary they manage after such decisions are taken. Even the suspicion that subsidiary management is being kept in the dark is likely to prompt demands by unions for meetings with head office management.

It was seen in an earlier chapter that the foreign divestment decision is invariably taken at parent company headquarters by a few top men. This view is also commonly expressed in trade union publications, and it would appear that employees' representatives have been unimpressed by the claims of some MNCs that the divestment decision was made by local management.

Paragraph 9 aims to overcome these problems and ensure that employees' representatives receive timely information and access to the decision makers. Blanpain [1979] a member of CIME, concludes:

> **".. it is self-evident that headquarters must provide local management with appropriate information so that they can inform the employees, unless top management itself prefers to inform the employees directly"** [Blanpain, 1979, para.138].

Under paragraph 9 MNCs must either delegate local management with the authority to conduct negotiations or send duly authorised representatives from headquarters for negotiations with the employees. But as Blanpain [1979] says,

> **"What is meant by 'to conduct negotiations on collective bargaining or labour management relations issues' is to be determined by national law, regulations and practice, which is prevalent in the entity, affected by the decisions"** [Blanpain, 1979, para.138].

6.6.4: "The Chapeau Clause"

The Employment and Industrial Relations chapter is qualified by the "chapeau clause". It commends adherence by Enterprises,

> **"within the framework of law, regulations and prevailing labour relations and employment practises, in each of the countries in which they operate".** [OECD, 1976]

CIME, however, in its 1982 mid-term report stated that although the "chapeau clause" underlines the importance of the framework of national law, the Guidelines "where relevant can serve as a valuable supplement". [OECD, 1982]

The upshot of the "chapeau clause" is that in the past TUAC has had to challenge the principle that if national legislation exists on items covered by the Guidelines, and if the enterprise has not violated this legislation, then it has automatically respected the Guidelines" [TUAC quoted in Campbell and Rowan, 1983, p.146].

The "chapeau clause" is very important and its effect on the interpretation of the Guidelines has been significant. Only in 1980, one US Government representative commented:

> **"The guidelines dealing with employment and industrial relations boil down to compliance with local law, tempered by the observance of standards 'not less favourable than those observed by comparable employers in the host country....Since it is clear the guidelines do not override national laws, they provide no new rights or obligations either for enterprises or employees'"** [quoted in Campbell and Rowan, 1983, p.238].

Nonetheless, Trades Unionists insist on judging firms' conduct against each paragraph of the Employment and Industrial Relations Guidelines, and in so doing have failed to grasp the fundamental impact of "the chapeau clause" and its neutralising effect.

Some firms have been accused of breaching one or more of the directives contained in paragraphs 3, 6, and 9. Firestone was accused by TUAC of not providing Swiss employees with "reasonable notice" and "access to the decision makers". Ford was accused of violating all three paragraphs during the divestment process of a plant in Holland.

6.7.: The Ford Amsterdam Case

On January 13, 1981, the Works Council at Ford's Amsterdam plant was informed by local management that the unprofitable "buffer" factory would close with the loss of 1,200 jobs. This was followed by an announcement on April 24, 1981, that it would close on September 30, 1981. Infuriated employees occupied the plant, but on July 7, 1981 a court order was issued outlawing workers' occupation of the plant. The court injunction also stipulated, however, that the company await the outcome of an inquiry into its divestment decision before implementing it [Campbell and Rowan, 1983, p.146-9].

Ford retaliated, threatening to cease subsidising the alleged loss-making operation with effect from November 30, 1981, and issuing dismissal notices which stated the assembly plant would close in late November.

On October 28, 1981, a Dutch court lifted the injunction against Ford, thus giving the go-ahead for closure. On November 24, 1981, the plant was closed, and in the following month, the Industrial Enterprise Chamber of Amsterdam returned a verdict clearing Ford of the unions' charges of mismanagement [Campbell and Rowan, 1983 p.146-9].

On March 22, 1982, TUAC referred the case to CIME. In addition to alleging breach of paragraph 3, TUAC claimed "reasonable notice" had not been provided, but instead "notice was given only after a decision which proved to be final was taken". [quoted in Blanpain, 1983]. TUAC also believed that the divestment decision had not been made, as Ford claimed, by local management, and that negotiations were meaningless as the unions were denied access to the decision makers, the US Board. Ford countermanded these charges claiming it had fully complied with the Guidelines.

TUAC concedes that Ford respected Dutch legislation on employee disclosure and consultation, but it stressed that the Guidelines must be seen as supplementary to national legislation, and was critical of the Dutch Contact Point which implicitly equated the two:

> **"If an enterprise respects national law and practise, it seemingly cannot act contrary to the Guidelines. However, it is possible that even if a subsidiary of a multinational enterprise has lived up to national legislation e.g. in terms of information and consultation with the representatives of the employees, the enterprise as a whole has not fulfilled its obligations under the Guidelines"** [TUAC quoted in Campbell and Rowan, 1983, p.146].

TUAC was unimpressed by the Contact Point's logic, and the Federation of Dutch Trade Unions (Federatie Nederlandse Vakbeweging -FNV) holds that its handling of the case was unsatisfactory. It would appear that TUAC has referred this case to CIME with a view to instigating an inquiry into the functioning of NCPs rather than obtaining clarification of the Guidelines. TUAC proposes a much more active, pragmatic role for NCPs. It believes they should:

> **"go beyond only making references to either OECD documents, such as the 1979 Review Report, or national legislation, and should engage itself actively assisting the parties concerned to find solutions".** [TUAC quoted in Campbell and Rowan, 1983, p.152].

The European Trade Union Confederation has used this case to illustrate the inadequacy of voluntary measures, and the need for legislation, during its impressive performance in debating "Vredeling" before the European Commission.

6.8.: The Firestone Case

The Firestone case was introduced by TUAC on behalf of the Swiss Trade Union Centre. It referred to the closedown of an allegedly profitable plant at Pratteln. The Swiss unions argued that they had not received from the Company the maximum cooperation which is called for in paragraph 6 of the Employment and Industrial Relations section, the redundancies being unnecessary as the plant was allegedly profitable. They also argued that the same paragraph calls for:

> **"an open consultation between management and representatives of employees . Long term decisions involving collective lay-offs etc. should be told to the employees as soon as the decision at central level is made"** [Submission by the Swiss Trade Union Centre quoted in Blanpain, 1979, para.135].

But the chief bone of contention was lack of access to the real decision-makers by employees' representatives. The unions were particularly adamant that Firestone had flagrantly failed to comply with paragraph 9. Not only had employees' representatives been constrained to negotiate with local management, powerless to reverse the divestment decision, but in retrospect it appeared that the parent company had kept local management in the dark about its divestment plans, or, the latter had consciously given misleading information to union officials and public authorities.

The Mayor of the town, for instance, had been assured by factory management that closure was out of the question, and that the activities of the subsidiary were "more or less normalised". A number of statements had also been issued indicating that the factory would remain open. Yet the collective agreement between the Corporation and the trade unions stipulated that,

> **"collective lay-offs or dismissals following a lack of orders ...as well as closure of enterprise's should be discussed with trade unions and the workers' committee prior to any move"** [Submission by the Swiss Trade Union Centre quoted in Blanpain, 1979, para.135].

These discussions never materialised and despite requests in the three years previous to the announcement for a negotiating meeting with the "authorised representative of the Firestone

Group (International)", it was only after "a decision of closure was announced suddenly and unilaterally" that Firestone international management declared its willingness to receive a Swiss delegation at its US Headquarters. The unions argument could be summed up thus:

> **"decision-makers should be ready to pass the necessary information, discuss it, negotiate on conditions of employment and/or closure, before the final decision is made"** [Submission by the Swiss Trade Union Centre quoted in Blanpain, 1979, para.135].

On April 11, 1978, BIAC replied to TUAC's accusation that Firestone had failed to comply with paragraph 9:

> **"In regard to the last Employment and Industrial Relations Guideline (9) BIAC would just reiterate that collective bargaining procedures and labour relations issues are matters to be settled between the management of the affiliate and the authorized representatives of its employees in the country concerned in accordance with national law and practice"** [Position of BIAC quoted in Blanpain, 1979, para.136].

6.9.: Conclusion

The Guidelines were drawn up by the OECD in response to criticism of MNCs, both within the rich countries of "the North" and the under-privileged countries of "the south". The speed at which they were formulated was in anticipation of more rigorous controls which the UN might impose; the motives of OECD were therefore suspect right from the start.

The limitations imposed on the Committee for International Investment and Multinational Enterprises (CIME) did little to inspire confidence in the OECD's initiative. CIME, watchdog of the Guidelines, was denied any judicial function and barred from commenting on the conduct of an individual enterprise. CIME's prime function is confined to clarifying, on request, sections of the Guidelines.

The Employment and Industrial Relations section, the key chapter of the Guidelines, was introduced only to placate "progressive" OECD member states, after their appeals for legislation had been rejected by the US and its supporters. Even then, this vital section of the Guidelines was liberally scattered with ambiguity, clearly denoting an absence of precept. And finally the inclusion of "the chapeau clause" neatly protects the interests of MNCs. This clause commends that MNCs accord with paragraphs 1-9 "within the framework of the law, regulations, and prevailing labour relations and employment practices, in each of the countries in which they operate". It is significant that this clause prefaces only the section of the Guidelines which bears most heavily on protecting the interests of employees.

Trade Unionists have apparently not grasped the fundamental impact of "the chapeau clause", and have thus failed to hammer home the point that the Employment and Industrial Relations Guidelines do not override national laws, and therefore fail to provide new rights or obligations to either employees or enterprises. The so-called union victories under the Guidelines, - in the Badger and Hertz cases -, were achieved, not because sections of the Guidelines were breached, but because national legislation had been contravened incurring the wrath of the host governments which fully supported the Unions in their dispute with these two firms.

"The chapeau clause" precludes the consideration that the Employment and Industrial Relations Guidelines are a supplement to national law. Firms which comply with appropriate national legislation have automatically respected this section of the Guidelines. Some members of CIME may genuinely wish them to be regarded as supplementary, but the fact is, that until "the chapeau clause" is removed they will remain only complementary to national legislation.

Thus employers' organisations have readily accepted the Employment and Industrial Relations Guidelines. Mr. Hans Kroger, the Head of Department of Legal and Fiscal Affairs for UNICE (ie, Union des Industries de la Communaute Europeene) underlined the importance of the "chapeau clause" when he explained UNICE's opposing views of the section of the Guidelines and revised "Vredeling Proposals", paragraph 6 and article 4 respectively, which bear most heavily on the plant closure situation:

> **"The 'chapeau' of section 6 is of utmost importance because it says that enterprises should apply section 6 within the framework of law, regulations and prevailing labour relations and employment practises, in each of the countries in which they operate. There is nothing comparable to this in article 4."** [letter dated April 19, 1984, from Mr. Kroger to the author].

The Employment and Industrial Relations Guidelines do nothing to inhibit those MNCs who regard minimum legal requirements as a ceiling; for those MNCs which aim to respect not just the letter, but the spirit of the law, they are irrelevant.

This was the thinking underlying the controversial 1980 EEC Draft Directive on "Proposal for a Council Directive on procedure for informing and consulting employees of undertakings with complex structures, and in particular transnational undertakings" commonly known as the "Vredeling Proposals". The author would, however, dispute the contention that "without the OECD's Guidelines, and in particular the industrial relations section, it is more than likely that the Vredeling move would never have seen the light of day" [Robinson, 1983, p.112]. Quite the reverse, "Vredeling" would not only have been published earlier, but its journey through the EEC's legislative process would have been smoother, and quicker. For because of the Guidelines, European Trade Unions and some politicians ignored their instincts and dithered for four years awaiting proof that the Guidelines would solve the inherent contradiction in seeking protection from national legislation in tackling problems with international dimensions.

Throughout the "Vredeling Proposals" debate, Employers' Organisations have argued that further legislation is unnecessary. Often they present the Guidelines and "Vredeling" as alternatives which differ only in legal status, while fully aware that legalities apart, "Vredeling" threatens to impose much more onerous obligations. Consequently, Trades Unionists have fallen for this ploy and have devoted crucial time and resources haggling over the extent of compliance to the Guidelines, and the Employment and Industrial Relations chapter in particular. This is a futile exercise, for the nine paragraphs of the Employment and Industrial Relations section are not independent. "The chapeau clause" prefaces them, and thus considerably dilutes their recommendations. These Guidelines only commend adherence to national legislation. They are therefore an irrelevance in the "Vredeling" debate. The key criterion in establishing the need for "Vredeling" should be first, the effectiveness of national legislation, and secondly the quality and validity of the Draft Directive's proposals.

Campbell and Rowan [1983] have concluded that the relatively small number of alleged infractions of the Employment and Industrial Relations Guidelines referred by TUAC to CIME "provides testimony to the generally good comportment, and thus good reputation of multinational firms" [Campbell and Rowan, 1983, p.12]. It would be satisfying to think this true, but sadly the small number of cases referred to CIME warrants a more mundane conclusion, namely, the majority of MNCs respect national legislation. But, if Trade Unionists have small regard for the protection offered by national legislation, then MNCs will have to exceed legal requirements if they hope to boost their public esteem.

This thesis will focus on foreign-owned plant closures involving 500, or more, employees in the UK, since 1976 when the Guidelines were introduced. It has been seen that by prefacing the Employment and Industrial Relations Guidelines with "the chapeau clause", the net result has been to recommend that MNCs do no more than respect appropriate national employment legislation. It should therefore come as no surprise if Management and Trades Unionists, interviewed by the author for the case studies, ignored or paid scant attention to these Guidelines during the divestment process. There was no need to, for firms complying with UK legislation automatically respected the Employment and Industrial Relations Guidelines.

It follows, therefore, that the Guidelines have no place in our analysis of firms' conduct. It will be worthwhile considering, though, whether they constitute a framework for Management and

Trades Unionists during the divestment process.

In the case studies attention will focus on the extent to which the MNCs under review satisfied their legal obligations. The European Parliament has approved the "Vredeling Proposals", so MNCs are now aware of the standard of behaviour which these elected representatives consider appropriate. The need for "Vredeling" hinges, therefore, on the extent of compliance with national legislation and the requirements contained in the EEC's Draft Directive.

Our focus now transfers from the Paris-based OECD, to the Brussels-based European Community (EC) and to the European Parliament in Strasbourg as we examine the "Vredeling Proposals".

CHAPTER 7

THE EEC'S "VREDELING" PROPOSALS

7.1.: Introduction

On October 23, 1980, the European Commission approved the "Proposal for a Directive on Procedures for Informing and Consulting the Employees of Undertakings with Complex Structures, in particular Transnational Undertakings". The shorthand title for this Eurospeak is the "Vredeling Proposals/Directive", after its author, the then Commissioner responsible for Labour and Social Affairs, Mr. Henk Vredeling, a Dutch Socialist.

This proposed Directive immediately provoked not only a heated debate between unions and business, but it also led to the latter mounting an expensive campaign decrying it. Once again, Henk Vredeling was surrounded by controversy.

In 1974, he had rocked the Dutch Cabinet - yet retained his seat - with an incredible newspaper interview in which he castigated almost all his ministerial colleagues. The Minister for Development was described as a "student union prig" - and he escaped relatively lightly.

The Dutch Socialist believed that the economic climate of the late 1970's demanded regulation of the activities of firms. It should be remembered that the "Vredeling Directive" was introduced just as the effects of the world economic crisis were beginning to hurt, and multinationals were being forced to restructure their operations. Subsidiaries were sold, plants were closed, manning levels cut, and in many cases production was transferred to more competitive locations.

The unions argued that when decisions of this magnitude were taken, workers should be informed and consulted before an irreversible decision was reached. They objected to being confronted with the "fait accompli".

The European Commission, for its part, recognised that whilst employees' information and consultation rights were determined by national legislation, the internationalisation of business and the tendency towards centralised decision-making had rendered national legislation ineffective for many employees. Workers in the host country had no access to the decision-makers at company headquarters in the home nation, and relied on each link in the chain of the corporate hierarchy relaying information down to employee representative level.

The Commission in its introduction to "Vredeling" therefore reached the following conclusion:

> **"A legal framework for the disclosure of information to and consultation with employees will therefore constitute a stepping stone to the creation of a uniform operating environment for all undertakings in the Community. The current economic climate, which has necessitated far-reaching and structural changes in industry and has had very serious social repercussions, highlights the importance of a Community initiative in this field. Against this background, the requirement that all firms should inform and consult their employees on the basis of their overall operations assumes particular importance"** [Com. 80 (423 final].

The "Vredeling Proposals" called for the regular provision of information - half-yearly at least - covering the following subjects: structure and manning; the economic and financial situation; current and likely development of the business, production, sales, and employment; production, investment, and restructuring plans; current and proposed manufacturing and working methods; and, finally, all procedures and plans liable to have "a substantial effect" on employees' interests.

Employees had to be consulted when a proposed decision was liable to have "a substantial effect" on employees' interests, eg. the closure of a plant.

These proposals were strongly supported, for obvious reasons, by the European Trade Union Confederation (ETUC), but drew vociferous criticism from the umbrella organisation, Union des

Industries de la Communaute Europeene (UNICE). Both bodies launched extensive campaigns to publicise their viewpoint, and throughout Europe, unions debated the issue with employers' organisations. The multinationals, especially US-based ones, argued vehemently against the need for and desirability of the "Vredeling Proposals" [Fryer, 1982].

On October 12, 1982, after intensive lobbying by the business community, the European Parliament voted in favour of a number of amendments to the "Vredeling Proposals". Supporters claimed that these amendments weakened the original text. In total, 37 changes were proposed.

In November 1982, the successor to Henk Vredeling, the British Commissioner, and former Labour MP, Mr. Ivor Richard, announced that he did not find acceptable all of the amendments suggested by the Assembly.

The revised version was published in June 1983. It was a much watered down version of the 1980 proposals, and it is commonly referred to as "the Richard's Proposals/Directive".

In late 1983, the "Richard's Proposals" were passed by the Commission and the European Parliament. The proposals had therefore reached the final hurdle. In order to become Community law, they must now secure unanimous approval by the Council of Ministers composed of representatives from all ten EEC Governments.

The major stumbling block to the Directive's progress is the UK Government. The re-election in June 1983 of the Thatcher Government, totally opposed to the principle of legislation in this field, makes it unlikely that the "Richard's Directive" will win the necesary support at the Council of Ministers before 1988. The question is, will it then be too late?

The superstitious may blame the tortuously slow progress of the "Vredeling/Richard's Proposals" on Mr. Vredeling's accident in a Strasbourg hotel when he broke a mirror, but it would be more accurate to attribute lack of progress to lack of power possessed by the European Parliament compared to that held by the pro-business lobby. Add to this the shift to right since 1980 of Member Governments.

7.2.: "Vredeling/Richard's" Historical Background and Legal Basis

Multinationals with plants in more than one EEC country hold national negotiations with their employees. Disparities in income, culture, ideology and social history, especially labour tradition, among workers from different nations continue to impede the formation of a central body to represent workers worldwide. Thus, attempts to develop transnational collective bargaining have failed.

Instead, European Unions have concentrated on the more realistic goal of being regularly consulted and informed of central management decisions. As the level of Foreign Direct Investment (FDI) has risen in EEC member countries, Unions have become increasingly aware that national legislation is inadequate in dealing with an issue of international dimensions.

Workers believe that current national employment legislation has failed to take cognisance of the internationalisation of business. For them, a Corporation is primarily an employer and employees are particularly concerned about the perceived ability of MNCs to reallocate resources to areas outwith a national Trade Union's sphere of influence [Gray, 1984, p.33].

The resource allocation decisions of MNCs - sometimes in conflict with national interests - inevitably create tensions between corporations and governments and trade unions. Introducing legislation to extend accountability and information disclosure has come to be seen as a means of regulating the activities of MNCs.

Restructuring of a MNC frequently involves divestment, and as was seen earlier, the divestment decision is not only a centralised decision, but one that is usually taken by the Chief Executive

Officer (CEO). Employees therefore no longer have access, when it is most needed, to the real decision makers. Instead, they are dependent on the various layers in the corporate hierarchy transmitting the information down to their representatives.

This situation is considered unacceptable by the unions, and has led them to demand legislation which will require international management to initiate transnational consultations with their employees. So far, MNCs have not responded favourably.

Of all the international trade union organisations, the International Trade Secretariats (ITSs) are most determined to escalate national consultation between management and workers to an international level. At the 13th World Congress of the International Confederation of Free Trade Unions (ICFTU) in Oslo during the week commencing June 23, 1983, a resolution was passed, deploring "the resistance of most transnational corporations to requests for meetings between ITSs and the management at the headquarters of TNCs" [Hamilton, 1983, p.2].

European unions in particular have campaigned vigorously for legislation and have appealed to the EEC for positive action. They have done so in recognition of the EEC's efforts to eradicate the disparities which exist among Member States, culturally, economically, and socially.

In 1971, a popular view of the time was expressed by Tugendhat in his introduction to The Multinationals. He warned:

> **"The time has come for governments everywhere to decide what to do about the great multinational companies that have grown up in the last twenty-five years. Their emergence is one of the most dramatic developments of the period, and of more than just economic and industrial significance. Their position profoundly affects the role of governments in the exercise of their responsibilities, and the relationship between states"** [Tugendhat, 1971, p.19].

His advice certainly did not go unheeded by the EEC, and long before "Vredeling", the EEC had expressed alarm about MNCs and had introduced legislation to regulate their activities. As early as 1973 the Commission had approved a report by an Italian

Commissioner, Spinelli, which declared:

> **"The opportunities possessed by multinational companies to affect employment in the various countries in which they exercise an activity causes much anxiety amongst workers. The Commissionn considers the setting up of a trade union counterweight as essential for a balanced solution to this problem but feels that its task is to encourage this initiative, not to organize directly"** [European Commission (Bulletin Supplement) 15/73, p.10].

A year later, "The Commission Communication on Multinational Undertakings and Community Regulations" stated that workers are "extremely concerned about the power of multinational companies to affect employment in the various countries in which they operate". The Commission therefore considered the setting up of a Trade Unions counterweight as "essential for a balanced solution to this problem; however it is not its task to organise this but certainly to encourage it". The Communication also refers to the problem of informing and consulting workers in firms which have branches outside the Community [OJ C 116 of September 30, 1974].

In reply to this document, the Committee put forward several recommendations as a means of increasing the transparency of multinationals' activities. These included the regular disclosure of comprehensive information; workers' participation in the activities of the undertaking which would allow them to express their views and take a stand on matters of most concern to them; regular meetings between representatives of workers employed in the various establishments belonging to the the same multinational and located in Member States [European Industrial Relations Review (EIRR), August 1983].

The additional "Opinion of the Section for Social Questions on the Commission Communication to the Council on Multinationals and Community Regulations" constitutes the basis of the final Committee Opinion on this Communication. The additional Opinion contains the following passage:

> **"Lack of knowledge about the way multinationals are organised and their activities is a source of concern for the workers they employ and for their trade unions. Employees - especially those in countries other than that in**

which the multinational is based - may know nothing about the way in which the multinational is organised and its decision making procedures; the production programmes of the parent company and of establishments and subsidiaries in the various countries in which the multinational operates; on-going technological research; application of patents and utilisation of the results obtained;

or, above all the potential impact of projects and research on employment, occupational skill requirements, working conditions and the like". [CES 237/74/ fin of May 16, 1974]

It also stated that:

"It is often because of this failure to provide information and lack of knowledge about the situation that workers and their unions tend to see the dark side of multinationals rather than their positive social aspects, that is to say, the valuable contribution which they can make towards not only the economic, but also the social goals of the community" [CES 237/74/ fin of May 16, 1974].

In its "Resolution of 12 December 1974 on the Commission Communication on Multinational Undertakings and Community Regulations", the European Parliament supported the Commission's view that the establishment of a trade union counterweight would make a major contribution towards the solution of many social problems by ensuring better dissemination of information on the operations of multinational undertakings.

This support was translated into legislation in February 17, 1975, when the Mass Dismissals Directive was passed. This Directive created an obligatory procedure for informing and consulting workers' representatives when collective labour redundancies were being contemplated. It applied to both uninational and multinational firms alike. This Directive was enacted in the UK. with the introduction of the Employment Protection Act, 1975.

According to Mr. George Trevelyan, a senior bureaucrat at the Economic and Social Affairs Office, the "Vredeling Proposal was the logical outcome of this Directive:

"The Vredeling Directive is a direct descendant of the Mass Dismissals Directive" [Letter to author, dated February 24, 1984].

On February 14, 1977, another Directive was passed in Council which provided a procedure for informing and consulting the representatives of workers affected by a transfer to another country as a result of a legal transfer or merger.

On April 10, 1979, the "Committee's Opinion on Worker Participation and Company Structure in the European Community" was published. In the accompanying Sub-Committee Report [OJ C 94 of 10 April, 1979] many members stated that:

> **"... Community provisions must lay down minimum rules on the rights of access to information rights of consultation and rights of participation in decision-making to be assigned to the employees' representative institutions. These minimum rules should, as the Commission suggests, be based on common principles to be derived from the law and practice of the Member States"** [OJ C 94 of 10 April, 1979].

The Report goes on to say:

> **"The Community provisions should impose fairly stringent requirements as to information, specifying a minimum which must be given and requiring it to be given in sufficient time for a proper discussion of the issue to be held before any decision is taken. The minimum would have to include information about the company's medium-term development and investment plans and their implications for jobs, training qualifications, pay and conditions"** [OJ C 94 of 10 April, 1979].

It was seen in the previous chapter, that the OECD Guidelines were introduced just as the member countries began to suffer from the effects of the 1973 oil crisis. By 1980, when the original "Vredeling Proposal" was issued, the world was in the midst of a deep recession; European industry had been ravaged, and EEC member countries faced levels of unemployment unknown since the 1930's with concomitant social problems.

The history of inter-war Germany served as a sombre warning to Government's which failed to tackle unemployment. The popularity of Fascism and Hitler's rise to power, was based to a large extent on the promise to produce jobs.

A number of commentators argued that close parallels could be drawn between the economic and social climate of the late 1920's and the late 1970's. This view was substantiated by reference to the "Kondratiev cycle". Kondratiev had argued that a study of economies suggests that 50-year economic cycles can be identified, alternating between periods of boom and depression. So events tend to repeat themseves every 50 years. As in the late 1920's/ early 1930's, fifty years on when "Vredeling" was drafted,

> **"European industry was entering the depths of the recession with the threat of widescale industrial and social disruption"** [Hamilton, 1983, p.8].

For example, in 1979 Britain experienced the former, and in 1981 it was scarred by the latter. During the "winter of discontent", a rash of politically damaging strikes prepared the way for a Conservative victory at the polls over a Labour Party dogged by internal wrangling.

During its first two years in office, the Government's monetarist economic policies had failed to achieve their prime objective of reducing inflation, and industry was also burdened with record high interest rates and a very strong pound which depressed exports. These national factors combined with the world recession, resulted in rising unemployment which eventually exceeded three million.

The Prime Minister's espousal of Victorian values, especially the "self-help" philosophy, was not particularly popular among the hard-core unemployed in the more deprived areas of England's major cities, and in the summer of 1981 rioting broke out. The televised "highlights" stunned the nation: scenes at Toxteth, Liverpool had been particularly ugly. Four years later such scenes were repeated at Handsworth, Birmingham, and defeated miners returned to work after a year long strike in which pickets and police fought pitched battles.

Vredeling appreciated that when market conditions are so stacked against the interests of labour, a counterweight is necessary to mollify the European workforce facing these difficulties. He and his allies argued that the <u>Guidelines for Multinational</u>

Enterprises adopted by the Organisation for Economic Cooperation and Development (OECD), and the Tripartite Declaration of Principles adopted by the International Labour Organisation (ILO) had failed to appease labour precisely because of their voluntary nature. Vredeling and Davignon therefore believed that only the EEC, with its legislative powers, could redress the balance in favour of employees:

> **"Because they (the OECD and ILO Codes of Conduct) are not backed up by laws and penalties, they do not lead to the sought-after transparency (in multinational operations) and the guarantee to workers that they will be informed of the affairs of the whole enterprise and not just of the problems of their plant and subsidiary in the local national situation"** [Vredeling and Davignon quoted in Hamilton, 1983, p.8].

Henk Vredeling himself has concluded, however, that the main reason the Commission approved the "Vredeling Proposal" when it did was the need to obtain the political support of the European Trade Unions for the EEC as an institution [Hamilton, 1983, p.9].

Bearing in mind that, prior to Britain's joining the Common Market, the TUC had been assured that the EEC could shackle the multinationals, the Commission saw "Vredeling" as "the ideal sweetener for the British TUC's hard line on EEC membership" [Hamilton, 1983, P.9]. The TUC had not forgotten that,

> **"in the debate ten years ago on the question of Britain's membership of the EEC, the trade union movement was urged to support entry on the grounds, inter alia, that the EEC would make the multinational companies more accountable. It has so far achieved nothing in this specific field in those ten years".** [TUC, April 2, 1981].

The EEC had been subject to fairly regular criticism from European Unions. Within the ETUC, the British TUC had opposed the EEC and was campaigning for a reconsideration of ETUC policy toward the Community as a whole. Even the pro-European, German Trades Union Federation, warned the Commission that unless it secured some tangible benefits for European Labour which proved that EEC membership was worthwhile for the workers, then Labour's role within EEC institutions would be jeopordised:

> **"The prospect of an exodus of European unions from the EEC**

with their governments in tow pushed the Commission to offer a concrete proposal to the ETUC and, in particular, to the British group" [Hamilton, 1983, p.9].

7.3.: The Formulation of the "Vredeling Proposals"

From its formation in 1973, the ETUC had urged the Commission to introduce legislation which would compel the creation of a body within each MNC operating in the Community to be responsible for informing and consulting workers' representatives in all its member countries. On February 6, 1975 this proposal was passed by the ETUC's Executive Committee.

The early draft provoked heated discussions within the Commission between Viscount Davignon, then reponsible for Directorate General III -Internal Market, and its author Henk Vredeling who then headed Social Affairs. This draft represented a considerable victory for the European Trade Union Confederation (ETUC) [Hamilton, 1983, p.2].

Henk Vredeling aided by Mme. Francoise Blanquet, a French legal expert, drafted a proposal to create Europe-wide Works Councils in MNCs operating within the Community. According to Hamilton [1984] this draft proposal required the management of MNCs to inform and consult employees representatives in all EEC member countries on issues affecting the firm as a whole and not just the individual nationally based plants:

> **"This requirement would have given workers the opportunity to discuss the multinational's global strategy regularly with the responsible managers. This proposal offered a legal framework for multinational bargaining and a stimulus to the creation of multinational trade unionism"** [Hamilton, 1984, p.3].

In a press conference held in Brussels on October 2, 1980, Mr. Henk Vredeling, EEC Social Affairs Commissioner, stated that the draft Directive which he had co-authored was to some extent founded on existing but voluntary codes of conduct prepared by the ILO and the OECD. It was also built, he said, on existing Community Law granting employee representatives information and prior consultation rights in collective redundancy and company transfer situations. It was also evident that it was considerably influenced by legislation already in force in several Member States - particularly in France, West Germany and the Netherlands. Mr. Vredeling anticipated the proposals' critics, indicating that progressive employee disclosure and consultation legislation had apparently not deterred foreign direct investment in these countries [EIRR, November 1980].

Vredeling's plan was to introduce European-wide bargaining groups with direct access to multinational headquarters. This concept proved too radical for Davignon. He insisted that the proposal should only allow for multinational consultations as an option when workers felt that the negotiations with local management had failed.

The first draft also attracted criticism from other quarters:

> **"Legal experts believed that European works councils could not be created within each multinational until there was an EEC law which covered company groups. Also, some employers objected to the fact that the proposal applied only to multinationals"** [Hamilton, 1983, p.3]

Thus, when the "Vredeling Proposal" was adopted by the Commission in September 1980, it had been amended according to these objections, and it did not create European works councils; it allowed only for transnational consultations as an option, and it included all multi-plant companies, not just multinationals.

7.4.: The October 1980 Proposal

The "Vredeling Proposal" required international and local management to inform its workforce regularly about a wide range of issues affecting the company as a whole. Management was obliged to consult its workforce before taking key decisions. Multinational or multi-plant companies which failed either to do so or to provide information would face legal sanctions.

7.4.1.: The Requirement to Inform Workers

Management of a Dominant Undertaking was required, at least every six months, to "forward relevant information to the management of its subsidiaries in the Community, giving a clear picture of the activities of the Dominant Undertaking and its subsidiaries as a whole" (Article 5,1).

Specific information had to be provided on the following:

"a) structure and manning,

b) the economic and financial situation,

c) the situation and probable development of the business and of production and sales,

d) the employment situation and probable trends,

e) production and investment programs,

f) rationalisation plans,

g) manufacturing and working methods, in particular the introduction of new working methods,

h) all procedures and plans liable to have a substantial effect on employees interests". [Article 5,2]

The Commission planned to make direct contact between international management and trade unions the exception rather than the rule, so instead of this information being communicated directly from international management to the local workforce, it was to be relayed via local management which, on receiving the information from the Dominant Undertaking, would then communicate it "without delay to employees' representatives in each subsidiary" [Article 5.3].

Workers were entitled to demand information from the management of the dominant undertaking and "by-pass" subsidiary management only when the latter did not have or was unwilling to communicate the information to employees [Article 5.4].

7.4.2.: The Obligation to Consult

As with the obligation to inform, the dominant undertaking was obliged to consult only when local management had failed to provide certain information or to enter into consultation over certain proposed decisions with local employees. After these failures, employees' representatives were "authorised to open consultations, through authorized delegates, with the management of the dominant undertaking with a view to obtaining such information, and where appropriate, to reaching agreement on the measures planned with regard to the employees concerned" [Article 6.4].

Decisions which could not be taken without prior consultation included:

> "a) the closure or transfer of an establishment or major parts thereof
>
> b) restrictions, extensions or substantial modifications to the activities of the undertaking
>
> c) major modifications with regard to organisation
>
> d) the introduction of long-term cooperation with other undertakings or the cessation of such cooperation" [Article 6.2]

At least 40 days before making a decision on such matters, the dominant undertaking had to forward precise information to the local management giving details of:

> "a) the grounds for the proposed decision
>
> b) the legal, economic and social consequences of such a decision for the employees concerned
>
> c) the measures planned in respect of these employees" [Article 6,1]

Hamilton [1984] points out that consultation did not automatically take place over the decision itself. Rather as Article 6.3 puts it,

> "The management of each subsidiary shall be required to communicate this information without delay to its employees'

representatives and to ask for their opinion within a period of not less than 30 days" [Article 6.3].

Article 6.4. detailed the next step in the consultation process:

"Where in the opinion of the employees' representatives, the proposed decision is likely to have a direct effect on the employee's terms of employment or working conditions, the management of the subsidiary shall be required to hold consultations with them with a view to reaching agreement on the measures planned in their regard" [Article 6.4].

This particular section of Article 6 was ambiguous:

"First, there was no provision made in the Directive for action in the event of non-agreement once the consultation had taken place. In that case, management could face sanction from national law. Second, it was not clear whether the Commission was envisaging consultation or something more, e.g. participation in decision making, when it called for consultations with a view to reaching agreement on the measures planned.

Some argued that workers were being given the right to interfere with management's decision-making prerogative under this clause. Others interpret it as meaning that consultation would take place on the decision once the decision had been taken, with the workers being in reality faced with a 'fait accompli'" [Hamilton, 1983, p.5]

7.4.3.: Penalties for Non-Compliance

"Vredeling" was the first international initiative to propose **legislation** to regulate international relations between employers and workers within MNCs. Others, such as the OECD Guidelines and the ILO Multinational Declaration of Principles, are **voluntary.** The OECD and ILO cannot penalise those firms which choose to disregard their codes of conduct for MNCs. Indeed, the previous chapter shows that the OECD is expressly forbidden from even commenting on an individual MNC's behaviour. The "Vredeling Proposal" was unique, therefore, in that its implementation would impose legislation on MNCs (and multi-plant companies). It was to be **obligatory.**

Article 6.6 gave full power to member states to enact appropriate penalties for failure to fulfill the obligations stipulated therin:

"... in particular, they shall grant to the employees' representatives concerned by the decision the right of appeal to tribunals or other competent national authorities for measures to be taken to protect their interests" [Article 6.6].

In recognition of the problems involved in exerting the little power it had to impose penalties on the headquarters of MNCs outside the Community, the Commission, under Article 8, placed legal responsibility to comply with the Directive provisions on "the management of the subsidiary that employs the largest number of employees within the Community."

In this way, legal responsibility was imposed on the MNC even if its headquarters were outside the EEC. This article became known as the "hostage" clause. A "hostage" company could be threatened with legal sanctions in order to ensure good behaviour from the parent company.

As already noted, the draft Directive does not give details of any specific sanctions to be applied to those in breach of its provisions. It will be up to each Member State, when preparing its own national legislation, to determine what fines etc should be attached to particular offences. The draft Directive does state however, that national employment legislation must provide a right of appeal for employee representatives with regard to disputed company decisions affecting their members.

7.4.4.: Summary of 1980 Proposal

Heinz Vetter, MEP, former Vice-President of the German Mineworkers and head of the German trade unions, described the "Vredeling Proposals" as:

> **"a first attempt in international social history to submit multinational companies to supranational legal discipline"** [quoted by Ms. Anne Clwyd, MEP, in letter to The Times, September 7, 1983]

Despite reactions of horror from business internationally, this proposal did not satisfy the ETUC. "Vredeling" required the escalation of information and consultation to an international level only under certain circumstances. Central management was still considered too inaccessible. Moreover, it did not create "the institutional machinery in which these pan-European-type consultations could have taken place. No European works council was created through which the workers could be informed and consulted by management from the firm's headquarters" [Hamilton, 1983, p.6]

It did, however, allow for the creation of "a body representing employees of the dominant undertaking and its subsidiaries within the Community ... by means of agreements to be concluded between the management of the dominant undertaking and the employees' representatives" [Article 7.3]. Should such a body exist it would receive the information provided for in Article 5.

Hamilton [1983] thus concludes:

> **"Taken together these provisions represented a halfway house in the creation of multinational trade unionism. Nevertheless, they were a radical legal departure in an unlegislated area of international relations.**
>
> **However, the EEC was not in the best position to fill this legal void. Without the "hostage" approach, it could not adequately create the framework for consultations between management and workers at the multinational level to take place. Many of the HQs of MNCs lay outside the Community and outside the direct jurisdiction of the Commission. In the final analysis the Commission did not have the power to enforce the disclosure of information and the holding of consultations on the part of the Headquarters Board outside the EEC to workers' representatives inside the Community"** [Hamilton, 1983, p.7].

7.5.: The Watering Down of The Text

Before the text could be redrafted and submitted to the Council of Ministers for approval, it had to go through the EEC's various legislative channels. This involved obtaining the approval of the European Assembly and then the Commission.

The European Parliament in Strasbourg was highly critical of the 1980 "Vredeling Proposals". However, its power was, and still remains, limited to suggesting changes in EEC legislation. The main responsibility for this lies with the ten member governments which have failed to yield the powers and resources necessary for the Parliament to develop. The claim that in June 1979 it was transformed, by being directly elected, therefore seems highly questionable.

Members of the European Parliament (MEPs) have organised themselves in cross-national groups as opposed to national delegations. In the 1979 election 431 MEPs were returned, and all but ten members attached themselves to one of the seven political groups. The largest of these, the Socialists, with 124 MEPs, was the only one which could claim members from all ten countries. The other six groups, in declining order of size, were the Christian Democrats (117), the European Democrats (i.e. British and Danish Conservatives) (63), the Communists (48), the Liberals (39), the Progresive Democrats (ie. French Gaullists and Ireland's Fianna Fail) (22), and the Technical Co-ordination group, (i.e. "a motley collection of small, mostly left-wing parties which have combined merely to take advantage of financial and administrative privileges afforded to recognised political groups") (11). The four right-of-centre groups therefore had a clear majority together accounting for 241 of the 434 members [The Economist, October 30, 1982].

On July 12, 1982, the Parliamentary Committee's rapporteur, British Conservative MEP., Mr. Tom Spencer, presented his report to Parliament on behalf of the Committee on Social Affairs and Employment. It concluded that the OECD's Guidelines for Multinational Enterprises, "while worthwhile, are not satisfactory alone" [Document 1-324/82/B].

On October 12, 1982, after a three hour voting marathon on 300 draft amendments, 37 of which were passed by Parliament, a "Vredeling Directive", diluted by these amendments won Parliament's approval. All but two of the original 18 articles were altered.

Despite the importance of the Draft Directive and the interest it had aroused, only 219 MEPs, just over half the total number, participated in the voting! The amended Directive was passed by

166 votes to 42 with 11 abstentions. The Socialist group, which had intended to abstain, was absent, in protest at the insertion of amendments which, it argued, had rendered the 1980 text toothless [The Week, Strasbourg, October 11-15, 1982].

The most important amendments passed:

1. Excluded all firms with fewer than 1,000 employees and subsidiaries with fewer than 100.

2. Gave managers broad scope to classify information as confidential.

3. Prevented workers from by-passing unhelpful subsidiary management and requesting information from decision-makers.

4. Reduced the amount of notice that had to be given to employees of proposed changes, and also the length of the period for consultation.

5. Allowed employers to decide at what level in the firm consultation would take place.

6. Demanded that all employees' representatives who receive information must be elected by secret ballot.

Parliament's approval of almost forty amendments represented a major draw back to the unions who, earlier in the year, had been confident that they had secured sufficient parliamentary support to see the directive passed unscathed. The Socialists and Communists, a good number of the 117 Christian Democrats, and even a handful of Conservatives, Liberals, and Gaullists had pledged support. A handsome majority against the amendments had therefore seemed the most likely outcome [The Economist, October 16, 1982].

However, intense pressure had been brought to bear on dissidents to tow the party line. For example, a Belgian Social Christian, Mr. Raphael Chanterie who had expected to be joined by many other Christian Democrats in opposing the amendments, expressed disappointment at finding himself almost alone [The Economist, October 16, 1982].

MEPs also faced the most expensive lobbying campaign in the Parliament's history, led mainly by US MNCs. At the forefront were Caterpillar, Ford, and the Mars Corporation. Caterpillar, for example, wrote to a number of MEPs representing constituencies where it had a manufacturing operation [Fryer, 1982].

Parliament's amendments succeeded in deleting from the Directive the principles of multinational consultation, espoused by Vredeling and the Trades Unions. The pro-business lobby in the Parliament had certainly scored a notable victory. Responsibility for the Proposals lay with the British Commissioner, Ivor Richard who had succeeded Vredeling, and he had to reluctantly accept that the international aspects of the proposal could not be redrafted back into the text.

Although Parliament had approved the Draft Directive, it refused to vote on its Resolution. Until the Resolution was passed, the Commission could not re-consider its own ideas and forward a final text to the Council of Ministers for formal approval and adoption. It threatened to withold the required Resolution unless the Commission agreed to accept all its amendments to the text.

On November 17, 1982, Mr. Richard, the Social Afairs Commissioner, gave his reactions to Parliament's 37 amendments to the 1980 "Vredeling Proposals". He indicated that about half of the proposed changes would be incorporated in the revised draft to be submitted to the Council of Ministers. Amendments numbered 2 and 6 above, were only two which he refused to accept. He also proposed that unions should have recourse to a tribunal if they believed that firms were holding back information without reasonable justification [Richard, Com(82) 758 final].

Parliament had exercised its very limited power to block "Vredeling's" progress through the legislative channels of the EEC. This tactic proved effective, and both sides reached a compromise, with the Commission accepting some of Parliament's amendments, even though it was not bound to do this by Community Law.

On December 14, 1982, the European Parliament debated "The

Spencer Report" which had examined the need for EEC legislation on employee disclosure and consultation. Mr. Chanterie, (MEP), presented a rogue's gallery of firms implementing major decisions without consulting their employees, and in some cases even failing to inform them. He recounted how the 2,170 workers at British Leyland's plant in Seneffe, Wallonia, had first learned of the Company's decision to close the plant from a report in the British press. He also singled out a number of US MNCs for criticism, plus Peugeot-Citreon for giving its 905 employees at its Vorst Forrest factory only two weeks notice of plant closure [OJ No.1-292/89].

At the end of the debate Parliament approved by 161 votes to 61 the principle of placing more onerous obligations on large companies to consult their workforce on a range of decisions.

Mr. Richard could now concentrate on persuading groups not directly connected to the EEC that regulation was needed to increase the transparency of firms to employees.

The text of a speech given by Mr. Richard at a luncheon sponsored by the US Bar Association and the Bar Association of the District of Columbia, exemplifies the Commissioner's argument:

> "I would recall that a fundamental aim in the minds of those who originated the proposal was that of improving industrial relations during the period when they were likely to come under particular strain in the face of the imperative need for restructuring and accelerated introduction of new technologies. That aim is still perfectly valid.
>
> I need not, I think, enumerate the examples we have seen in the Community in the last few years - some of them real horror stories - of the failure of certain multinational companies, among them some very prominent ones, to provide information to their workforce on decisions of vital interest to them.
>
> I firmly believe that it is management's responsibility to manage and that the directive will leave that responsibility with them ....
>
> To stay for a moment with Article 6 (of the original 1980 text) there has, as you know, been some controversy concerning the stage at which consultation should take place. The parliament proposed that consultation of employees should take place during the last 30 days before

implementation of the decision. I am not happy with this not only since it smacks of a take it or leave it attitude, but also because it effectively prevents the unions coming forward with constructive alternative ideas. **The Commission's view is that consultation should take place before the final decision is taken by management** (author's emphasis). This is the same approach as the one taken in the OECD Guidelines on Multinationals which the US has approved" [Ivor Richard, February 14 1983, Washington DC].

7.6.: "The Richard's Directive: Adoption by the Commission

In May 1983, adoption by the Commission was delayed by "last minute internal disagreements" [Wyles,1983]. The West German, Internal Affairs Commissioner, Heinz Narjes had raised a major point of principle over the election of worker representatives. He supported Parliament's amendment calling for the election of representatives through secret ballot. At the same time, the international lobbying campaign by multinational companies - allegedly masterminded by the British Government - was stepped up hoping to sink the "Richard's" and Fifth Directives [Palmer, 1983].

Finally on June 15, 1983, the Commission adopted the "Richard's Proposals". The UK. Government was immediately singled out as the major opponent, and Mr. Richard made it clear that he hoped that the British Secretary of State for Employment, then Mr. Norman Tebbit, could be persuaded to support the Directive. This was vital, for one Employment Minister from any of the ten EC countries could use his veto at the Council of Ministers to prevent the "Richard's Directive" becoming Community law.

7.7.: The Revised Text

Its structure has been greatly simplified in respect of the original 1980 text by merging the old sections II and III, which dealt separately with multinationals and "complex undertakings" operating within one Member State. The new Article 2 is designed to embrace both situations, and the subsequent Articles then apply equally without the need for duplication. The presentation of the text has also been improved by the addition of a more detailed preamble which responds to the scale of recent developments in Community Legislation on labour law and company law, and the need to specify the objectives of the present proposal more clearly against this background.

7.7.1.: International Aspects in the Revised Text

The most important change in the revised text was that the international dimension of consultation and information had been deleted.

Ivor Richard had made clear his intention to eliminate the "by-pass" clause, in accordance with Parliament's wishes, prior to the publication of his revised draft. He said in Washington on February 14, 1983:

> **"I accept the view that it (the "by-pass" clause) would have presented great temptation to workers' representatives to try to climb the management ladder -- going beyond the management of the subsidiary to that of the parent company -- until they obtained information or decisions of which they approved"** [Richard, February 14, 1983].

Thus Richard took away the entire legal basis for the development of Multinational Trade Unionism within the EEC. Supporters of the 1980 "Vredeling Proposals" argued that withdrawing the "by-pass" destroyed the raison d'etre of the Directive, "and Vredeling himself was bitterly disappointed that the Commission had eliminated from it the possibility of transnational consultation between workers and management" [Hamilton, 1983, p.16].

Richard defended his decision to scrap the "by-pass" clause. He argued that it was legally unenforceable. The Community's jurisdiction did not extend to many of the Multinationals' headquarters, outside the EEC, which would have been compelled to comply with the Directive's provisions. Its inclusion would therefore only serve to attract further criticism of the already highly controversial proposals.

7.7.2.: Threshold Number of Employees

The Commission's revised proposal no longer took into account the number of workers employed in each subsidiary. Instead, Article 2 applies to any parent company and its subsidiaries which as a whole employs at least 1,000 workers in the Community. It also specifies that if the management of the parent company is located outside the Community, the subsidiary concerned in the Community will normally be resposible for the obligations imposed by the directive on information and consultation.

7.7.3.: Disclosure of General Information

In recognition of Parliament's amendment, the Commission under Article 3 proposed that information should be disclosed annually and not every six months as under the "Vredeling Proposals" (but with up-dating if such information is given to shareholders or creditors). Again, in line with the European Parliament, the list of information to be provided annually had been somewhat reduced from the Commission's original concept, but on the other hand the revised text required specific sectoral and geographical information. It is arguable whether this addition compensated for the Commission scrapping the requirement for firms to disclose their "rationalization plans".

The right to approach the parent for information not received from the subsidiary had been limited to an "approach in writing".

7.7.4.: Disclosure of Specific Information Consultation

Article 4 sets out the procedure to be followed where information disclosure and consultation is made necessary by the proposed decision of a parent undertaking "which is liable to have serious consequences for the interest of the employees of its subsidiaries in the Community".

Unlike the original text, it specifies that the disclosure and consultation procedure does not apply to all employees in the Community but only those directly affected by a decision. Prior consultation is required only if the decisions in question are liable to have serious consequences for the interests of employees:

> **"The Commission believes that in principle consultation should take place before the final decision is taken, and that it should take place between parties which are empowered to take decisions".**

The Commission, however, did not intend to establish a right of codetermination.

In keeping with the Parliament's amendment, the "by-pass" clause was removed. Instead, the revised text imposes an obligation on the management of the subsidiary to delay implementing those decisions as in paragraph 1, until "the opinion of employees' representatives is received or failing that before the end of the period granted according to paragraph 3 [ie. 'at least 30 days']".

A change from the 1980 "Vredeling Proposals" was that the consultations would be automatic. In the original version, consultations depended on whether the employee representatives considered them necessary. The categories of management decisions which required consulting employees' representatives were essentially those in the 1980 text, plus, the introduction of new technology, and measures relating to workers' health and safety.

7.7.5.: Confidential Information

A major difference from the original text concerned the disclosure of confidential information. Under Article 15 of the original text, workers were "required to maintain discretion" when given confidential information".

According to Article 7 of the Commission's revised text,

> "The management of an undertaking shall be authorized not to communicate secret information. Information may only be treated as secret which, if disclosed, could substantially damage the undertaking's interests or lead to the failure of its plans."

Here the Commission had accepted the principle that not all information should be disclosed to the workforce.

7.7.6.: The Hostage Clause

Whereas under the 1980 text, cases where "the decision-making centre of an undertaking is located in a non-member country", its subsidiary with the largest workforce in the EEC was held responsible for the failure of the dominant undertaking to comply with the Directive's provisions, now an authorized agent of the parent company within the Community is held accountable. In the absence of such an agent, the management of each subsidiary in the EEC will be held responsible for complying with the Proposal's obligations. (Art. 2.(2))

7.8.: The View of Employers

No initiative of the Commission has created more opposition from employers than the "Vredeling/Richard Proposals". In Britain, the Confederation of British Industry (CBI), and the Institute of Directors (IoD) have presented unwaivering opposition to the proposals. UNICE, the organization representing employers in Europe, was initially not prepared even to participate in amending the Proposals, but instead chose to reject them outright.

The Keidanren (the Japanese Employers Federation) which is known for its support of employee participation has said in a statement on 'Vredeling':

> **"The directive if put into effect, could have a restrictive effect on the growth of Japanese investment in Europe and future industrial co-operation between our two regions"** [quoted by the Institute of Directors, 1984].

Similarly, the US Council of the International Chamber of Commerce has said:

> **"we believe that the proposed directive is counterproductive to the Community's plan for providing an economic environment conductive to growth and technological innovation, and that it would cause as yet immeasurable harm to business competitiveness, industrial relations, international law and internal trade"** [quoted by the Institute of Directors, 1984].

When UNICE and other employers' organisations began to change their position (under pressure from Conservative Members of the European Parliament (MEPs) and from some in their own ranks) and propose amendments, their lobbying practises attracted criticism from all sides.

For example, the Mars Corporation, among others, was accused of paying fees to MEPs while the Vredeling Proposal was being discussed by the European Parliament. Amedee Turner, MEP and Vice Chairman of the Legal Affairs Committee who proposed amendments to the Vredeling Proposal, acted as a political consultant to the Mars Company during Parliament's deliberation on "Vredeling" and received that company's suggested amendments to the Proposal. Two Socialist MEPs, Allan Rogers and Richard Caborn, wrote to the President of the Parliament, Piet Dankert, seeking an inquiry into Turner's relationship with Mars.

7.8.1.: The Reaction of British Employers

Given the number of amendments to the original text, it is worthwhile to focus exclusively on employers' reactions to the revised text, the "Richard's Directive", rather than consider criticisms of the first draft which are now redundant.

For example, the Director General of the Engineering Employers' Federation, Dr. James McFarlane, has described the Vredeling Directive as "a creeping and insidious form of paralysis leading to expropriation". While admitting that the revised text is less formidable than the original, he warned Federation members that "the teeth are still there" [Wintour, 1983].

The response of British employers is particularly important because of the influence they can exert on the Conservative Government, chief opponent of "Vredeling". Indeed, it is crucial, as the CBI and the Institute of Directors not only offer considerable moral and financial support to the current UK. Government which is seen as the major stumbling block to the enactment of the "Richard's Directive" into Community law, but they can also influence its policies.

The strategic importance of converting British employers' organisations to a favourable view of the revised text has not been lost on Ivor Richard, himself. On November 6, 1984, he addressed the annual conferance of the CBI, at Eastbourne, urging it to support his proposals. His effort was in vain, and a motion condemning "social engineering" by the EEC was overwhelmingly approved.

On November 9, 1984, the Departments of Employment, and Trade and Industry jointly issued a statement that "The Government was seeking the views of industry, commerce, the professions and trade unions on European Commission proposals on employee participation and company law harmonisation". Comments were to be received by the end of February 1984.

7.8.2.: The Institute of Directors (IoD)

In the introduction to its document, "Draft I.of D. Response to the Draft European Communities Directive on Procedures for Informing and Consulting Employees - The 'Vredeling' Directive", it wrote:

> "The Institute welcomes the opportunity to comment in detail on the 'Vredeling' directive. It would be wrong however to interpret a willingness to question individual parts of the directive as any acceptance of the underlying concept of the legislative approach to employee involvement. While sharing the Government's commitment to voluntary consultation and exchange of information in the work place we remain implacably opposed to legislation in this area.
>
> The Institute's opposition can be summarised as follows:
>
> The 'Vredeling' proposals are totally against the reality of industrial relations practice in this country and will bring

into the process of collective bargaining subjects which ought to be dealt with by discussion not negotiation.

Far from helping the growth of genuine employee involvement the directive will impose formal and inflexible requirements on companies many of which have their own successful but different schemes.

The proposals will act as a disincentive to overseas investment in the EEC.

The rights and ability of management to take decisions will be fundamentally affected by the detailed requirements to consult on proposed decisions on such issues as closures, changes in working practices, the introduction of new technology and long-term co-operation with other undertakings.

Decisions will inevitably be delayed.

The confidentiality of the organisation's affair will be put at risk by the directive's requirements and by removing from management the right to determine what information is or is not secret" [Institute of Directors, 1984].

7.8.3.: The Confederation of British Industry (CBI)

In his submission to the House of Lords Committee on the European Communities, the spokesman for Britain's leading employers' organisation, Mr. Murphy, argued that "Vredeling" was unnecessary, because very few cases referred to the Committee on International Investment and Multinational Enterprises (CIME) for clarification of the OECD's Guidelines had upheld the unions' "complaint":

> **"What we are talking about over a period of five years is about.. five cases... which posed a particular problem. It seems to me to introduce the kind of bureaucratic machinery that is being talked about to deal with instances of cases on average about one per year and tying up the whole of Western European industry on that basis seems to be somewhat in the nature of taking a sledge hammer to crack a nut"** [House of Lords, Session 1980-81, 37th Report].

By early 1983, the then unpublished revised text was fairly predictable, as Mr. Richard had revealed his plans for the new text in his speech to Parliament on November 17, 1982, and at meetings in Europe and the US. In February 1983, the CBI's general objections to the draft Directive were outlined in a confidential internal document. These objections apply equally to the "Richard's Proposal" and they read as folows:

> **"a. The Commission has failed to demonstrate that the inadequacy of present legislation and voluntary guidelines, and of national practise in relation to employee information and consultation, makes an EEC Directive necessary.**
>
> **b. The requirement on companies to provide a considerable amount of information, and to expose them to judicial proceedings in respect of the adequacy or confidentiality of information about future prospects and plans, will put EEC employers at a serious disadvantage in relation to their overseas competitors.**
>
> **c. It should be left to member states to order their arrangements for employee information and consultation in accordance with their own industrial relations system and traditions, which in the UK are voluntary, not legislative"** [CBI Confidential C 9 83. To the Council For The Meeting On 16 February 1983].

The revised text was published and approved by the Commission on June 1983. Shortly afterwards, on July 1, the CBI's Working Party on EEC legislation on employee involvement met and, according to a letter from the Head of Social Affairs Legal Policy Department, to Secretaries of Member Employers Organisations, it reached the following conclusion:

> **"that although some improvements had been made to the Draft Durective it remained unacceptable in principle to employers and that opposition to it should continue"** [Letter from Miss Gabrielle Hanley, July 8, 1983].

In February 1984, the CBI responded to the Government's Consultative Document on the "Vredeling" Directive and also the Fifth Directive on the Harmonisation of Company Law. It was "unequivocally" opposed to both the draft "Vredeling" and Fifth Directives:

> **"They are not only unnecessary but, if implemented, would be irrelevant to the needs of industry; counter-productive to the achievement of widespread and genuine employee involvement; (and) damaging to competitiveness and largely impractical".**

As was seen in Chapter 5, national culture constitutes a significant variable impacting upon individuals and organisations. Some cultures promote disclosure of information, while others encourage secrecy. Similarly, individuals socialised in one culture may have opposite perceptions of certain social or technological developments from those influenced by another. Tricker seeks to explain the British employer's opposition to "Vredeling" by reference to culture:

> **"His (ie. the British employer's) education, religious and political orientations, business training and experience, commercial and professional practices, indeed his entire cultural conditioning may have led him to have business expectations that are threatened by some of the proposals he hears for reformulating corporate governance and that are significantly different from those of a continental European executive"** [Tricker, P.30, in Bromwich and Hopwood, 1983].

7.9.: The Unions' View

The European Trade Union Confederation represents some 41m members in 19 European countries, and its affiliates include all the significant trade unions within the EEC except the French CGT. It comes as no great surprise, therefore, to discover that,

> **"Of all the pressure groups which knock at the doors of the EEC none is assured of a more attentive reception than the ETUC"** [The Economist, April 24, 1982].

The ETUC had not been hoping to achieve international collective bargaining with company headquarters. This was considered an unrealistic target. It focussed, therefore, on a more modest objective, namely consultaion after decisions were made in principle, but before they were implemented [Hamilton, 1983, p.10].

It has already been noted that the locus of decision-making in MNCs is often outwith the national boundaries of the country or countries affected by certain decisions of these companies. It has been alleged that unions in countries like Denmark and Germany, where employers are legally required to provide extensive information to their workers, and to consult them before taking decisions that could affect their jobs, have long since resented the fact that foreign-based MNCs have been able to ignore these rules of the host country.

The ETUC's campaign for a Community-wide improvement in employees' disclosure and consultation rights was therefore likely to provoke some reaction.

During the Economic and Social Committee's debate of January 27, 1982 on "Vredeling", union members, for the most part, did not set out to analyze or suggest revisions to the provisions of the draft Directive in the same way as the employers' group. Instead, they restricted themselves to general comments about the benefits of the proposal and reserved any detailed criticism for the remarks made by UNICE.

Thus, they gave their "unqualified approval" to the drafts disclosure provisions and "repudiated the objections" to the consultation provisions. They stressed that these requirements should apply not only to transnational undertakings, but uni-national firms too, in order to avoid "unjustified discrimination" which would create a competitive imbalance [EIRR, March 1982].

It is widely agreed that during at least one debate the ETUC argued its case much more convincingly than UNICE. Its greatest success came when it invited former employees from a number of firms to address the Committee and describe their experiences of plant closure. A sad picture of minimal notice and no consultations emerged [Social Affairs Committee Meeting, Brussels, October 21, 1981].

In its reply to the Government's consultative document, the General Council of the British TUC, expressed disappointment that the 1980 text had been diluted, though it acknowledged its awareness of the intense pressure which had been brought to bear on the Commission.

> **"Nevertheless they (ie. the General Council) believe that the introduction of the draft Directive would represent a significant advance in the rights of workers and trade unions. They also believe that this in turn would contribute directly to the process of structural change and adaptation with which the European economies will be increasingly faced".** [TUC, February 1984]

The TUC argued that employers had already accepted in principle the need for employee disclosure and consultation:

> **"The voluntary codes of conduct in existence for multinational companies - the OECD Guidelines for Multinational Enterprises and the ILO Tripartite Declaration on Multinational Enterprises and Social Policy - already require employers, as good practice, to inform and consult their workforce. The codes carry the support of Governments and employers as well as unions, and they are applicable to national companies as well as multinationals. Therefore the principles of the draft Directive are the same as those in the codes which the British Government and employers have already accepted".**

The TUC based its argument for improved rights to information and consultation on grounds of equity and efficiency. The equity argument is quite simply that those who invest their labour in an enterprise "have a right to be informed and consulted on issues which intimately affect their livelihood. It is unjust that those on whose lives a decision will have the greatest impact should have no opportunity to shape and influence it" [TUC, February 1984].

The efficiency argument is that sustained economic growth will not be achieved unless employees have confidence in decisions taken, and indeed participate in the process.

Unlike employers' organisations, the British TUC found the voluntary codes of conduct inadequate:

> **"The General Council have taken the view that it is not enough to rest upon the fact that the voluntary codes of the OECD and ILO support the rights of unions to information and consultation. These codes cannot be enforced; companies cannot be "found guilty" of breaching them - despite a lengthy and legalistic follow-up procedure; and effectively only unions take up issues under them. Even unions have become disillusioned by the failure of the codes to provide a procedure for solving industrial relations problems - which must be the ultimate test of the usefulness of such arrangements"** [TUC, February 1984].

It believed that,

> **"only statutory rights to information and consultation can remedy this, by providing unions with a trigger to actually bring into operation the procedures with which all have stated their agreement in principle, but have done little or**

nothing to bring into being" [TUC, February 1984].

7.10.: The US Dimension

Transatlantic reaction since 1980 has bordered on panic. This can be explained by the general failure to appreciate just how long it normally takes a Draft Directive to become Community Law.

By June 1982, British publications were reporting on the reaction of American executives and editors. The Wall Street Journal found its articles and editorials being described as "increasingly hysterical". The New Statesman offered its readers an insight of the celebrated paper's reporting on "Vredeling":

> **"How much information can a manager be expected to give the leaders of Communist-controlled labour organisations? He's not going to give confidential information to people who are just as likely to slip it off to Moscow as to the local employees"** [Quoted by MacShane, 1982, p.15].

While the future of the "Richard's Directive" remains uncertain, three Bills are also under discussion in the United States' Congress, specifically aimed at limiting the Directive's impact on US MNCs operating in Europe.

The most important of these Bills is aimed at providing "protection from requirements and prohibitions imposed upon persons subject to the jurisdiction of the US by foreign nations, concerning the disclosure of confidential business information, and for other purposes".

The US is also attempting to influence the impact of the Vredeling initiative via pressure from the US Industry Co-ordinating Committee which represents Chambers of Commerce of the US, the US Council for International Business, the National Foreign Trade Council, and the National Association of Manufacturers and the American Chambers - Europe and Mediterranean (EUROMED).

In March 1983 the Co-ordinating Committee issued a statement containing "four major criticisms of the entire concept" of

"Vredeling":

- it was based on an "incomplete understanding" of corporate decision-making processes and industrial relations practises;

- it would impair the worldwide competitiveness of Community industry;

- existing national law and practise in member states rendered it unnecessary;

- furthermore, firms already adhered to the voluntary guidelines adopted by the ILO and OECD" [US Industry Co-ordinating Committee, 1983].

7.11.: The View of Britain's Political Institutions

Three of the four major political parties have expressed support for the "Vredeling/Richard's Directive":

> **"The Labour Party, the Social Democratic Party and the Liberals have all made policy statements which to varying degrees favour legislation on involvement"** [CBI Confidential C 9 83. To the Council for the Meeting on 16 February 1983].

The Labour MP, and Shadow Minister for Trade and Industry, Mr. John Smith, confirmed that this was certainly true of his Party:

> **"The Labour Party strongly supports the "Vredeling" initiatives although we note that they have been greatly watered down in the course of consideration by the European Commission and by the European Assembly"** [letter to author, dated February 21, 1984].

The President of the Social Democratic Party (SDP), and former Labour Cabinet Minister, Mrs. Shirley Williams has castigated Labour MEPs half of whom did not vote for "Vredeling", because "they did not want to enhance the credibility of the Community". [Williams, 1984].

In 1981, The House of Lords Select Committee on the European Community, heard the arguments of both the unions and employers, for, and against, the "Vredeling Proposals", and,

> **"reluctantly came to the conclusion that a directive is necessary"** [House of Lords, Session 1980-81, 37th Report].

though it found the original text "too detailed and doctrinaire".

7.12.: The UK Conservative Government's View

The United Kingdom Government has never made any secret of its opposition in principle to the "Vredeling Directive". Its opposition has not been tempered by the amended version, the "Richard's Directive". In fact, the UK Government's spokesman has even suggested that the amended proposal is in some respects worse than the original [Multinational Service, November 17, 1983].

The UK Government, in its consultative document, criticises the draft Directive, and implies that Community legislation should only be introduced when it contributes to the establishment of a common market in goods and services. In fact the preamble to the Treaty of Rome affirmed as a central objective the constant improvement of living and working conditions. Article 117 of the Treaty states clearly that improvements in living standards "will ensue not only from the functioning of the common market, but also from the procedures provided for in the Treaty and the approximation of provisions laid down by law, regulation and administrative action". The EEC considers that "social action and improvement" is both an objective of the Treaty and a legitimate object of legislation in itself [EIRR, August 1983].

On November 9, 1983, the Conservative Government's Employment Secretary, Mr. Tom King, commented on both the "Richard's" and Fifth Directives:

> "It is difficult to see how legislation that imposes the rigid set of procedures set out in the draft 'Vredeling' (ie. the revised text) and Fifth Directives contributes to the creation of a 'common market' of goods and servies. Instead of strengthening trade links between Member States these Directives look likely to reduce the competitiveness of industry in the Community.
>
> The Government welcomes moves to promote the involvement of employees in the enterprises for which they work, but it believes that the main initiative is best left to employers and employees, who are in the best position to judge what best suits their particular circumstances. European Community law in this field would be cumbersome, would

> increase costs for employers and would harm industrial relations by disrupting the many flexible and effective arrangements which have evolved in the UK voluntarily.
>
> That is not the only risk in these proposals. The draft 'Vredeling' Directive in particular has not only aroused much concern from business interest within the UK and other Member States but also from those outside the Community, especially in the USA and Japan. **The Government believes that if these proposals were to become law they could discourage investment in the Community. There are, in any case, alredy OECD and ILO voluntary guidelines on informing and consulting employees and the Commission has produced no evidence that these are not working satisfactorily.**
>
> I am very dubious of the value in the European Community issuing Directives which conflict with well established and perfectly legitimate differences in industrial relations policy and practive between Member States.
>
> There is evidence of significant growth in recent years of employee involvement under the voluntary approach preferred in the UK, and the Commission has not even attempted to show why this approach should now be discarded" [Press Notice issued jointly by the Department of Employment and the Department of Trade and Industry, November 9, 1983].

The Government's voluntarist approach to employee involvement and its total rejection of legislation in this field, is in complete contradiction of its views on trade union reform. This alleged inconsistency has been exploited by the British supporters of the Directive.

Although the Conservative Government is opposed to extending employee involvement legislation, in December 1983 the Party's own trade union organisation, the Conservative Trade Unionists, supported a radical European workers programme calling on EEC governments - as a priority - to cut unemployment and introduce worker participation in industry with curbs on MNCs [Taylor, 1984].

Some Conservative MEPs, do believe, however, that further employee involvement legislation is necessary. Apart from Mr. Tom Spencer, Mr. Fred Tuckman, MEP, has concluded that "Britain's voluntary arrangements are no longer successful" [Tuckman, letter to <u>The Economist</u>, May 8,1982].

7.13.: The Revised Text and Proposed Plant Closures in the Community

This section examines the obligations companies would face should the "Richard's Directive" be enacted, and compares these with those currently imposed by the 1975 Employment Protection Act, Part IV.

Article 4 of the revised text assumes that all major decisions are centralised. It lays down the information disclosure and consultation requirements in the proposed plant closure situation. These are as follows:

Stage 1.: the management of a parent company proposing to close a plant in the Community is required to:

> **"forward precise information to the management of the subsidiary concerned in good time before the final decision is taken with a view to the communication of this information to the employees' representatives in the manner provided in paragraph 3 (i.e communicate in writing)"** [Article 4.1].

Employees' represenatives would therefore receive information on:

> **"- the grounds for the proposed decision;**
>
> **- the legal, economic and social consequences of such decision for the employees concerned;**
>
> **- the measures planned in respect of such employees"** [Article 4.1].

Stage 2.: the management of the subsidiary concerned is then required **"to communicate in writing without delay"**, the information listed above, to employees' representatives, **"with the exception of secret information as defined in Article 7.1, to the employees' representatives"** [Article 4.3].

Secret information is defined as information which, if disclosed, **"could substantially damage the undertaking's interests or lead to the failure of its plans"** [Article 7.1].

Stage 3.: in its written communication subsidiary management are to ask employees' represenatives for their opinion of the proposed decision,

> **"granting them a period of at least 30 days from the day on which the information is communicated".** [Article 4.3]

Stage 4: the management of the subsidiary concerned are to

> **"hold consultations with them (i.e. employees' representatives) with a view to attempting to reach agreement on the measures planned in respect of the employees".** [Article 4.4]

Stage 5.: the plant closure decision can only be implemented once the opinion of the employees' representatives has been received or failing that once the minimum 30 days period allowed for in Stage 3. has expired.

Where companies fail to fulfill the obligations referred to in Stages 2. and 3.,

> **"Member States shall ensure that employees' representatives have the right to appeal to a tribunal or other competent national authority for measures to be taken within a maximum period of 30 days to compel the management of the subsidiary to fulfill its obligations".** [Article 4.6]

In order to prove successful all legislation must be clearly defined. For example, everyone knows that motorists in the UK. exceeding a certain level of alcohol in the bloodstream can be charged with drunk driving. In contrast, Article 4 of the "Richard's Directive" is often vague and a number of its terms are open to a variety of interpretations. Of the five stages outlined above, four contain key terms which are imprecise.

The term "final decision" in Stage 1. lacks precision, as disagreement may arise over what constitutes a "final decision".

In Stage 2. the management of the subsidiary concerned is instructed to communicate information in writing **"without delay"**. Does this mean that subsidiary management must dispatch a letter to employees' representatives on immediate receipt of information from head office? Or, is subsidiary management complying if it informs employees' representatives only once it has completed duties arranged before receiving the information from the parent company?

It is only when Stage 3. is reached that the Directive's instructions are unambiguous.

Stage 4 requires the management of the subsidiary involved in a proposed closure to "hold consultations with them (i.e. employees' representatives)" and that this should be done **"with a view to attempting to reach agreement on the measures planned in respect of the employees"** [Article 4.4]. This section is particularly imprecise and problematic.

The requirements contained in Stage 5. appear satisfactorily clear.

It can be concluded that the "Richard's Directive" implies five distinct stages to be followed when a company is proposing to take a decision to close a plant. The requirements in these sequential steps in the information disclosure and consultation procedure are often imprecise. Legislation which, like the revised text, is riddled with ambiguities is more likely to engender rather than solve problems.

7.14.: The Reaction of the CBI and TUC to Article 4

Article 4 has aroused concern and criticism from both employers' organisations and trade unions. The views of the CBI and the TUC on this Article of the revised text are considered below.

According to the employers' organisation,

> **"the instances of imprecision in Article 4, both definitional and substantive, might create or exacerbate disputes over compliance with its provisions. A major source of uncertainty arises from the provisions of paragraphs 1 and 5 which fail to make clear whether employees' representatives are to be consulted "before a final decision is taken" or simply on the method of implementing that decision"** [CBI, 1984].

The former was not considered acceptable:

"The CBI would strongly object to any requirement to hold consultations with employees' representatives "before" decisions are taken" [CBI, 1984].

The CBI objects to Article 4.3, and 4.4, because they would, it argues, by delaying the implementation of decisions "have a deleterious effect on a company's competitive position and ultimately on the employment prospects of its employees". It argued that it would be "impossible" to comply with Article 4.5 because since "it is not always possible to identify accurately the time or level at which a decision has been taken, and that in many cases decisions evolve over time", therefore, "it would be impossible to determine in these circumstances at what point in time consultations with employee's representatives should begin".

The TUC General Council was also rather critical of Article 4 which states that consultation should take place "with a view to reaching agreement". This was described as "a vague and clumsy formulation conveying little meaning" [TUC, February, 1984].

7.15.: Conclusion

Despite the elimination of the more controversial features of the "Vredeling Proposals" , the "Richard's Directive", the revised text, has little chance of seeing an early implementation by member states of the EEC. The Council of Ministers must unanimously approve the Proposal before the Directive becomes law and then each member state's government must enact it in its own national legislation. By June 1984, three governments had announced that they could virtually accept the Draft Directive - France, Italy, and Greece -, and Belgium, Ireland, Luxembourg, the Netherlands, and West Germany had accepted it in principle, while having "technical reservations". The Danes remained negative and the British overtly hostile [Wyles, 1984].

In the second half of 1984, under the Irish presidency, an "ad hoc" working group led by industrial relations expert, Dr. Mary Redmund, was formed. It offered a "new approach" to the Directive which was based on the principle of workers' rights rather than companies' obligations. Britain and Denmark were unimpressed, and their opposition remained firm.

The British Government is not so much against the contents of the Directive, but against the principle of legislation in a field where it believes that voluntary action is preferable. "Its problem, however, is that the CBI has tended usually to offer voluntary inaction". For example, employees of Dunlop were not informed by the Company that it was selling some of its European subsidiaries to its Japanese rival, Sumitomo Rubber, but instead learned of the Company's plans from press leaks. This incident allegedly proved an embarressment to the Government, the CBI, and other opponents of the "Richard's Directive". The Company's top man, Sir Campbell Fraser, was also, at the time, the President of the CBI and as such was in the midst of a campaign against the EEC's attempt to improve employee disclosure and consultation rights. Dunlop was subsequently "reported" by the TUC to the UK Contact Point for allegedly breaching the OECD's Guidelines.

The "Richard's Proposals", as presently drafted, have failed to achieve precision and, like individual paragraphs of the OECD's Employment and Industrial Relations Guidelines, it is open to various interpretations. Under these circumstances, one can hardly expect from firms a uniform standard of employee disclosure and consultation. In the highly charged plant closure situation, it is essential that where legislation exists, parties concerned have a clear understanding of the obligations which that law imposes. The "Richard's Directive" does not offer this, but instead fuels an already difficult situation.

Mr. Ivor Richard's determination to see through a Directive extending employees' information and consultation rights incurred the wrath of Mrs. Thatcher and she refused to re-nominate him for a second term on the European Commission. Britain has two Commissioners, - by a gentleman's agreement, a Conservative, and a Labour Party nominee. Mr. Richard's had been the original choice of Labour's leader, Mr. Kinnock, but his selection proved unacceptable to the Prime Minister, and Mr. Stanley Clinton Davies, a former Labour MP and Junior Minister, was appointed as junior to the new Consevative appointee, Lord Cockfield, replacing Mr. Christopher Tugendhat [Dowle, September 11, 1984; Humphries, September 11, 1984].

The "Vredeling Proposals" have been cast aside, temporarily at least, until 1989 when discussions on the Directive will re-convene. Talks will concentrate on European Commission reports on national legisalation.

Since the mid-1980s, the EEC has clearly adopted a much more conciliatory approach to multinationals, but Europe continues to lag behind its two main rivals, America and Japan. The politicians have apparently conceded that only the leaders of Europe's largest firms can mastermind the "old world's" recovery. Instead of wanting to control MNCs the EEC and member governments now seem happy give them a free hand. For example, national governments stand by as the battle for control of corporate resources rages throughout Europe. Giants such as Britain's Distillers, France's Generale Biscuit, and Germany's AEG-Telefunken have been acquired by other "national champions" aiming to become global players.

The past two chapters have shown that employees and their representatives seeking greater disclosure and consultation would be foolish to pin any hopes for on either the OECD's Guidelines and the "Vredeling Proposals". In Part 3, the issues raised in Parts 1 and 2 are examined in the context of plant closures in the UK. The causes of foreign divestment are examined in four industrial case studies which concentrate on 13 major plant closures. This study of "close downs, close up" allows a careful analysis of when the divestment decision was taken, by whom, and how it was implemented. One can thus assess the extent of conformity with UK legislation, as in Part IV of the 1975 Employment Protection Act, and identify whether firm's behaviour adheres to the culture of the home country.

PART III

CHAPTER 8

RESEARCH METHODOLOGY

8.1.: Introduction

All research in the social sciences is based on either the "scientific" or "naturalistic" approach, and several fairly recent contributions to the accounting literature (eg. Abdel-Khalik and Ajinka, 1979; Colville, 1981] not only distinguish between the two approaches, but discuss the relative merits of each [MacInnes, 1983, p.14].

As the name suggests, the "scientific" approach "represents an attempt to translate the principles and methodology of the natural and physical sciences into the realm of the social sciences" [Colville, 1981, p.121].

This approach has been criticised by several leading social scientists. Mills [1959] argued that instead of the problem determining the methodology, the reverse was the case, and only those problems compatible with the methodology were considered worthy of scientific analysis. Glaser and Strauss [1967] argued that by pre-supposing the categories of relevance, it blinkered researchers who consequently failed to take account of "those aspects of data which do not fit the conceptual category of the deductive theory" [MacInnes, 1983, p.15].

Morgan and Smircich [1980], Colville [1981] and Tomkins and Groves [1981] identify a number of "naturalistic" research approaches which can be considered alternatives to the "scientific" approach. Tomkins and Groves [1981] state that such a research approach,

> **"does not aim to provide a predictive mechanism although its output <u>may</u> be useful for such purposes; it aims to understand the dynamic process of reality and why things happened. In such research one must ... commence from <u>specific</u> real-world situations: the main intention is to answer the question 'what is going on here' not to provide generalisable conclusions for all society"** [MacInnes, 1983,

p.17].

Having thus concluded that the "naturalistic" approach is the more appropriate methodology for this study, the next step was to decide on the most suitable means of organising and presenting data. The experiences of previous authors all pointed to one particular method - the case study.

Compiling aggregate statistical data on foreign divestment whether from a home or host country has proved extremely difficult. But identifying divestments was often only a means to an end, as some authors ultimately wanted to conduct a small number of probing in-depth case studies. Persuading executives to divulge their experiences from past divestments was no easy task.

Despite assurances of confidentiality, Sachdev [1976] received little co-operation from the companies which he approached in this divestment research. Of the 138 MNCs - 22 responded positively in the initial stages, but 6 of these subsequently withdrew their offer. 87 refused, and 29 ignored the request [Sachdev, 1976, p.122]. The 16 MNCs which finally agreed to participate in the study proved extremely anxious that their personal identity, and that of their firm was disguised, thus ensuring confidentiality.

Torneden [1975], too, was unable to persuade many companies to lend their assistance. Himself a former executive of a US MNC, he received a reply from only 38 of the 189 US MNCs contacted.

The small number of firms which eventually conditionally agreed to participate in the above studies, exacted a high price for their co-operation from the authors. As with virtually all other major divestment studies, the exception being Grunberg [1982], the authors were obliged to conceal the identities of the firms under investigation. Corporate executives only agreed to participate in these research programmes on the understanding that the identity of themselves and their firm was disguised, thus protecting confidentiality.

According to Grunberg [1982], lack of data and companies' obsession with shrouding their divestment experience in secrecy, precluded a study based on aggregate data. His experience, however, convinved him that, given the general scarcity of detailed studies of foreign divestment, the case study approach was the most appropriate:

> **The virtual nonexistence of aggregate data on divestments and the protectiveness and discomfort that multinationals exhibit when researchers delve into what they seem to consider their private domain compelled me, of necessity, to concentrate on the case-study approach. As the research progressed, I became convinced that in the current primitive state of our knowledge, the case study was in fact the most appropriate and fruitful approach"** [Grunberg, 1982, p.24].

Goode and Hatt [1952, p.331] define a case study as "a way of organising social data so as to preserve the unitary character of the social object being studied". They claim that,

> **"this orientation encourages the researcher to pay attention to the multiplicity of factors which contribute to that situation and to describe and examine the nature of their interdependence"** [Goode and Hatt, 1952, p.331, quoted in MacInnes, 1983, p.18].

Katz [1953, p.75] argues that the great advantage of the case study "is its inductive procedure, its potentiality for discovering significant variables and basic relations that would never be found if we were confined to research dictated by a hypothetical-deductive model". Katz [1953] saw the case study as the social sciences' bastion against "the sterility and triviality of premature model building" [MacInnes, 1983, p.19].

Another advantage in the case study method is that, as Grunberg [1982] noted:

> **"A plurality of cases invites comparative analysis by bringing into relief similarities and differences on several dimensions and leads toward generalization"** [Grunberg, 1982, p.24]

Such comparisons are only possible, however, if one's investigations bear fruit. As the author commenced his long search, the words of Grunberg [1982] bore heavily on his mind:

"researching divestments by multinational companies is extremely difficult. Multinational companies have erected a remarkably prickly shell to protect the details of their divestment behaviour. It seems that few topics are as sensitive and secretive in the business world" [Grunberg, 1982, p.23]

8.2. Identification of Foreign-Owned Plant closure Announcements

The author had originally hoped a Government agency would possess a complete list of foreign-owned plant closures in the UK. The Departments of Employment and Trade and Industry, were contacted first, but none had compiled a list of foreign-owned plant closures. The response from the Invest in Britain Bureau, Department of Industry, was fairly typical:

"I do not know of any central government register or indeed any statistics recording disinvestments by foreign multinationals" [letter dated May 31, 1983, from Mr. Shelley Ian Charik to author].

Having obtained no information from the public authorities, the author approached the Trades Union Congress, and individual Trades Unions. The TUC, perhaps rather surprisingly, does not maintain a record of foreign-owned plant closures [letter dated December 22, 1983, from Mr. A. Cave, Assistant Secretary, Economic Department, of the Trades Union Congress, to the author].

The Job Survey Unit of Independent Television News was unable due to shortage of manpower to assist the author in identifying foreign-owned plant closures. Each Friday ITN's "News at Ten" broadcasts details of the week's job losses and gains, based on the findings of the Unit. Unfortunately, this data has not yet been aggregated, and the staff considered that photocopying weekly scripts was too time-consuming.

Nor had Britain's national newspapers compiled a list of redundancies or closures, and at this stage, it seemed that the chances of finding such a list were becoming increasingly remote. The author widened his search and a number of organisations/individuals were contacted but they neither possessed nor had knowledge of the whereabouts of the information requested. Although this is by no means an exhaustive list, the following were contacted:-

- the London and Edinburgh offices of the Commission of the European Communities [letter dated February 22, 1984, from Mr. George Scott, Head of UK Offices, to the author; letter dated April 19, 1983 from Mrs. Henderson to the author];

- Mr. Norman Scott, Director, Trade and Technology Division, Economic Commission for Europe - an offshoot of the United Nations [letter to the author, dated May 4, 1983 from Mr. Norman Scott, Director, Trade and Technology Division, Economic Commission for Europe];

- the Brussels-based Editor of Multinational Service, Mr. Jonathon Todd [letter from Mr. Todd to author];

- the United Nations' Centre on Transnational Corporations [letter dated April 26, 1983, from Edith Ward, Transnational Corporations Affairs Officer, Information Analysis Division, to author].

- K. Gleichmann, Directorate, Approximation of Laws, Freedom of Establishment, Freedom to provide services, Commission of the European Communities, wrote telling the author that "Whilst the Commission follows cases of disinvestment featured in the media as well as reported elsewhere, it does not however maintain a comprehensive list of such cases" [letter to author May 16, 1983]

- Mr. Hans Gunter, Chief Bureau of Multinational Enterprises, at the International Labour Office, who wrote explaining that the ILO "do not keep systematic records on disinvestment by foreign-owned companies in the United Kingdom or any other countries" [letter dated May 12, 1983, from Mr. Gunter, International Labour Office, to author].

- the Geneva-based Institute for Research and Information on Multinationals.

Having contacted all of the above agencies, plus many others, it appeared that no one had compiled a list of foreign-owned plant closures. The author began the painstaking task of scrutinising the Financial Times, but unfortunately this most likely source of information was not indexed until 1981.

Indexing of the Financial Times was introduced in 1981, and for the period 1981-1984 inclusive, the author was able to compile a list of redundancies in the UK, and by reference to Who Owns Whom, proceeded to identify cases of foreign-owned plant closure in the UK. However, unlike those of previous years, the Financial Times 1985 Index has no entry for "United Kingdom: redundancies". Obviously, such a change was unforeseen, and was only discovered in the final stages of writing this thesis. It is possible, therefore, that the closure announcement of a plant affecting less than 500 employees, which may have been reported in the Financial Times, has been overlooked.

This newspaper was the primary source of information, but it too has not escaped the squabbles between proprietors and Unions which have dogged Fleet Street in recent years. Between 1976 and July 1984, industrial action prevented the publication of the Financial Times on no fewer than 104 occasions (see Table 1), and so, as a substitute data base, the author checked The Times, and The Guardian.

Table 8.1.: Financial Times not Printed due to Industrial Action.

Dates	Number of Publication Days Lost
March 18, 1976	1
November 16, 1976	1
January 5, 1977	1
August 5-23, 1977 inclusive	19
May 29-30, 1979 inc.	2
September 6-7, 1979 inc.	2
April 29, 1980	1
May 7-8, 1980 inc.	2
May 14, 1980	1
July 4, 1980	1
December 8-13 1980 inc.	6
May 31, 1983 to August 5, 1983 inc.	67
TOTAL	104

Source letter dated July 17, 1984, from Mr. John Caveney, Editorial Information Service, Financial Times, to the author.

The author met with some success in tracing closures from 1979, but then he was advised to contact Durham University's Geography Department. Mr. Frank Peck, Research Fellow, in that Department provided the author with a list of all foreign-owned plant closures in the UK which had been reported in the Financial Times 1976-81.

This data base also revealed the parent company, its country of origin, the date of the closure announcement, and the number employed on that date.

The author was able to cross-check his own findings and those of Durham University's Geography Department, against those of Labour Research which carried a special feature on "Redundancies: Tories 4 year record" in its May 1983 issue. This article listed all redundancies reported by the Financial Times, Sunday Times, and Independent Television News since Mrs. Thatcher's first General Election victory on May 3, 1979.

The author's next task was twofold: firstly, to verify whether firms had actually carried out their intentions, and closed all these; and, secondly, data collection on actual closures.

8.3.: Data Collection

8.3.1.: Verification of Plant Closure

At this stage in the proceedings, the author wrote to all those foreign-owned firms which had allegedly closed a UK operation. Parent Company Annual Reports were obtained from corporate headquarters and, where possible, confirmation of some closures.

The author wrote to Libraries throughout the UK requesting cuttings from local newspapers, and any other information on foreign-owned plants which had closed in the locality. This proved a fruitful exercise. Most libraries gave their full co-operation, and posted any relevant material to the author.

Local newspaper reporting was more extensive - for obvious reasons - than that of national newspapers, and the author was able to identify key dates and events in each plant's history, and also the leading Company and Union protagonists involved in the divestment process.

The libraries of Greater London Council, the Scottish Development Agency, the Glasgow Herald, and the British Broadcasting Corporation's Glasgow headquartes were all able to provide the author with valuable source material.

Where local libraries failed to unearth sufficient newspaper articles the author made direct approach to the newspapers themselves. It soon became apparent why in some cases there was such a paucity of material. Mr. Barry Gough, Editor of the Cannock Advertiser, explained that his newspaper had been unable to devote much attention to the closure of Fafnir Bearings' Hednesford plant:

> **"after the initial announcement of the factory closure, the firm was extremely reluctant to make any other comment, so that much of what you require is simply not on record"** [letter dated June 1, 1984, from Mr. Gough to author].

The author wrote to those Members of Parliament (MPs.) who represented constituencies in which foreign-owned closures had occurred. MPs representing neighbouring constituencies were also contacted, and both groups were asked to provide any documentation, private correspondence, company statements, trades union papers, minutes of meetings, etc. which would shed light on the closures.

A large number of these MPs were unable to comply with the request because in principle, they did not involve themselves in the affairs of other constituencies. A small number treated the information requested as confidential. Mr. Kenneth Warren (Conservative), MP. for Hastings and Rye, was contacted regarding the closure of ITT's plant at Hastings. He confirmed that he had "several discussions with the company's senior management, but .. such discussions and constituency correspondence are confidential" [letter dated April 25, 1984, from Mr. Warren, MP., to author].

However, a more disturbing reason for witholding information came from Mr. Harry Greenway (Conservative), MP. for Ealing North. He had been actively involved in preventing the closure of Hoover's Perivale factory, but the US MNC still employed 600 people in his constituency. This precluded his releasing documentation to the author, for, as he explained, "I could not conceivably do anything to jeopardise their situation" [letter dated April 26, 1984 from Mr. Greenway, MP., to the author]. It is surely a cause for concern that an elected Member of Parliament perceives a MNC operating in his constituency as a potential threat, and one which influences his decisions and actions in the interests of his constituents.

A number of MPs. claimed they were unable to provide any assistance because they had destroyed the relevant documentation, or because "most of the contact was with the trade unions and that was verbal" [letter dated May 2, 1984, to the author from Mr. Clive Soley (Lab.), MP. for Hammersmith, who was involved in the Firestone, Brentford, closure].

A small number of MPs. advised and helped the author to contact former shop stewards at closed operations. Some MPs. proved extremely helpful, and provided the author with their own file on closure of the plant with which they were involved. Mr. Norman Buchan (Lab.), MP. for Paisley South - Talbot, Linwood; Mr. Donald Dewar (Lab.), MP. for Garscadden, - Goodyear, Drumchapel; Mr. Sean Hughes (Lab.), MP. for Knowsley South - Nabisco, Huyton.

Members of the European Parliament (MEPs.) also assisted the author, notably, Dr. Gordon Adam (Lab.), and Ms. Joyce Quin (Lab.). Both provided valuable source material for the Caterpillar, Birtley case.

Having obtained this background material, the author discovered that, on a number of occasions, the national press had reported an announcement of plant closure, but closure had been averted. Sometimes plants facing imminent divestment were purchased as going concerns by another company (eg. Associated Weavers Ltd., Bradford, a subsidiary of US MNC, Champion International Corporation, was due to close until the Chairman of the British operation stepped in with an offer for the plant; similarly, Marathon Oil was able to sell its Clydebank plant to Union Industrielle et d'Enterprise of France).

Unlike the Durham University study, this author defined a plant as foreign-owned, if the foreign firm held a majority stake.

Rank-Toshiba closed two plants in the South West of England, but as they were joint ventures they do not meet the criterion for inclusion in this study.

Prior to management issuing public closure announcements, threats of closure tend to be scoffed at by the labour force, but once the company "goes public", employees appreciate the gravity of the situation, and are willing to accept terms and conditions which they would previously have rejected. In the case studies that follow, this pattern is repeated time and time again. The author is surprised that executives have not appreciated the long term advantages to be gained from "staging" closure announcements, and then withdrawing the threat once the exercise has achieved a dramatic favourable shift in the company's bargaining power. The following example reveals the benefits a Company can reap from such a situation - though, the author would not wish to imply that the threat to close was a masquerade.

In December 1984, Borg-Warner decided to close its Kenfig Hill plant, but in 1985, local management was able to exact cost-saving concessions from labour, and the divestment decision was revoked. The radical deal, concluded with the Amalgamated Union of Engineering Workers (AUEW), saw the plant's 600 employees accept a six year pay deal [Lloyd, July 24, 1985].

Occasionally, the press had accidentally misrepresented corporate announcements, and reported that an entire facility was being closed when only a certain department or product line was being terminated. Such mis-reporting is the nightmare of Public Relations Officers, as Heinz's PR man, Mr. Peter Watts explained:

> **"The Financial Times announcement of 1982 that we were closing the London factory was not true and caused us some embarrassment. We think the rumour came about because we closed the baked bean department"** [letter dated June 14, 1984, from Mr. P.H. Watts to author]

Material received from a local newspaper revealed a case where closure had been implemented without any compulsory redundancies. In 1979 Heinz announced its decision to terminate operations at Standish, Wigan. The plant was closed in 1981, and production was transferred to the nearby, modern, Kitt Green facility, and local MP., Mr. Roger Stott, CBE, confirmed that the move was achieved without any compulsory redundancies:

> **"Negotiations took place with the workforce and everyone who wanted a job at Kitt Green was given one. There were no compulsory redundancies and the only people who were made redundant were those who chose this option.**
>
> **I had extensive negotiations with the company and the shop stewards at Heinz regarding the closure of this plant, but unlike other closures that have resulted in redundancy and unemployment, this was not the case with the closure at Standish and consequently this closure was smooth and went ahead without any aggravation or hassle"** [letter to the author dated May 15, 1984, from Mr. R. Stott, CBE, MP.].

Table 8.2.: Plant Closures by Foreign Multinationals in the UK, 1978-1985

Date of closure announcement	Company Divesting [name of parent Co. if Different]	Country of Origin	Location of Plant Closed	Number of Jobs Lost
1978				
1. Sept 9.	Hoover	US	Carfin	135
2. Sept 9.	Hoover	US	Hamilton	135
3. Nov 8.	Massey Ferguson	Canada	Kilmarnock	1,000
4. Dec 8.	Goodyear	US	Boston Spa.	50
5. Dec 8.	Goodyear	US	Barnsley	50
6. Dec 12.	Harris Economy [American Hoist]	US	Bridgend	240
			Total	1,610
1979				
7. Feb 16.	Pye Eng. Services [Philips]	Netherlands	Cambridge	200
8. Feb 21.	Goodyear	US	Drumchapel	700
9. March 2.	Morris & Co.Ltd. [Youghal]	Ireland	Kidderminster	300
10. March 15.	Akzo Chimie UK [Akzo]	Netherlands	Kirkby	100
11.March	Pye TMC [Philips]	Netherlands	Livingston	475
12. May 9.	Adv. Textile Mills [Monsanto]	US	Crook	450
13. May 9.	Adv. Textile Mills [Monsanto]	US	St. Helens Aukland	110
14. May 9.	Monsanto	US	Cumnock	50
15. May 9.	Monsanto	US	Dundonald	830
16. June 25.	Fafnir [Textron]	US	Hednesford	600
17. July 20.	SCM	US	Porthmadog	100
18. July 27.	ITT Corp.	US	Kearsley	360
19. July 27.	STC [ITT Corp.]	US	Hastings	550
20. Aug 9.	Mather & Platt Ltd. [Wormald International]	Australia	Radcliffe-Globe	60
21. Oct 13.	Singer	US	Clydebank	3,000
22. Nov 15.	Firestone	US	Brentford	1,500
				9,385
1980				
23. Jan 15	Heinz	US	Standish	none
24. Jan 22.	Steel Div. [Sandvic]	Swedish	Bentham	70
25. Jan 30.	Automatic Trn. Div. [Borg-Warner]	US	Letchworth	750
26. Feb 11	Massey Ferguson	Canada	Knowsley	390
27. Feb 15.	Pickering Foods [Heinz]	US	Coleraine	300
28. March 1	Ballymoney Manuf. [Ames Textiles]	US	Ballymoney	260
29. March 11	MFE Corp.	US	Livingston	47

Table 8.2. cont.: Plant Closures by Foreign Multinationals in the UK, 1978-1985

Date of closure announcement	Company Divesting [name of parent Co. if Different]	Country of Origin	Location of Plant Closed	Number of Jobs Lost
30. March 12	Dresser Wayne [Dresser International]	US	Manchester	142
31. March 12	Dresser Wayne [Dresser International]	US	Bracknell	239
32. March 25	Demag plastics [Mansmn Dem]	W. Germany	Craigavon	120
33. March 25.	Pye Elect-Devices [Phillips]	Netherlands	Peterborough	14
34. April 10.	Berger [Hoechst]	W. Germany	East Kilbride	46
35. June 13.	Ilford [CIBA-Geigy]	Switzerland	Brentwood	1,700
36. June 13.	Ilford [CIBA-Geigy]	Switzerland	Basildon	800
37. June 30	Grundig	W. Germany	Dunmurry	1,000
38. July24	AM International	US	Hemel Hempstead	650
39. July 28	Domtar	Canada	Sunderland	400
40. Aug 15	Cutting Tool Div [Sandvic]	Sweden	West Drayton	80
41. Aug 21	Firestone	US	Wrexham	600
42. Sept 3.	Cambrian Castings [Clayton Dewandre]	US	Aberdare	240
43. Sept 4.	Honeywell	US	Uddingston	200
44. Sept 9.	Eaton Axles [Eaton Corporation]	US	Darlaston	443
45. Sept 9.	Weyroc	Sweden	Weybridge	60
46. Oct 2.	ITT	US	Rhyl	81
47. Oct. 13	Philips	Netherlands	Lowestoft	1,100
48. Oct 20.	Hoechst	W. Germany	Limavady	350
49. Nov 28.	Kingston Lamp Co. [Philips]	Netherlands	Hull	73
				10,055
1981				
50. Jan 7	Yale Security Div. [Scovill]	US	Livingston	163
51. Feb 2.	Smith-Corona	US	West Bromwich	230
52. Feb 6.	Sedddon Atkinson [International Harvester]	US	Bamber Bridge	132
53. Feb 6.	Sedddon Atkinson [International Harvester]	US	Walton le Dale	472
54. Feb 11.	Inger-Rand	US	Manchester	460
55. Feb 12.	Talbot Motors [Peugeot-Citroen]	France	Linwood	4,800
56. March 6.	Clayton Dewandre [American Standard]	US	Lincoln	300
57. March 18	RCA	US	Washington	270
58. April 10.	Star Aluminium [Alusuisse]	Switzerland	Wolverhampton	450
59. April 18	STC [ITT]	US	Enniskillen	300

Table 8.2. cont.: Plant Closures by Foreign Multinationals in the UK, 1978-1985

Date of closure announcement	Company Divesting [name of parent Co. if Different]	Country of Origin	Location of Plant Closed	Number of Jobs Lost
60. April 22.	Sandvik	Sweden	Hillington	84
61. June 18.	Assoc. Communic-ations Corp. [Bell Group Ltd.]	Australia	Mitcham	NA
62. June 23	Talon Textron [Nucon hlds]	US	Treforest	380
63. June 26.	Fiat-Allis [Fiat Auto]	Italy	Oakham	460
64. June 27	ITT Creed [ITT]	US	Treforest	425
65. July 16	Br. Enkalon Ltd. [Akzo]	Netherlands	Antrim	850
66. July 18	Alcan Design [Alcan Aluminium]	Canada	Wellingborough	60
67. July 18	Alcan Design [Alcan Aluminium]	Canada	Earls Barton	30
68. Oct 23.	Hoover	US	Perivale	1,100
				10,966
1982				
69. Jan 28.	Sperry New Holland	US	Aylesbury	550
70. April 3.	Scholl	US	Northampton	150
71. July 23.	International Harvester	US	Bradford	514
72. Aug 12.	General Motors	US	Peterhead	350
73. Aug 12.	General Motors	US	Wellingborough	230
74. Aug 28.	Alcan Aluminium	Canada	Skelmersdale	
75. Oct 14.	SKF	Sweden	Irvine	200
76. Nov 11.	Smurfit [Jefferson Smurfit]	Ireland	St. Helens	200
77. Nov 12.	Trico-Folberth	US	Northampton	130
78. Dec 11.	Kraft Foods	US	Trafford Park	
79. April 15	Monsanto	US	Fawley	160
80. Dec 21.	Michelin	France	Mallusk	2,000
				4,484
1983				
81. Jan 28.	Sunbeam Electric [Allegheny Corp.]	US	East Kilbride	233
82. Feb 4.	Linotype Paul [Allied Corp.]	US	Cheltenham	500
83. Feb 4.	Linotype Paul [Allied Corp.]	US	Cheltenham	
84. Feb 15.	Mrs. Smith's Frozen Foods [Kellogs]	US	NA	NA

Table 8.2. cont.: Plant Closures by Foreign Multinationals in the UK, 1978-1985

Date of closure announcement	Company Divesting [name of parent Co. if Different]	Country of Origin	Location of Plant Closed	Number of Jobs Lost
85. May 5.	Black & Decker	US	Harmondsworth	450
86. May 6.	International Harvester	US	Carr Hill [Doncaster]	104
87. May 24.	Cam Gears [TRW Group]	US	Hilain	250
88. July	Goodyear	US	Craigavon	800
89. Aug 27.	Fisher Controls [Monsanto]	US	Cowdenbeath	258
90. Aug 27	Fisher Controls [Monsanto]	US	Rochester	400
91. Aug. 31	Caterpillar	US	Birtley	960
92. Sept 6.	Nabisco	US	Huyton	930
93. Sept 6.	Nabisco	US	Leicester	300
				4,185
1984				
1985				
94. Feb 15.	Levi-Strauss	US	Bothwell	227
95. Feb 15.	Levi-Strauss	US	Inchinnan	195
96. Nov 14.	General Instruments	US	Glenrothes	150
				572
			TOTAL JOBS LOST	41,257

Source: derived from the Financial Times

Table 8.2. reveals that Monsanto has closed seven plants in the UK, more than any other single firm. ITT has closed six, Philips, five, Goodyear and International Harvester, four, and Hoover and Sandvic, three.

It must be stressed that Table 8.2. fails to convey the adverse effect on UK employment which these closures had. According to the table, between 1978 and 1983, over 41,000 jobs were lost in the 96 foreign-owned plant closures which were reported in the Financial Times. This total is derived from the number employed when the closure announcement was made, and thus represents the minimum number employed at these plants. It thus disguises the true effect of foreign divestment on UK jobs. For example, Singer Clydebank alone at its peak employed over 16,000, and the Linwood car plant closed by Peugeot once had 8,000 employees. At their peak, these two plants alone employed 24,000. In general, by the time closure was announced, employment had usually already been halved, at least. Even this may be a conservative estimate. The number employed at Singer, for example, when closure was announced was less than a fifth of the peak employment level.

Given that the US is the world's main exporter of Foreign Direct Investment (FDI), and that a significant percentage is to the UK, it should come as no surprise that US MNCs account for a large percentage of the wave of foreign divestments. As Table 8.3. shows, since 1978, US MNCs have closed twice as many plants in the UK, as all other foreign firms put together, and nine times as many as the second largest divestor, the Dutch MNCs which closed seven plants.

Table 8.3.: UK Foreign-Owned Plant Closures by Home Country

Country	Number
Australia	2
France	2
Ireland	2
Italy	1
The Netherlands	7
Sweden	5
Switzerland	3
W. Germany	4
Canada	6
United States	64
Total	96

Having identified 96 plant closures by non-UK MNCs, it was decided to restrict the choice of case studies to the 23 cases which involved 500 or more compulsory redundancies.

Table 8.4.: Plant Closures by Foreign MNCs in the UK, involving 500 or more <u>compulsory</u> redundancies, 1978-1985 inclusive.

Date of closure announcement	Company Divesting [name of parent Co. if Different]	Location of Plant Closed	Number of Jobs Lost
08.11.78	Massey Ferguson	Kilmarnock	1,000
21.02.79	Goodyear	Drumchapel	700
09.05.79	Monsanto	Dundonald	830
25.06.79	Fafnir [Textron]	Hednesford	600
27.07.79	STC [ITT Corp]	Hastings	550
13.10.79	Singer	Clydebank	3,000
15.11.79	Firestone	Brentford	1,500
30.01.80	Automatic Trn. Div. [Borg-Warner]	Letchworth	750
13.06.80	Ilford	Brentwood	1,700
13.06.80	Ilford [CIBA-Geigy]	Basildon	800
30.06.80	Grundig	Dunmurry	1,000
24.07.80	AM International	Hemel Hempstead	650
21.08.80	Firestone	Wrexham	600
13.10.80	Philips	Lowestoft	1,100
12.02.81	Talbot Motors [Peugeot-Citroen]	Linwood	4,800
16.07.81	Br. Enkalon Ltd. [Akzo]	Antrim	850
23.10.81	Hoover	Perivale	1,100
28.01.82	Sperry New Holland	Aylesbury	550
23.07.82	International Harvester	Bradford	514
21.12.82	Michelin	Mallusk	2,000
25.07.83	Goodyear	Craigavon	800
31.08.83	Caterpillar	Birtley	960
06.09.83	Nabisco	Huyton	930

Table 8.5.: North American Foreign-Owned Plant Closures in the UK, involving 500 or more compulsory redundancies, 1978-1985 inclusive.

Date of closure announcement	Company Divesting [name of parent Co. if Different]	Country of Origin	Location of Plant Closed	Number of Jobs Lost
1978				
1. Nov 8.	Massey Ferguson	Canada	Kilmarnock	1,000
1979				
2. Feb 21.	Goodyear	US	Drumchapel	700
3. May 9.	Monsanto	US	Dundonald	830
4. June 25.	Fafnir Bearings [Textron]	US	Hednesford	600
5. July 27.	STC [ITT Corp.]	US	Hastings	550
6. Oct 13.	Singer	US	Clydebank	3,000
7. Nov 15.	Firestone	US	Brentford	1,500
1980				
8. Jan 30.	Automatic Trn. Div. [Borg-Warner]	US	Letchworth	750
9. July 24	AM International	US	Hemel Hempstead	650
10. Aug 21.	Firestone	US	Wrexham	600
1981				
11. Oct 23.	Hoover	US	Perivale	1,100
1982				
12. Jan 28.	Sperry New Holland [Sperry]	US	Aylesbury	550
13. July 23.	International Harvester	US	Bradford	514
1983				
14. July 25.	Goodyear	US	Craigavon	800
15. Aug. 31	Caterpillar	US	Birtley	960
16. Sept 6.	Nabisco	US	Huyton	930

Table 8.6.: European-Owned Plant Closures in the UK, involving 500 or more compulsory redundancies, 1978-1985 inclusive.

Date of closure announcement	Company Divesting [name of parent Co. if Different]	Country of Origin	Location of Plant Closed	Number of Jobs Lost
1980				
1. June 13.	Ilford [CIBA-Geigy]	Switzerland	Brentwood	1,700
2. June 13.	Ilford [CIBA-Geigy]	Switzerland	Basildon	800
3. June 30.	Grundig	W. Germany	Dunmurry	1,000
4. Oct 13.	Philips	Netherlands	Lowestoft	1,100
1981				
5. Feb 12.	Talbot Motors [Peugeot-Citroen]13.	France	Linwood	4,800
6. July 16	Br. Enkalon Ltd. [Akzo]	Netherlands	Antrim	850
1982				
7. Dec 21.	Michelin	France	Mallusk	2,000

8.4.: Company/Union Co-operation

Cinema buffs will remember the unsympathetic journalist played by Johnathon Pryce in the highly acclaimed British film, "The Ploughman's Lunch", who, in the midst of the Falklands War, is writing a book on the 1956 debacle, the Suez Crisis. In order to ingratiate himself with his informants and advisers, he becomes a political chameleon, changing his colours to suit his company. This trait is highlighted in the anti-hero, in order to symbolise a decline in Britain's morals, but, this author felt compelled to adopt the same strategy, passing himself off as anything and everything from an avowed Socialist to a 'wet' Conservative, as many Trade Unionists and those sympathetic to their cause, were just as anxious as any executive, to "sound out" the author's politics. By appearing sympathetic to his interviewee's views, the author was convinced that interviewees were more forthcoming with information and opinions.

The author wrote to the Chairman/Managing Director of the UK subsidiary of each MNC featuring in the following four case studies. The Trades Union officials involved in each closure were also contacted. During personal and telephone interviews, the authors questions fell into three broad categories: the divestment decision; employee disclosure and consultation; and, the OECD's Guidelines and the "Vredeling Proposals". The interviews centred on the first two topics, because Union officials and Management were particularly knowledgeable in these areas. Indeed, early on in the research, the author learned that any questions about the third subject area should not be raised with Trades Unionists until all other topics had been exhausted. It appeared that most officials were not well informed about the Guidelines, and normally interviews were brought to a quick end once the author posed questions about their use and effectiveness.

The purpose of the interviews was to extract the following information:

- who made the divestment decision?

- when was the decision made?
- what were the grounds for closure?
- was closure a surprise to UK Management and/or the Trades Unions and the workforce?
- was UK management involved or excluded from the decision-making process?

- when did UK subsiary and plant management first know of the divestment decision?
- when were Trades Unionists and employees first informed?
- who was responsible for the divestment process?
- what was discussed at Company-Union meetings before and after the closure announcement?
- did UK management ever mislead the workforce, and if so was this deliberate policy, or was it too deceived by yet more senior management?
- did UK subsidiary management withold information from plant management?

- Were the OECD Guidelines used or referred to by either Company or Union in the course of the divestment process?
- If not, why, and if they so, to what effect?
- Is there a need for further employee disclosure and consultation legislation in the UK, or is the 1975 Employment Protection Act satisfactory?
- What effect would the enactment of the "Vredeling Proposals" have on employee disclosure and consultaion.

Before providing specific details of the help received from these sources, some general explanation and description is given of the author's experience with Trades Unions and Management.

8.4.1.: Access to Trades Union Officials

Newspaper articles on closures invariably quoted a Trade Union spokesman, and the author was able to identify the Union most actively involved in the closure, and also the national, regional, local, and branch officials. Having received material from Union officials, the author met them in personal-interview or spoke to them by telephone.

The national headquarters of the AUEW was able to provide the author with a complete list of names and addresses of its District Secretaries throughout the UK. Letters were dispatched to all District Secretaries in the appropriate areas. As the case studies reveal, many co-operated. The few who did not reply were contacted by telephone, and this normally elicited a promise to pass on material.

Mr. David Handley, Education Officer of the Association of Professional, Executive, Clerical & Computer Staff (APEX), listed the four closures which "directly affected APEX members". These were:- AM International, (Hemel Hemstead); International Harvester (Bradford); Massey Ferguson (Kilmarnock); and Singer (Clydebank). He kindly sent letters of introduction to the Area Secretaries involved, who in turn furnished the author with useful documentation and suggested other sources of information.

The author also wrote to the Regional Secretary's of the Transport and General Workers' Union (TGWU). They were able to recommend District Secretaries who would be able to enlighten the author. In one instance, the District Secretary worked from a number of offices and attempts to contact him during working hours failed. Fortunately, he had an uncommon surname, Beston, and eventually the author was able to locate him at home by studying the telephone directory, but only after a succession of "wrong numbers". Where Trades Unions were unable to provide an address for a former shop steward, the author resorted to this means and it proved successful on a number of occasions.

8.4.2.: Interviews with Management

According to Sachdev,

> **"before each interview the author was virtually asked to take a pledge not to make any information public or give any indication whereby a company could be identified"** [Sachdev, 1976, p.121].

At the outset of many interviews, Sachdev found that executives were clearly suspicious of him [Sachdev, 1976, p.124]. Torneden [1975], too, found his interviews an unpleasant experience, describing the atmosphere during the interviews as "frequently tense and diffused". His previous work experience proved an advantage, in that he was personally acquainted with some of his interviewees, former business associates. On the other hand, interviews with strangers "generally produced incomplete and superficial findings" [Torneden, 1975, p.39].

Grunberg [1982], however, without providing the firms with such a safeguard was able to assess in three cases the causes of foreign divestment in Europe, though not only do the interviewed executives remain anonymous, designations and specific job titles are witheld. This author has "named names" in all cases except Goodyear, where job titles are given, and Grundig where the author agreed not to disclose the identity of his informant within the German MNC's UK subsidiary.

Limitations were imposed on the research methodology of this thesis by the fact that Parent Company executives were not interviewed. If, as is said, all foreign divestment decisions are made at Headquarters, it would have been most illuminating if one had been able to interview forthright managers, willing to specify when exactly a closure decision was finalised, and when subsidiary management was informed. Possession of such information would enable researchers to assess if UK management had consciously misled employees, or if they, too, were given false assurances from distant boardrooms.

Despite this limitation the findings of this research are not invalidated. Indeed, while assistance from management when forthcoming proved most useful, it was possible to compile detailed case studies without such help (eg. the Hoover, Firestone, and Michelin cases).

Like Grunberg [1982], the author refrained from using a tape recorder as he believed it would serve only to exaggerate anxiety and caution. Instead, notes were taken, and executives were more than willing to facilitate this task by repeating themselves when requested.

The author was aware of inhibition on the part of one or two executives, but as Sachdev noted, interviewees (and interviewer) relaxed as the meeting wore on. On only one occasion was the author conscious of a cold reception by an executive, but it would be wrong to assume that this was wholly attributable to his reluctance to discuss divestment.

The author interviewed UK executives from two US MNCs who were eager to determine his politics and in particular his views of MNCs. But the author's own experience of conducting interviews with Management was quite different from Sachdev's. Like Grunberg [1982],

> **"the issue of confidentiality rarely came up, primarily, I suspect, because my previous legwork had rendered the issue inapplicable. Occasionally during an interview, I was asked to note something "off the record", and this I did. Otherwise no assurance of confidentiality was offered and none sought"** [Grunberg, 1982, p.26]

Overall, the executives interviewed were exceptionally helpful, hospitable, and kind - laying on transport to and from the nearest railway station.

One executive interviewed allowed the author to inspect files on two closures in which his firm had been involved. The author selected documents and the Director gave the author a photocopy of each document, except for one. This document was considered particularly sensitive, but the author was allowed to take notes from it. As requested by this Director, personal names of managers have been withheld.

8.5.: The Case Studies

The author decided to concentrate on four industries, for two reasons. First of all, in each case study one can assess the behaviour of different MNCs to essentially the same external environment. Secondly, each case study comprises two or more MNCs from two countries, and thus allows an evaluation of the impact of home country culture on corporate behaviour. It was thus decided to ignore those sectors which witnessed only one closure (eg. the automobile industry and the Peugeot, Linwood, closure). The four industries chosen account for 15 of the 23 closures, and involve a total of 12 MNCs, eight from the US, one from the Netherlands, and one each from Canada, France, and West Germany. Within each industry case study, each firm is dealt with separately following [where applicable] the following framework:

1. Introduction.
2. Origins and Internationalisation of the Company.
3. A review of the parent company's situation.
4. New Men.
5. Implications for the plant to be closed.
6. Timetable of run-down.
7. The Closure Announcement
8. Company/Union Meetings After the Announcement.
9. Management's View.
10 Union's View.
11. Epilogue

8.5.1.: Man-Made Fibre Industry

This case study focuses on the Man-Made Fibre Industry. Two plant closures are examined. The first, Monsanto, a US MNC, closed its plant in Ayrshire, Scotland; the other, British Enkalon Ltd., a subsidiary of the Dutch MNC, Akzo, closed its unit at Antrim, Northern Ireland. The author was fortunate enough to receive considerable assistance from both Management and Trades Union officials in both cases, but especially from those involved in the Antrim closure.

Unfortunately, the Chairman at the time of the closure of Monsanto's UK subsidiary is no longer with the firm. Now Chairman of the UK firm, Cable and Wireless, Sir Eric Sharp, was unavailable for interview. After a long and protracted search, the former Minute Secretary was located, and he was able to give the author the original Minutes of the Monsanto branch of the TGWU. Unlike the Hoover and Singer Minutes, there was no record of meetings with Management,and the Minutes proved unhelpful.

8.5.2.: The Domestic Appliance /Consumer Electronics Industry

The first case study examines closures in the Domestic Appliance/Consumer Electronics industry, and features two US MNCs, Hoover and Singer, plus one European MNC, Grundig. Hoover refused to participate in the study, and Singer explained that none of its present staff were able to help. However, Singer's former UK subsidiary manager was traced, and he proved most helpful. The author was also fortunate enough, to unearth copies of Minutes of meetings between Hoover's UK Management and Shop Stewards at the Perivale plant. Copies were also obtained from the Shop Steward's own Minute Book. Clydebank Central Library holds the original Shop Stewards' Minutes Books, dating back to the early 1960's and these too were consulted.

A senior Grundig executive was interviewed by the author and in accordance with his request, his identity has been witheld. Since closing its plant in Northern Ireland, the German firm has been acquired by the Dutch giant Philips. It was decided not to include the Philips' Lowestoft closure in the main text, due to considerable problems in data selection. Some newspaper articles were collected, and the Company sent the author a copy of its closure statement. Mr. Cohen, Industrial Relations Manager, was prepared to meet the author, but believed it most unlikely he would be able to be of much assistance. The major stumbling block, however, proved to be the local Union official who was most involved in the case.

Mr. H. McKenna, Norfolk and North Suffolk District Secretary of the AUEW, was contacted regarding the Philips, Lowestoft closure, and he informed the author that the Electrical Electronic Telecommunications and Plumbing Union (EETPU) was the convening union at Lowestoft, and that Mr. L. Chittock, as Area Official of the EETPU, would have received redundancy notices. Mr. Chittock replied negatively to the author's request for information:

"I am not at liberty to divulge the business of this Union

to a third party, notwithstanding your good intention. I regret, therefore, that I am unable to be any assistance to you" [letter to author dated June 25, 1984, from Mr. L. Chittock, EEPTU Area Official].

8.5.3.: The Tyre and Rubber Industry

The Tyre and Rubber industry has witnessed five major foreign-owned plant closures since 1978, all of which are examined in the third case study. The two US MNCs, Firestone and Goodyear each closed two plants, and Michelin of France closed its large Belfast operation.

Goodyear was exceptionally responsive to requests for information, and on two occasions the author met with the Director of Personnel for several hours at the Company's UK Headquarters in Wolverhampton. In stark contrast, the former Company Secretary of Firestone (which has ceased all production in the UK) felt obliged to seek prior approval from the US Board in Akron before participating in this study. Approval was not given by his superiors, nor did Michelin's UK management agree to participate.

The Transport and General Workers' Union had been the convening union at all five plants. The author arranged to meet the National Officer (responsible for this industry) at the Union's headquarters, Smith Square, London. Due to unforeseen circumstances the official was two hours late in arriving for the interview, by which time the author had to leave to keep an appointment with the Chairman of Monsanto's UK subsidiary. The visit was not a complete waste of time, though, as the Official had telephoned his secretary instructing her to allow the author to examine his files.

The Trades Union response to requests for assistance was very mixed. District Secretaries of the TGWU involved in the Firestone (Wrexham) and Goodyear (Drumchapel) closures were extremely helpful. Officials involved in the two Ulster closures were less forthcoming.

8.5.4.: Farm and Construction Equipment

The final case study examines the Farm and Construction Equipment industry. The author was unable to elicit co-operation from the Sperry New Holland and the few former employees who were eventually traced had destroyed any relevent documentation. Aylesbury was a non-unionised plant, and the local District Secretaries of the AUEW were also unable to assist the author. Lack of data precluded including the closure of Sperry New Holland's Aylesbury plant in this industry case study.

In depth analysis is offered, however, of three closures which involved one Canadian (Massey Ferguson) and two US MNCs (International Harvester and Caterpillar). This Chapter is particularly important in that it offers a history of the sole case referred to the UK National Contact Point by the TUC which accused the firm of violating sections in the Employment and Industrial Relations chapter of the OECD's Guidelines for Multinational Enterprises.

The compilation of this case was facilitated by co-operation from virtually all sources contacted. Senior UK Management of all three Companies allowed themselves to be interviewed by the author. The interviews took place at each firm's UK Headquarters, and on average lasted two hours. The Managers provided the author with crucial documentation, some of which may be judged sensitive. The number of executives interviewed ranged from one at Caterpillar to three at International Harvester.

Before and since the interviews, the author has received valuable assistance from executives of all three firms. Considerable help by officials attached to three Trades Unions was given to the author in researching this case study: - APEX, the AUEW, and the General Municipal and Boilermakers Union.

The AUEW was the main Union at the plants examined in this case. On only one occasion, involving Bradford District Secretary, was help not forthcoming. His letter of reply, designed ostensibly to offer assistance in the future, left the author in no doubt of

Mr. Walker's intentions. He had been contacted in connection with the closure of International Harvester's Bradford plant, but he was able to give only the name and address of the Convener, prior to the closure:

> **"We have, in our upstairs' storeroom, a large number of files which we no longer refer to and I am in the process of sorting these out. As you will appreciate the job of straightening out the files, which contain details of factories which have closed, is quite a lengthy task and due to pressure of work it is unlikely that this will be done in the near future. However, if you are still interested when this is done please do not hesitate to contact me"** [letter to the author, dated July 2, 1984, from Mr. P. Walker, Bradford District Secrtetary of the AUEW].

More than six months later when the author telephoned Mr. Walker in early 1985, the situation remained the same - "We're behind with the present, never mind the past". Gladly, the author received assistance from the Glasgow and Kilmarnock District Secretaries, but above all from Mr. Joseph Cellini, Gateshead District Secretary.

The regional official of APEX provided the author with the names and addresses of his Union's three branch officers at the Bradford plant, just prior to closure. Only the Chairperson replied to the author's letter. She was able to provide copies of the Minutes of Company-Union meetings.

The author located some Minutes of Union meetings at the Massey Ferguson Kilmarnock plant in Glasgow's Mitchell Library, but these were not particularly enlightening. Apparently, alternative Minutes exist which would be much more helpful. These were taken at the meetings of an Action Committee especially established to oppose closure. Unfortunately, the person alleged to have these Minutes in his possession denies it. The author's research of this case was hampered by the obvious friction existing between former Shop Stewards at the plant. In other cases, a clash of personalities between former Shop Stewards was obvious, but the problem appeared to be more deep-rooted among ex-Massey Stewards.

When the author met the Convener of the Caterpillar, Birtley plant in May 1984, he had just destroyed the Shop Stewards'

Minute Books. However, he had kept his own Minute Book and he kindly presented it to the author.

Summary

Incredible as it may seem, no UK Government department monitors and records a list of foreign-owned plant closures in Britain. From the Financial Times, and in its absence, other national newspapers, the author identified 96 foreign-owned plant closures during the period 1978-85. The author decided to concentrate on the largest plant closures, those involving 500, or more, compulsory redundancies. From this list of 23 closures, it was decided to examine foreign-divestment in four industries. These four cases account for 16 plant closures, and involve 13 firms, from five different countries. This international industrial framework constitutes the basis for analysing three major issues: the causes of foreign divestment; current employee disclosure and consultation practice in the UK and; the impact of home country culture on foreign subsidiaries.

It is to the first case study that we now turn our attention, the man-made fibre industry.

CHAPTER 9

THE MAN-MADE FIBRE INDUSTRY

9.1.: Introduction

It was seen in Chapter 5 that the Netherlands' national culture can be characterised as Individualist, Small Power Distance, Feminine, and Weak Uncertainty Avoidance. Unlike France, Germany, the US and Canada, the home countries of the multinationals examined in this thesis, the Netherlands alone bears all four of these features. Thus, Dutch culture conditions its citizens to adopt a particularly open disclosure policy.

This examination of the Man-Made Fibre industry allows comparison with the Dutch MNC, Akzo, and the American firm, Monsanto. American culture falls between the openness of the Dutch and the strong secrecy dimension treasured by the French and Germans. The literature reviewed in Chapter 5 suggests that if home country culture impacts upon a nation's corporations, the Dutch MNC should display greater concern for employees, and communities than any of the other firms from other countries examined in this thesis. Chapter 6 reinforced this view of Dutch culture when it was revealed that the Netherlands was one of the few nations which wanted the OECD to pass legislation to control MNCs, rather than issue mere Gidelines. Within the EEC the Dutch have also been at the forefront of the campaign to increase MNCs' accountability. The driving force behind this controversial move has been a Dutchman, Henk Vredeling, whose ambitious proposals were analysed in Chapter 7.

This study begins by a brief review of the industry's problems which have surfaced since the 1974 oil crisis.

9.2.: The Industry's Problems

During the 1960s the man-made fibres industry enjoyed boom conditions, and nylon was a particularly popular material; nylon shirts for men were even considered "U". Between 1963 and 1973, synthetics had increased from about 40% to 70% of total textile mill consumption. Producers responded to the market and launched a huge construction programme. This greatly increased the UK industry's capacity, and output increased significantly from 550,000 tonnes in 1969 to a peak production level of 750,000 tonnes in 1974 [Monsanto, May 9, 1979].

This success was totally overshadowed by the effects of the dramatic price increase in the industry's basic raw material. In the course of 1974 oil prices quadrupled. This sent shock waves throughout the industrialised economies of the world which were, in the main, net importers of "black gold". The ramifications of this price increase cannot be overestimated, in regard to its effect on the nylon industry - dependent on oil.

The industry's problems were exacerbated by increased capacity as new plants, born of the 1960's boom conditions - including Dundonald -, came on stream. The decline in demand was so severe that many plants stood idle. By 1978, UK production of man-made fibres was a third down on the level reached in 1974 and in 1979, the synthetic fibres industry in the UK and the Continent operated at only 70% of capacity [Monsanto, May 9, 1979].

As the synthetic fibre industry declined, nylon suffered disproportionately. Whereas, it had accounted for 43% of total synthetic production in 1965, by 1978, nylon accounted for only 24%. Between 1968 and 1973, production of nylon filament textiles had grown by 3.7% and nylon filament carpet by 28%. But between 1973-78 the former actually fell by 5.3%, and the latter's rate of growth shrank to a mere 1.3% These figures reveal the true scale of the nylon fibres industry's slump. From 1974 the man-made fibres industry had been crippled by a steady and continuing decline [Monsanto, May 9, 1979].

This slump had grave consequences for the man-made fibre divisions of AKZO and Monsanto, and the UK subsidiaries of both firms did not escape the dramatic slump in demand. Our analysis begins with the US firm.

9.3.: Origins and Company Background

In 1982 Monsanto, the fourth largest US chemical company, revealed its new corporate strategy which has since redirected the Company from mainly commodity petrochemical-based products towards higher value-added, higher profit speciality products and processes. The Company is currently concentrated in three broad business areas: "Life Sciences", "Chemical Sciences", and "Engineered Materials and Products". It is comprised of six operating units "Agricultural and Nutritional Products", "Fibres and Intermediates", "Industrial Chemicals", "Polymer Products", "Engineered Products", and "Fisher Controls" [Monsanto, 1984 Annual Report, p.7].

Like Akzo, Monsanto claims to be very aware of its social responsibility. In the mid-1970s Monsanto formally proclaimed that it will "conduct our business, at all times, in an ethical, lawful and socially responsible manner". In 1976, a Social Responsibility Committee composed of managers was formed, and in 1981, a board level Corporate Social Responsibility Committee was established. In 1984, a publication issued by the Company - whose motto reads "To be the best in whatever we choose to do" - concluded a page-long feature on social responsibility as follows:

> **"Socially responsible activities at Monsanto have been institutionalised as part of every manager's job. Effective social responsibility must be an attitude that extends from the boardroom to the boiler room and attends the manufacture and sale of every product. Through its attitude and actions, Monsanto provides evidence of strong commitment to its employees, the public, and the world"** [Monsanto, 1984, p.26].

This case assesses the conduct of Monsanto during the divestment process of its nylon plant at Dundonald, Ayrshire, Scotland. Monsanto entered the nylon fibres business in 1965, and in the next seven years its UK subsidiary's performance fulfilled expectations. The Dundonald plant, on the outskirts of Irvine New

Town, when built in 1966 was seen as "a lynchpin of the local economy and appeared to have a settled future" [Glasgow Herald, May 10, 1979].

Construction and start up costs explain initial losses, but between 1968 and 1974 inclusive, total UK operations returned moderate profits, or broke even. The UK subsidiary enjoyed six years of profitability following the Yom Kippur War, but in the late 1970s and early 1980s heavy losses were incurred (see Table 9.1).

Table 9.1.: Performance data on Monsanto PLC, 1974-1982

Year Ended Dec. 31	Turnover £000	Net Profit Before Tax £000	Net Profit After Tax £000
1974	121,291	17,192	8,183
1975	122,829	5,713	2,827
1976	180,810	13,992	6,588
1977	202,727	5,562	2,246
1978	211,743	2,610	2,866
1979	255,982	(4,196)	(3,942)
1980	232,901	(29,344)	(29,547)
1981	306,116	(4,832)	(5,412)
1982	296,589	41	84

Source: Extel Statistical Services

In Monsanto's 1978 Annual Report, Chairman and President, John W. Hanley, informed shareholders that the European nylon plants had posted "unacceptable losses" and that programmes were being launched to rectify the situation. Indeed, during the late 1970s, foreign operations were draining corporate profits (see Table 9.2).

Dundonald's fate was sealed when the US MNC decided to withdraw completely from the European nylon market. The large Ayrshire complex, and a much smaller one at nearby Cumnock were closed. Another two plants were closed in Durham, England, and a further two on the Continent at Echternach, Luxembourg, and at Wittlich, West Germany, were closed. Dundonald was closed in 1979 with the loss of 850 jobs. As a direct consequence of a single corporate decision, almost 2,300 jobs were lost, 1,500 in the UK, and 790 on the Continent. But it must be stressed that terminating loss operations can, and may, enhance job security elsewhere in the corporation.

Table 9.2.: Performance data on Monsanto Company ($ms)

Year	Sales	Net Income	Employees
1985	6,747	(98)	56,103
1984	6,691	439	50,754
1983	6,299	402	50,889
1982	6,325	352	52,199
1981	6,948	445	57,391
1980	6,574	210	61,836
1979	6,193	487	63,926
1978	5,019	632	62,851
1977	4,595	610	61,519
1976	4,270	668	61,903
1975	3,625	547	59,242
1974	3,498	550	60,926
1973	2,648	406	58,277

Source: Corporate reports, and Fortune.

9.4.: The Implications for Monsanto

The Company had relatively modest nylon fibres plants and a small market share. Its factory at Dundonald in Ayrshire, Scotland, had the smallest capacity of any nylon fibres facility in the UK, and Monsanto had only 9% of the UK market, and 4% of the Western European market. The UK nylon fibres market was dominated by I.C.I. with 48%, followed by Courtaulds with 25%, and Enka 18% [Monsanto, May 9, 1979].

Although Monsanto had responded quickly at the onset of the slump, the decline continued unabated. In December, 1974, the workforce at Dundonald was reduced as part of a cost-cutting excersise. Advanced Textile Mills (Durham) Ltd. was acquired with a view to protecting the Company's position in nylon texturising. This purchase gave the company a nylon facility at Crook, and an acrylic yarn spinning plant at St. Helen's Auckland. According to Monsanto, these acquired plants were "closely interdependent" with facilities at Dundonald and Cumnock, and with the exception of Cumnock each received further investment "in order to improve the strongest segments of Monsanto's nylon business". Nevertheless, in 1978 the UK subsidiary's results reached a trough and a pre-tax loss of £3.5 million was reported [Monsanto, May 9, 1979].

Clearly, attempts to arrest decline were failing - an indication of the scale of the problem. Monsanto was unlikely to allow these losses to continue. A remedy had to be found, and total withdrawal from nylon production could not be ruled out.

9.5.: Precedents to Dundonald's Closure

October 1978: Management and Unions discussed the Man-Made Fibre Sector Working Party report. It had highlighted the difficulties confronting manufacturers in the UK synthetic fibre industry. Produced by a tripartite group consisting of senior representatives of Government, Trades Unions, and Industry, the report pinpointed the three major adverse factors which had afflicted the industry since 1973: the dramatic increase in the price of basic raw material, oil; the upsurge of imports; and, a stagnant market for the final product.

These factors knocked flat what had been a booming UK synthetic fibre industry. The abrupt change in market trends caught manufacturers off-guard and in addition they had to come to grips with "massive overcapacity in Western Europe" [Man-Made Fibre Sector Working Party quoted in Monsanto publication, May 9, 1979].

The Working Party could not foresee any upturn and issued the following warning:

> **"The problems arising from the cyclical nature of the industry will become more severe",**

and that consequently there would be,

> **"a danger of idle capacity and redundancy"** [Man-Made Fibre Sector Working Party quoted in Monsanto publication, May 9, 1979].

April 25, 1979: Monsanto announced its first-quarter results. Consolidated net sales were 21% up on the same period in 1978, and net income showed a 19 % improvement. There was, however, ominous news for the Company's nylon producing operation which, of course, included Dundonald. The Company's Chairman and President, Mr. Hanley said:

> **"... we continue to be concerned about the performance of two of our major European operations. As mentioned previously and as reflected in our 1978 Annual Report, we are in the process of completing a series of comprehensive studies aimed at examining all possible approaches for reducing the significant losses that are being generated by our nylon operations in Europe and by our subsidiary in Spain which participates in the plastics business. Both of these operations continued to suffer losses in the first quarter"** [Monsanto, Public Relations Department, Brussels, Press Release, April 25, 1979].

The proposal to close Dundonald was effectively made public in the following three sentences:

> **"We anticipate that these complex studies could be completed for our nylon operations in early May.... Appropriate actions will be implemented as soon thereafter as practicable. Certain of the approaches which are under consideration could have a negative impact on Monsanto's 1979 earnings"** [Monsanto, Public Relations Department, Brussels, Press Release, April 25, 1979].

May 3, 1979: a number of Scottish newspapers (Daily Record; Evening Times; and, The Scotsman) reported that Monsanto was in the process of reviewing its operations. One reporter told his readers that it was expected that Monsanto's decision on the future of its European nylon fibre operations would be announced on May 9th [Baggot, May 3,1979].

Apparently the study had been ordered following the previous week's presentation of results for the first quarter. These had revealed large and increasing losses in nylon operations. The employees at the plant did not view Dundonald's future with optimism. Factory Convener, Mr. Alex Williamson, was reported saying:

> **"We are becoming more and more convinced that Monsanto are planning to close the plant down"** [Caven, 1979].

Indeed, the Shop Stewards at the plant were so certain that closure was impending that an Action Committee was formed [Evening Times, May 7, 1979]

9.6.: The "Proposal" To Close Dundonald

May 9, 1979: The Chairman of Monsanto Ltd., Mr Eric Sharp, issued a statement announcing the closure of the Dundonald plant, with the loss of all 830 jobs:

> **"Monsanto Ltd. announced today that it is commencing consultations with Trades Unions representing employees and with Government representatives with a view toward an early withdrawal from its nylon fibres operations because of substantial losses during the past four years and poor prospects for long-term profitability"** [Monsanto, May 9, 1979].

Two key divestment factors were identified:

> **"Company officials explained that Monsanto's unfavourable cost-competitive position and relatively small share of the nylon market were two key factors behind the announcement.**
>
> **In the past four years Monsanto (ie, its UK subsidiary) has suffered pre-tax losses of £8.9 million from nylon fibre operations and long-term prospects remain poor"** [Monsanto, May 9, 1979].

The statement also reveals that the decision to close Dundonald plus two other plants had only been taken after a number of options had been considered, and after efforts had been made to stem the decline in the fiercely competitive man-made fibres market:

> **"Comprehensive management studies examined various strategies to improve Monsanto's position but none of these, including further investment, provided a viable business approach to solving the difficult problem.**
>
> **Recent attempts to halt the rising losses have been unsuccessful. These included cost reduction programmes, a restructuring of marketing, technical and sales organisations, and some investment programmes for equipment and modernisation"** [Monsanto, May 9, 1979].

The Company's problems were not confined, however, to the UK. At the same time, Monsanto was also consulting the relevant government authorities, trades unions, and employee representatives on the Continent "with a view toward seeking a solution to similar problems affecting the Companies unprofitable nylon operations there". These included a nylon plant at Echternach, Luxembourg, and an associated fibre processing plant at Wittlich, West Germany, which together employed 790 people [Sharp, May 9, 1979].

On the day of the closure announcement, Dundonald employees were presented with a small, well-produced informative pamphlet, entitled "Monsanto Ltd.: Nylon Operations in the UK", which outlined the economic rationale behind the decision to cease production in the UK.

In its statement to employees the Company explained that a number of alternatives had been considered, and rejected:

> **"The first option is to continue as we are now. if that were done, the losses would get worse.**
>
> **A second option is investment in new technology and equipment. Losses would continue and Monsanto would not regain profitability. Under these conditions Monsanto would not regain the money spent to re-equip the plants.**
>
> **A third option is to cut back operations and concentrate investment on the company's strongest products. The workforce would be reduced and the associated support staff would be cut back significantly. Once again, losses would continue and the company would not get close to breaking even.**
>
> **A fourth option is to maximise European production in the UK This would include selective upgrading of production facilities in the stronger segments of Monsanto's business. The results are the same - continuing losses"** [Monsanto, May 9, 1979].

The statement continued:

> **"The situation facing Monsanto today is this: the company has small plants, a small market share and a poor cost-competitive position in an industry beset by overcapacity and stagnant growth. A prolonged study of the company's current performance and future possibilities reveals no chance for regaining profitability.**
>
> **The regrettable conclusion is that Monsanto Ltd. must close its nylon fibre plants.**

This is a severe blow to everyone in the company. In consultations during the next few weeks, the facts that made the action necessary will be thoroughly discussed together with the implications. Monsanto is talking with the Department of Employment and large, local employers to explore opportunities for finding new jobs.

All of us face a difficult situation and there are many problems to be solved during the coming weeks. We have approached your local full time officials for discussions on Tuesday May, 15" [Monsanto, May 9, 1979].

One employee was clearly bitter, however:

"I think the firm has been very underhand in the way they have done this. They have known for months they were closing the place" [quoted in the Glasgow Herald, May 10, 1979].

May 14, 1979: the Scottish Secretary of State for Scotland, Mr. George Younger, asked Mr. Sharp, Chairman of the UK subsidiary, whether Monsanto would reconsider its decision if Government aid was forthcoming, but he was told that financial assistance would not solve the main problem - lack of demand [The Scotsman, May 15, 1979].

May 15, 1979: the Scottish Secretary of State for Scotland, Mr. George Younger , agreed to the Monsanto shop stewards' suggestion that he should contact Parent Company Management at St. Louis, Missouri, to see whether the closure decision could be reversed [Russell, May 16, 1979].

May 17, 1979: One of the local MPs, Mr. Lambie, accused Monsanto of failing to consult its employees before reaching its decision which was taken, he alleged, by the US Board. The allegation was denied by a spokesman at the Company's St. Louis headquarters who claimed that the divestment decison had been made in London by UK subsidiary Management [The Scotsman, May 15, 1979].

May 18, 1979: a meeting was held in Ayr's Municipal Buildings to discuss the proposed closure. Three Labour Members of Parliament were present. Mr. David Lambie (Central Ayrshire), Mr. George Foulkes (South Ayrshire), and Mr. William McKelvey (Kilmarnock). Strathclyde Regional Council, Kyle and Carrick District Council, Cunninghame District Council, Kilmarnock and Louden District Council, and Cumnock and Doon Valley District Council, were all represented at the meeting.

Following this meeting a request was made to Parent Company Management to receive five envoys, composed of one councillor from each local authority. It was hoped that they would be able to persuade the US Board to allow "reasonable consultation" to take place before the plant was closed [The Scotsman, May 19, 1979].

May 30, 1979: Shop Stewards met with four Monsanto representatives, including Mr. Sharp, Managing Director of the UK subsidiary. Mr. Sharp reviewed the factors which had led Monsanto to reach the conclusion to cease nylon production in Europe. He revealed that,

> **"our European nylon business has been causing concern to management ever since 1973, and has been the subject of almost continious review. The latest study had taken some time to complete and had been very detailed and exhaustive, with all possible options and alternatives considered and researched. However at the end of the day, the sad conclusion was that there was no prospect or feasibility of turning the UK nylon business around. Similar study has shown an even bleaker situation for Continental nylon operations, and the Company had therefore decided that it has no option other than to withdraw from its entire European nylon business"** [Report of Meeting Held in Conference Room, Dundonald Plant, at 11 am. on Wednesday, 30th May, 1979].

The Union representatives were then given an opportunity to discuss and question recent developments. Proceedings got underway with three unions representatives criticising Monsanto for issuing notice of redundancy and announcing its intention to close Dundonald:

> "Mr. McCreadie: **Are the company prepared to withdraw the 90 day notice, to allow discussions to proceed normally, since the Trade Unions feel that they are being asked to consult under duress?**

<u>Mr. McConnachie</u>: We feel that the company have departed from their normal method of dealing with their employees, and are behaving differently from other Companies who have recently faced similar problems. Massey Ferguson and S.K.F. both consulted with the Unions for some time before they issued Section 100 notices, and ample time was given to see if an alternative could be found, or buyers sought or alternative uses devised" [Report of Meeting Held in Conference Room, Dundonald Plant, at 11 am. on Wednesday, 30th May, 1979].

Another Union representative argued that by commencing the 90 day period on the very day that the closure decision was announced, Monsanto had failed to provide the Trade Unions with "sufficient time to examine and discuss the company's proposals with Government Ministers and other bodies. It might be that at the end of the day the unions would have to accept that closure was inevitable but more time was needed to give the problem the attention it deserved" [Report of Meeting Held in Conference Room, Dundonald Plant, at 11 am. on Wednesday, 30th May, 1979].

Mr. Sharp replied for the Company:

"The Employment Protection Act provisions relating to the consultative periods was introduced to prevent Companies from implementing decisions to cause large scale redundancies without any warning. The critical state of the UK synthetic fibre industry has been well known to all the trade unions involved for a long time. The heavy losses being incurred at both Dundonald and in Europe had been regularly communicated to all employees. The decision to make a total and early withdrawal from the business was not hastily arrived at nor made without full appreciation of its serious effects on the Company and its employees. The Company were willing to examine and consider any proposal which offered a return to profitability. For these reasons, we feel that sufficient time is being made availabla and are therefore unwiling to withdraw the Section 100 notification" [Report of Meeting Held in Conference Room, Dundonald Plant, at 11 am. on Wednesday, 30th May, 1979].

Factory Convener, Mr. Alex Williamson, asked Mr. Sharp if he had the authority to withdraw the redundancy notices. Mr. Sharp's reply was affirmative, and in addition he claimed that the UK Board had made the final decision to close Dundonald.

The meeting concluded with Mr. Williamson expressing some dissatisfaction with the outcome of the proceedings:

"Mr. Sharp, we have to say that we are very disappointed at

the outcome of today's meeting. You have refused to lift the 90-day notice and you have told us nothing new" [Report of Meeting Held in Conference Room, Dundonald Plant, at 11 am. on Wednesday, 30th May, 1979].

May 31, 1979: Mr. Sharp met four District Councillors in London, as the request had been referred to him by Monsanto's US Board.

9.7.: The Closure Announcement

June 20, 1979: Monsanto announced that it had rejected the representations made by trades union representatives on behalf of the Dundonald workforce:

> **"After weeks of consultation with employees and trade union representatives, no proposals have emerged that would cause a variation in the Company's decision to withdraw from the nylon fibres business in the UK"** [quoted in Trotter, May 15, 1979].

July 27, 1979: The Dundonald factory closed with the loss of 830 jobs.

9.8.: The View of the Company

The Chairman of Monsanto's UK subsidiary, Mr. Mason, was interviewed on December 13, 1984. The interview focussed on three topics: the divestment decision; employee disclosure and consultation; and, employment legislation and codes of conduct for MNCs.

9.8.1.: The Divestment Decision

It was seen in Chapters 2-4 that a number of researchers had observed that the divestment decision was taken in isolation by the Chief Executive Officer (CEO) and then handed down. According to Mr. Mason the decision to close the Dundonald plant "was not made in the US, in splendid isolation, by the President". On the contrary, the decision was only taken after several years of work, and the management of the UK subsidiary was, he says, "heavily involved". The Scottish plant had been under review for "at least two years" prior to the proposed closure announcement on May 9, 1979. Mr. Mason did agree, however, that the divestment decision is the most difficult a manager has to make. During its study of Company operations, Monsanto was not preparing a plan for closure, but instead was hoping to come up with something which would allow, at least, a positive cash flow situation to be achieved.

Mr. Mason explained that prior to closing a plant a company has discreetly investigated whether it can be sold. It is absolutely vital that neither competitors nor customers discover that divestment by sale is being considered. Whoever finds out will approach the other and the outcome will be loss of business for the firm contemplating the sale. The competitor sees a golden opportunity to increase his market share, whilst the customer will act to ensure continuity of supplies.

Mr. Mason described the process whereby the decision to close Dundonald was made. Firstly, the Board of Directors of the Parent Company was advised that "there was no alternative but to go to closure". Consequently, on May 9, 1979, the proposal" (author's emphasis) to close Dundonald was presented to the plant's workforce. This announcement represented the commencement of the consultation process, and employees were issued with 90 days notice of redundancy.

This "proposal" had been ratified by the Executive Board only, and prior to being implemented it required the ratification of the entire Board. Non-Executive Directors were in the majority and so there was no guarantee that they would lend their support to the "proposal" to close Dundonald.

Finally, and only after the consultation procedure had been exhausted, the proposal was ratified by the entire Board.

The decision to close Dundonald was based on a recommendation by UK subsidiary management. In recent years, Monsanto responded to its ailing fortunes by introducing greater centralisation of its operations.

Although Mr. Mason insists that the announcement of May 9, 1979 should be seen as a proposal to close Dundonald, and that no irreversible decision had been taken, he admits that the Company was certain the Unions would be unable to find a way of making Dundonald viable. Closure was inevitable, therefore, in that only an upturn in the nylon fibre market could save the plant, and that was outwith the sphere of influence of any labour organisation. As Mr. Mason said, "an upturn in demand was out of the question".

Mr. Mason denies that issuing redundancy notices on May 9, 1979, when employees first learned of the proposed closure of Dundonald, placed trades union representatives under duress. After all, he says, the notice could have been withdrawn if they had presented a solid case for retaining the plant.

9.8.2.: Disclosure of Information

On being asked when employees were first made aware of Monsanto's problems, Mr. Mason, consulting the Company's pamphlet of May 9, 1979, replied October 1978.

He said that by 1979, Monsanto had no choice but to cease nylon fibre production in Europe and close Dundonald and its other plants on the Continent. Other man-made fibres had superceded nylon, and cheap imports from Third World countries had devastated the entire European textile industry.

He believes that Monsanto regularly informed its employees of the increasing problems associated with nylon production, and their effects on the Company.

He explained that management involved in the plant closure situation face a dilemma. Whilst wishing to keep employees fully informed, they must also safeguard the interests of their company. The premature release of certain information could damage the enterprise and its employees. It is therefore, he argues, in the best interests of all, if certain information remains secret.

As regards the OECD's Guidelines, Mr. Mason said that they included "nothing very exceptional". Although they had formed a general frame of reference when closing Dundonald, Mr. Mason admitted that "we don't read them and say 'we must do this'". Premature disclosure of information could have undesirable effects, he believes. For example, if a firm announced that it was proposing to close a plant, then the likelihood of this being the eventual outcome becomes all the greater. As he put it, "the minute something becomes public, it's almost self-fulfilling".

Mr. Mason was highly critical of the "Vredeling Proposals". He believes that their enactment as Community legislation would prove a set-back rather than a gain for employees. They would produce, he believes, the opposite effect of that desired by supporters of the proposed Directive.

Monsanto instead of being more open would be "very, very careful about what we disclose". His observations of social behaviour have led Mr. Mason to conclude that once certain conduct becomes compulsory, individuals and groups resent the fact and rebel by ceasing to do what was once done voluntarily.

He also believes that the "Vredeling Proposals" are based on a popular misconception, that all decision-making in MNCs is centralised "with some mystical God .. in complete isolation pulling the strings". The truth of the matter is that decisions are often made at the local level and then passed up the corporate hierarchy.

Mr. Mason refused, unfortunately, to give the author sight of the minutes of Company-Union meetings. He considered these confidential.

9.9.: The Trade Union Represenatatives' View

Grunberg [1982] highlighted the racial divisions in his case study of the closure of the Leicester plant of Litton Industries. He saw a divided workforce as an important factor in explaining the lack of employee resistance to closure.

The Minute Book kept by Mr. Rennie, Minutes Secretary at Dundonald, is of little value to the historian. It reveals though that the Union had internal problems with fellow members involved in skirmishes. Friction among the official, duly elected Shop Stewards and an alternative, perhaps more militant group, certainly existed. Mr. Rennie was highly critical of some of his former colleagues. He believes that there were "too many Communists" involved in Union business. He said , the official Shop Stewards committee had been edged out by a breakaway group which lacked experience in negotiating. He believes its members failed to appreciate tell-tale signs that all was not well. For example, in 1978 a delegation of US Managers from the Parent Company visited the Plant. Shortly afterwards a newspaper, published on the Continent, ran a feature indicating that Monsanto would cease all nylon production in Europe.

In early 1979, one of the local MPs is said to have met a Shop Steward at a social function and divulged that Dundonald would be closing in the near future. One MP is said to have met a Shop Steward at a social function and divulged that Dundonald would be closing in the near future. Rumours spread but these were not, Mr. Rennie claims, taken seriously by employees, and Plant Management scotched them.

Shortly before the closure announcement, Mr. Rennie had been the sole Dundonald Shop Steward present at a two-day seminar on multinationals, (organised by the TUC), in which Codes of Conduct were examined. He was therefore familiar with the OECD's Guidelines for MNCs.

He spoke very highly of Monsanto, saying they had been very amenable to Trades Unionists, offering every facility for Union business. He believed that the closure announcement could have been more sensitively handled, and criticised Plant Management for continuously denying that closure was being considered.

AKZO

9.10.: Introduction to Akzo

This Dutch MNC was formed when AKU and Koninklijke Zout-Organon merged in 1969. It is comprised of seven divisions, including "Enka" which is responsible for man-made fibre production.

Akzo publicly supports the OECD's Guidelines for Multinational Enterprises. The "Vredeling Proposals" are not, however, held in the same regard, though the Company "recognises the importance of good communications and activities with those who are directly or indirectly involved with the Group" [Akzo, 1982 Annual Report, p.1].

In representations to the European Parliament Akzo has confirmed its "willingness to duly provide all relevant information on reorganisations and to make every effort in consulation with employees to restrict the social consequences of such reorganisations" [Akzo, 1982 Annual Report, p.13].

This move followed allegations by Trade Unionists that employee disclosure and consultation was inadequate and unsatisfactory during the rationalisation of Enka's fibre operations at Breda, Holland and Kassel, West Germany. Akzo considered the criticism unjustified and presented evidence to refute the Unions' claim and "to reinforce a plea to the effect that corporate management be allowed to adopt a flexible and offensive strategy aimed at viable business activities without being trammeled by further directives" [Akzo, 1982 Annual Report, p.13].

In addition to closing Breda and Kassel, Enka announced in 1981 the closure of its British Enkalon Ltd. plant in Antrim in Northern Ireland. Extensive Company/Union consultation produced a plan of action unique among the cases examined in this thesis.

9.11.: Background

In 1961 Enka announced its plan to build a factory in the small town of Antrim with a population of just 3,000. On opening in 1963, the plant produced only nylon textile yarn, but its product range was widened the following year. By 1966 the labour force exceeded 1,000, and the future prosperity of plant and town alike seemed assured. Antrim was designated a new town. Plans for an expanding town with a potential population of 30,000 were undertaken by a Steering Committee hopeful of the town attracting further investment, since dependence on one industry could be disasterous should the multinational "pull out" [Ballymena Observer, July 23, 1981, p.5].

By the early 1970s the projected population growth was on course for reaching the 1981 target of 30,000. Meanwhile, Antrim had failed to attract new industry and the Ministry of Defence had closed its factory, leaving BEL the sole major employer in the area. The only consolation was that the plant's future appeared secure. The factory was profitable during its first ten years in operation - a minor loss was returned for only one year during that period - and the plant was expanded [Ballymena Observer, July 23, 1981, p.5].

Then on June 1, 1974 disaster struck. The supplier of Antrim's raw materials, Nypro (UK), Felixborough was destroyed in a huge explosion at the plant. At the time the basic raw material was in short supply and Nypro's parent company, DSM in Holland, were unable to supply BEL. Production at Antrim continued, but only after supplies of caprolactam had been purchased at inflated prices in the world market. Thus, almost overnight, Antrim became a high-cost operation. Costs were eventually cut-back, but significantly the Antrim plant's peak employment level of over 3,000 had been reached in early 1974. In the second half of the year a loss was returned, and Antrim never again returned to profitability [interview with Mr. Schierbeek, CEO of BEL, February 25, 1985].

The blow to the Ulster plant coincided with the onset of an oil crisis which decimated Europe's man-made fibre industry. The cheap energy policy pursued by successive US Governments had allowed American producers to flourish and by 1979 they had cornered the European market with cheap imports. Enka's sales revenue dropped and massive losses followed (see Table 9.3).

Table 9.3.: Performance Data on Enka (in Hfl million), 1970-84.

Year	Sales	Operating Income (Loss)
1984	5,035	302
1983	4,526	151
1982	4,359	(19)
1981	4,678	33
1980	3,782	(170)
1979	3,852	74
1978	3,567	10
1977	3,598	(88)
1976	3,804	(142)
1975	3,707	(326)
1974	4,528	223
1973	4,398	390
1972	3,798	231
1971	3,840	371
1970	3,561	325

Source: Corporate Accounts

Enka like other manufacturers in Europe was suffering from excess capacity and struggling to preserve its share of a declining market. Nonetheless, employees at Antrim received the following assurance from BEL's Dutch Chief Executive, Mr. Schierbeek, "we are having difficulties like everyone else, but we are holding our own" [Ballymena Guardian, August 2, 1979, p.1].

9.12.: Decision to Modernise Revoked

In **July, 1979**, the Dutchman explained that Antrim would be streamlined, in an attempt to stem losses, by increasing productivity. In the process 100 redundancies would be issued [Ballymena Guardian, August 2, 1979, p.1]. BEL and the Amalgamated Transport and General Workers Union (ATGWU) reached agreement on the procedure for voluntary redundancies.

Enka still believed that the plant could, with further investment, return to profitability and in **May, 1980** a £33m modernisation programme for the 17 year old plant was announced [Ballymena Guardian, July 3, 1980, p.1]. This decision was rescinded later in the year due to sterling's continued appreciation against the US dollar and the Dutch guilder.

On July 23, 1980, BEL's results for the 1979 financial year were published revealing a loss of £2m. By early autumn it was apparent that Enka's management had underestimated the extent of the industry's problems, and those of Antrim in particular. Employees were advised of the gravity of the situation. Far from being a low cost unit Antrim had the highest production costs in the Enka Group [interview with Mr. Schierbeek, CEO of BEL, February 25, 1985].

June 27, 1980: the Site Manager, Mr P.L. Lemmens, wrote to employees explaining that the Company had never faced such adverse market conditions since it arrived at Antrim in 1963 and that short-time working would be introduced:

> **"As you must all be aware, by now, the market situation for our products is worse than it has been since the factory (ie. in Antrim) opened. The sales situation and forecasts for the coming six months indicate little or no improvement, and this, coupled with an unacceptably high finished product stock level has necessitated immediate action.**
>
> **It is necessary, therefore, to commence a reduction in the working week in L.D.Y. Drawtwist and Warping and in H.D.Y. 4 Shift Aftertreatment, to take effect from Monday, 30th June, 1980. The degree of reduction in each department will depend on both the production level and the anual holiday situation.**
>
> **We have applied to the Department of Manpower for their Temporary Short-Time Working Compensation Grant to reduce loss of income to a minimum. The exact details of this scheme will be given to Shop Stewards on Wednesday next.**
>
> **Initially the situation will apply to the three departments mentioned above over the holiday period July/August. The situation will be cautiously reviewed as more details of programme requirements become known. It is envisaged, however, that if the forecasts are correct, a reduction in the working week will apply to most, if not all departments, after the holiday period.**
>
> **The main objective is to preserve as many jobs as possible, under very difficult circumstances, and so the full co-operation of all employees is essential to the future of the Company. There will be differences in working patterns**

between departments and, subject to orders, this may change from week to week.

Trade Union Representatives and all employees will be kept aware of the changes in the situation as and when these become known to Management" [Company Brief, signed by P.L. Lemmens, Site Manager, June 27, 1980].

June 30, 1980: Short-time working introduced. Employees were told, however, that this move was temporary and that modernisation would go ahead as planned [Ballymena Guardian, July 3, 1980, p.1].

9.13.: Closure Warning Issued

November, 1980: Mr. Schierbeek told Shop Stewards that closure was inevitable unless a 10% reduction in production costs was achieved immediately. He outlined to Shop Stewards the measures necessary to meet this target. Shortly afterwards the Ballymena Observer reported that "management proposals have implications for all sections of the factory, and there are already indications that some sections of the workforce regard the cuts as 'unworkable'" [Ballymena Observer, November 20, 1980, p.1]. Indeed, the workforce rejected the proposals, confident they had called the Company's bluff.

December 22, 1980: the Group Personnel Manager, Mr H.J. Selby met for consultation with Ballymena District Secretary of the Amalgamated Transport and General Workers' Union (ATGWU), Mr R. Hanna. After the meeting Mr. Selby wrote to Mr. Hannah confirming that there would be 150 redundancies at the plant.

December 23, 1980: a new agreement between the Company and Unions on "Method of Selection on Personnel for Redundancy" was reached which superceded all previous agreements. It read as follows:

> **"In principle every attempt will be made to effect the redundancy through volunteers. Where there is a shortfall, then nominations will be based upon overall Company service, by Department"**

1980 had been a disastrous year for BEL The strong pound and double figure inflation and interest rates compounded the

Company's problems sales revenue declined and BEL incurred a loss of almost £10m [Ballymena Guardian, March 19, 1981, p.5].

January 19, 1981: the Company announced that production of industrial yarns plus Polyamide and Polyester textiles be significantly reduced, if not abandoned. 800 jobs would be lost, leaving a depleted workforce of 1,100. The press release (embargoed until 4.30 p.m. and "on no account" to be released before that time) read as follows:

> **The continuing unfavourable trading environment for the synthetic textile and carpet yarn industries in the whole of Western Europe has had a serious adverse impact on the trading position of the operations of Akzo N.V. in this sector, comprising the Enka Group ("Enka"), including British Enkalon Limited ("British Enkalon") which continues to incur substantial losses. As a result measures have been announced within the Enka group of companies to adjust capacity in certain product areas and to concentrate production in those centres which can be economically justified.**
>
> **The general trading position of British Enkalon has also been seriously affected by the considerable increase in the strength of sterling, the recession in the United Kingdom textile industry, greatly increased imports especially from the United States and high interest rates. Consequently British Enkalon's position has deteriorated very substantially since the plan for modernisation of the Company's production facilities, supported by Enka, was announced in May 1980 and there is no foreseeable prospect of improvement. Accordingly, the Board of British Enkalon announces with regret that the future of the Antrim plant has had to be reviewed. The production of Polyamide and Polyester textile yarns will in any case be significantly reduced almost immediately and in all possibility phased out completely, as will the production of industrial yarns over a period of time.**
>
> **However, the possibility of continuing and somewhat increasing carpet yarn production in Antrim is being examined and discussions are taking place in the Government of Northern Ireland in view of the important social consequences of a complete shutdown of the plant, having regard to the overall economic situation and existing high unemployment in this area.**
>
> **In any event a substantial reduction in employment at Antrim and the Company's Head Office in Leicester is envisaged and some 800 jobs out of a total of 2,000 are expected to be affected in the near future. Discussions with employees and unions will take place taking into consideration the personal and social aspects involved.**

> A further announcement will be made in due course" [Schierbeek, January 19, 1981].

Antrim would now cease producing polymide and polyester textile yarns, and so its sole remaining product was carpet yarn. Despite these 800 further redundancies, Mr. Schierbeek remained "optimistic" [Ballymena Observer, January 22, 1981, p.1].

January 26, 1981: Mr Selby, Group Personnel Manager wrote to Mr Hanna of the ATGWU confirming that the Company would be making a large number of its Antrim employees redundant:

> **"As required under Article 49 of the Industrial Relations (Northern Ireland) Order 1976 (as amended), and following the meeting on Monday, 19th January, 1981, we must regretfully confirm, that, due to the reasons then outlined (ie. World recession, fibre production, over-capacity, strength of Sterling, cheap imports, etc., etc.) we are reluctantly compelled to embark upon a large-scale redundancy programme.**
>
> **You will understand that, until we are notified of the Government's reaction to our request for assistance, it is impossible to accurately determine the number and/or description of those affected (other than as already communicated, ie. 800 personnel).**
>
> **We shall, however, indicate at the earliest possible moment, contact you to arrange for consultation on selection procedures , etc., and trust you will appreciate that it is not reasonably practicable for us to be more specific at this point in time"** [letter from Mr H.J. Selby to Mr R. Hanna, dated January 26, 1981]

9.14.: BEL Issues Ultimatum to Government

Early 1981: Having had its proposals for cost-reduction rejected by employees, BEL announced that the factory would close on June 19, 1981, unless the Government provided a £8.5m subsidy. Mr. Lemmens, Site Manager, informed employees of the situation:

> **"without financial assistance we have no future and, therfore, as a precautionary measure we are obliged to herewith formally advise you, together with all other employees, that your employment will terminate with effect from June 19, 1981"** [Statement issued by Mr. Lemmens, Site Manager, "To All Employees"].

Although it had refused to accept Management's proposals, the workforce was commended for its "tolerence and cooperation" and Mr. Lemmens said he would inform employees of developments "as they arise" [Statement issued by Mr. Lemmens, Site Manager, "To All Employees"].

May 20, 1981: the Chief Executive and Chairman of British Enkalon, Mr R.L. Schierbeek, met union representatives who had requested such a meeting, because thay were concerned "over the lack of definite news about the future of the plant" [Ballymena Guardian, May 28, 1981, p.2].

Mr Schierbeek explained that the discussions with the Department of Commerce had lasted longer than the Company anticipated. The two sides had failed to reach agreement, and the Governmental Department had decided to commission a firm of Management Consultants to review the Company's plans and request for financial assistance. The Department had received the Consultants' report in early May, and discussions had continued throughout the month [Ballymena Guardian, May 28, 1981, p.2].

He told employees a conclusion would not be reached for several weeks, and, that accordingly, BEL was extending its deadline until August. The factory would close on August 31 unless the £8.5m financial aid package was forthcoming. 200 redundancies would be issued in June to workers in the textile section of the plant, regardless of level of Government assistance:

"in order to allow the talks to take their proper course and enable every avenue to be explored, the Parent Company (which of course is subsidising our losses and guaranteeing our trading liabilities) has agreed to continue those operations forming part of the survival plan for another two months after the 19th June.

Whilst the major part of our textile operations will close as scheduled in June, the continuation of the remaining operations until August means that the period of notice for those employees associated with the Survival Plan has now been extended until 28th August for hourly paid employees and until 31st August for monthly paid staff" [Schierbeek, Company Statement, May 20, 1981].

Despite massive unemployment in the Province, the Department of Commerce refused to fully meet BEL's request. It now remained to be seen whether BEL would carry out its threat.

9.15.: Closure is Announced

July 15, 1981: BEL announced that Antrim would close on August 31, 1981. It revealed that "the discussions with the Department of Commerce have not resulted in any viable proposal for the continuation of carpet yarn production" and, therefore, a decision had been taken to terminate carpet yarn production. By announcing this, the Company decreed that the plant would close. The Company staement said,

"It is with great regret, particularly in view of the important social implications, and the positive attitude of all personnel during the past difficult months .. [that] British Enkalon has no alternative but to close down the remainder of its fibre business" [Joint Announcement by Akzo NV (AKZO) and British Enkalon Ltd. ("British Enkalon"), May 25, 1981].

BEL had asked for £8.5m and the editorials of the Province's leading newspapers were highly critical of the Government's failure to subsidise with this "not .. extraordinary amount" [Belfast Telegraph quoted in Ballymena Observer, July 23, 1981, p.5]

9.16.: Enka Reverses Divestment Decision

Monday August 3, 1981: senior officials of the ATGWU led by the Northern Ireland Secretary, Mr John Freeman, met the Chairman of Enka, Dr. Hans-Gunther Zempelin. The possibility of retaining a reduced manufacturing facility was discussed.

The close-down process begun on July 15, was by mid-August at an advanced stage. The plant was virtually at a standstill and raw material stocks were very low. Then as Mr. Lemmens, Site Manager, explained:

> **"out of the blue....came the chance to salvage some 800 jobs for a reduced production plant"** [statement issued by Site Manager, Mr Lemmens, September 1, 1981].

August 12, 1981: A further meeting took place between Dr. H.G. Zempelin and the same union officials. After the meeting, Dr. Zempelin wrote to Mr. Freeman confirming that the plant would continue production until March 31, 1982, at least. He informed Mr. Freeman that the final decision would be based on an assessment in early 1982 of the plant's performance and market trends:

> **"as promised during our meeting in Wuppertal (i.e the headquarters of Enka) this afternoon, I am confirming the proposal we put to you for your consideration.**
>
> **Before doing so, however, I would like to reiterate once again the fact that from a business point of view Enka has to prefer to see the closing down of Antrim as decided by the end of the month.**
>
> **The following proposal is really only being made because of our concern for the social and economic consequences of a complete closure in the space of 10 months as so eloquently presented by you and your colleagues.**
>
> **During our discussion we finally proposed to continue after the end of August on the basis of the alternative plan presented by the Union and the Work Force until March 31, 1982. This would only be possible on the condition that the British Government is willing to compensate BEL for the losses incurred during that period up to a maximum of 1.5 Mio L. (sic. ie. £1.5m)**
>
> **We have conceded that we shall reassess the future chances of the remaining Antrim plant based on the above-mentioned plan in January/February 1982. A reconsideration of the**

closure decision is only possible if this reassessment leads to the conclusion that a positive result of the existing production programme can be achieved in the 2. quarter of 1982 and thereafter.

We understand that Enka will be given the opportunity to remove machinery and equipment not being needed for the alternative plan as and when required in other Enka plants.

Finally we should like to repeat that - since we are all under pressure of time - we are expecting your definite answer by Monday, August 17th, 1981" [letter dated August 12, 1981 from Dr. Zempelin, Chairman of Enka, to Mr. Freeman, Irish Secretary ATGWU]

The Company had agreed to accept the Survival Plan drawn up by the Unions and in return received a package of Government aid totalling £1.5m. Although the news was welcomed in most quarters, Mr. Sean Gibbons, secretary of the ATGWU's BEL branch, was highly critical of the officials of his own Union for offering the Company certain guarantees without consulting the actual workforce which would have to honour them [Ballymena Observer, August 27, 1981].

According to Mr. Gibbons' the leaders of his Union had committed the very offence which Union officials often level at companies:

"The leaders of my union negotiated in private with the company and the Government. Then they turned to the workers with a deal and said: 'Take it or leave it'.

There was no prior consultations with us, and no discussions at any level about the survival plan. Yet that is what trade unionism is supposed to be all about.

The union officials in the factory were kept completely in the dark, and then left to pick up the pieces and try to explain what was happening to the workers.

Now the factory is in turmoil and people are blaming the unions. Instead of being pleased about the reprieve for Enkalon, the workers are totally disillusioned and unhappy.

Employees will be grossly overworked here as a result, and many are going to accept redundancy rather than put their health and future at risk.

The wrong people are being praised for saving Enkalon. The union leaders got all the credit that should have gone to

> **the workforce. .. The only people I am criticising are the union hierarchy. They have sacrificed their principles, and they don't seem to care who they trample on in the process"** [Mr. Sean Gibbons, ATGWU Branch Secretary, quoted in Ballymena Observer, August 27, 1981].

Details of the new Survival Plan which would keep the plant in operation until March 1982, at least, were revealed to employees on September 1. The Plan required Antrim to manufacture the several products in addition to carpet yarn.

Mr Lemmens told employees that,

> **"If it can be shown that we have achieved our cost targets with a consistency likely to be maintained and further improved in the future and if the market situation suggests that sales and prices have improved sufficiently to break even in the second quarter, then it is possible that we could continue operating beyond March 1982"** [statement issued by Site Manager, Mr Lemmens, September 1, 1981].

He said that the vitally important performance evaluation would be made during February 1982.

December 24, 1981: The Personnel Manager, Mr. R. P. Dalton, sent the following letter to Mr. Hanna, District Secretary of the ATGWU:

> **Following our telephone conversation, and discussions with the senior shop steward here on site (i.e. Mr. Bryson), I wish to confirm our agreement that it will not be necessary to issue protective notice to all employees. We jointly agree that as we have been in consultation constantly over the past year, with regard to the Company situation, we are in compliance with conditions relating to protective notice. This has been confirmed by the Labour Relations Agency. We are also in agreement that the issue of such notice would be detrimental to morale, at a critical time for the Company.**
>
> **Our overall future will be reviewed in January/February and so we will delay the issue of individuals' notices, possibly to the end of January 1982, if necessary"** [letter from Mr. Dalton, Personnel Manager, to Mr.Hanna, ATGWU District Secretary, dated December 24, 1981].

Mr. Schierbeek in his Christmas message to employees said that the performance targets had been met but that market conditions remained very unfavourable and it was these external factors "which will eventually be the deciding influence". The employees at Enkalon, of course, had no control over these factors. It was clear that an up-turn in the man-made fibres market before February was necessary if the Antrim factory was to stay open [Mr Schierbeek quoted in the Ballymena Observer, December 23, 1981].

December 31, 1981: Mr. Dalton sent another letter to Mr. Hanna. It read:

> **"As you are aware our 7-month extension period obtained by the Unions, concludes on 31st March, but as yet we have not any indication as to the future of the Plant beyond that date. It is unlikely that we will have any indications as to continuance or otherwise before end of February/early March, 1982.**
>
> **We have been in constant consultation on this matter for some 12 months now and all employees as well as Union officials are fully aware of the above facts and therefore it is concluded that under Article 49 of the Industrial Relations (NI) Order 1976 we must re-confirm the possibility of closure and therefore redundancies by the end of March.**
>
> **We shall, as we have been on a regular basis, remain in full consultation with yourself and with the Irish Secretary of AT & GWU as to the ultimate outcome and seek your continuing involvement and assistance"** [letter from Mr. Dalton, Personnel Manager, to Mr.Hanna, ATGWU District Secretary, dated December 31, 1981].

February 5, 1982: the Site Manager, Mr. Lemmens, wrote to employees reminding them that decision-day was approaching, and that,

> **"in view of this continuing uncertainty and in consideration of your contractual right to notice we are obliged to place you on notice to finish your employment on or by 30th April, 1982, i.e. the last working day or shift on or before that date.**
>
> **This communication should be taken as your official letter of notice. However, it is our sincere wish that the decision will be positive and that the factory will continue to provide employment after the end of March. Should this be the case, we will be in a position to rescind your notice without delay and notify you accordingly.**
>
> **Your efforts over the last five months have been greatly appreciated and have helped us to reduce our losses. I must ask for your continued efforts, co-operation and assistance as the plant results are one of the factors that could imfluence the pending decisions.**

It is my intention to keep you all informed of developments as they arise" [letter issued by Mr Lemmens to employees on February 5, 1982]

February 16, 1982: BEL issued its "Reassessment Plan" which focused on market conditions. According to Management's market forecasts for textile and carpet Yarns, demand was still slack. Antrim manufactured two textile yarns - polymide and polyester, and demand for the former had "decreased substantially", implying "a rather serious market risk". However, polyester sales had exceeded even the workforce's expectations of August 1981.

Management's market predictions for carpet yarns were bleak for both the domestic and export markets. The Antrim factory relied primarily on Shaw, and three other carpet manufacturers, Caird, Homfray, and Lancaster. In 1981, Shaw had accounted for 50% of Antrim's output. According to BEL, these were customers "in a more or less distressed financial situation", and that "about half of the UK sales are potentially threatened and are principally at risk". Much of BEL's exports had gone to COMECON countries, but their financial difficulties, the USSR excepted, "were further accentuated by the crisis in Poland" leading to "drastic reductions in purchases, particularly from the GDR".

Based on these predictions, Enka proposed to cut the 830 workforce to 640. According to Enka, the workforce had been informed in August 1981 that the plant would stay open if it could "obtain positive results" from its existing operations for the 2nd quarter of 1982 and thereafter - without further assistance from the Department of Commerce - and, thus, be financially self-supporting. It became clear that Antrim was on the verge of closure when Enka forecast annual losses of £2.4 million at the Ulster factory. The Unions, in turn, argued that the plant's losses could not possibly exceed £2 million [Enka, Reassessment Plan, February 16, 1982].

9.17.: Final Decision Reached

By the end of February the Antrim plant's future had been decided. The beginning of Spring proved the factory's fall.

March 1, 1982: the Board of British Enkalon Ltd. announced the closure of the Antrim plant:

> **"The Board of Enka has announced that the Company will discontinue its operation at its Antrim factory by the end of March 1982.**
>
> **This decision had originally been taken with great regret in July of last year but had been suspended until March 31st, 1982 as an outcome of arrangements between the Department of Commerce in Northern Ireland, the Unions and the Enka Group, British Enkalon's majority shareholder.**
>
> **In accordance with these arrangements Enka has now reviewed British Enkalon's performance at the Antrim factory and it has become clear, that in spite of the considerable efforts, improvements and achievments effected by the Management and the Workforce, the Company would still run into further losses. After discussions with the Department of Commerce and the Unions, the Board has concluded there is no viable future for the continuation of the factory.**
>
> **Approximately 850 Antrim employees will be affected"** [British Enkalon Limited, Press Announcement, March 1, 1982].

March 10, 1982: Senior Shop Steward, Mr M. Bryson, telexed Enka's Chief Executive Officer, Dr. Zempelin, with news that "local influential politicians" would be urging the Government to keep Enkalon open. He asked whether the closure decision would be reversed if the Government were prepared to cover all losses for the next three years.

March 12, 1982: Dr. Zempelin in his telexed reply explained that Government aid would not alter the Company's decision:

> **"In May/June 1981 we negotiated a survival plan for the Antrim Plant with the British Government without success.**
>
> **In order to aleviate the social consequences of a total closure, we conceded to continue production at Antrim until March 31st, 1982, on a smaller scale. From the very**

beginning we clearly stated that in our opinion a chemical fiber plant of this size has no medium or long-term survival chance taking into account the existing and future international competition in this field.

Therefore, a take-over of all future losses of BEL can economically not be justified. This has also been expressed by Mr.Butler (i.e. Northern Ireland's Secretary of State for Industry) in our last negotiations.

We see no chance for further negotiations and, therefore, regard our decision as final" [Telex from Dr. Zempelin, Chairman of Enka, to Mr. Bryson, Senior Shop Steward].

March 23, 1982: the BEL workforce "telexed" Dr. Van Den Bos, Chief Executive Officer of Akzo, who had attended the discussions with the Unions in August 1981 and February 1982. The five page message rebutted the Company's arguments for closing the plant. Its conclusion was critical of the closure decision, and it recommended an alternative course of action:

> "We are forced to the conclusion that you have concentrated on certain facile but spurios arguments to ensure that British Enkalon closes and that you have chosen to ignore the only facts that exist, namely, that British Enkalon Limited is the most effective selling and manufacturing unit you have in the Group.
>
> We recommend that you retain British Enkalon Limited in operation and, indeed, expand its activities to capitalise on its proven ability to achieve cost-effectiveness". [Telex from BEL workforce to Dr. Van den Boss, March 23, 1982]

March 29, 1982: Dr. Zempelin replied in a three page letter supporting the closure decision:

> With all due respect for the considerable efforts by the Work Force, we regret to inform you that we see no basis for a reversal of the Board's final decision".

9.18.: The Company's View

Aware of the sensitivity of the situation the author approached Mr. Schierbeek who had once described the day of divestment decision as "the worst day in my life" [Ballymena Observer, July 23, 1981].

The interview provided confirmation of this sentiment:

> **"I would never want to go through it (closure) again".**

Newspaper reports and conversations reveal that Mr. Schierbeek was and remains a highly respected figure. According to the Ballymena Observer he was "the man whom everyone recognises as having done his utmost to keep the ailing British Enkalon factory operating" [Ballymena Observer, July 23, 1981, p.1].

In the week prior to the original closure announcement honours were conferred upon him by his native country and by the major university of his adopted homeland. He was appointed honorary Consul for The Netherlands in Northern Ireland, and Queen's University, Belfast awarded him an honorary Doctorate in Science [Ballymena Guardian, July 16, 1981, p.1]

1980 had been a disasterous year for BEL The strong pound and double figure inflation and interest rates compounded the Company's problems sales revenue declined and BEL incurred a loss of almost £10m [Ballymena Guardian, March 19, 1981, p.5].

9.18.1.: The Divestment Decision

Unlike most foreign subsidiaries in the UK, BEL was not wholly owned and UK nationals traditionally held 20% of its shares. This is a sound indication claims Mr. Scheirbeeck that BEL enjoyed considerable autonomy, and indeed it was the UK Board that "earmarked" Antrim for closure. Akzo was not prepared to continue subsidising the loss-making operation and this rendered closure inevitable.

Following the original closure announcement, middle management at Antrim together with the Trade Unions, united to prepare a Survival Plan. They received all requested information which covered unit costs, raw material costs etc.. Their report argued that Antrim could be viable. The Enka Board, having received approval from Akzo, withdrew the closure announcement and said that it would reconsider Antrim's future in March, 1982. The Northern Ireland Government agreed to meet any losses incurred during the seven month extension period.

Although Antrim met its targets during the trial period, further deterioration in the market precluded retaining the Antrim factory. Mr. Schierbeek said that Mr. Freeman who has led the union delegation opposing closure, and the plant's senior Shop Steward, Mr. Bryson, were obviously dejected by the company's final decision but both accepted that BEL had no option given the adverse market conditions.

9.18.2.: Codes of Conduct and Employee Disclosure and Consultation

All senior Akzo managers are well-briefed on codes of conduct for multinational enterprises, Mr. Schierbeek said. They are advised to view the OECD's Guidelines as a minimum below which Akzo's standards should not fall. Consulting the actual text of the Guidelines during the divestment process had been unneccessary, as Mr. Schierbeek knew exactly what the Guidelines recommended.

His criticism of the "Vredeling Proposals" was the mild comment, - "they do not represent the ideal framework and are rather one sided (i.e. in labour's favour)". He restricted his remarks because his knowledge of the revised Draft Directive was imperfect.

BEL more than fulfilled UK legal requirements on notification of redundancy when closing Antrim, according to Mr. Schierbeek. It provided employees with all requested information, and consultations led to the original divestment decision being rescinded.

9.19.: The Union's View

According to Mr. Hanna, the Ballymena District Secretary of the ATGWU, Management and Unions met frequently and BEL "totally involved" the unions in the plant's affairs. He described BEL as "a very forward looking Company" whose employee disclosure and consultation procedures were "absolutely satisfactory". [interview with Mr. Hanna, December 21, 1984]

Following the original closure announcement, local Management and Trade Unions worked together on preparing a "Survival Plan" for Antrim factory, - indeed, Mr. Hanna describes this attempt to save the plant as "a joint exercise". He has no doubt that BEL Management strove to save the factory, but, he believes, Akzo's Board of Directors decided in 1980 to close Antrim.

Mr. Hanna salutes BEL's conduct prior to, and during the divestment process, believing that the Company exceeded the minimum legal UK requirements. He was unfamiliar with the OECD's Guidelines and so he did not refer to them in his dealings with the Company.

His sole complaint is that BEL's terms of redundancy were "disappointing".

9.20.: Epilogue

The withdrawal of BEL signalled the departure of the town's sole major employer to Antrim's 30,000 inhabitants. Antrim now had the highest unemployment rate in Ulster, which itself was double the national average [Ballymena Observer, March 4, 1982].

In mid-June 1985, three yeears after the closure of British Enkalon's Antrim factory, Enka announced that it had donated £1m to establish the Enkalon Foundation "to improve the quality of life in the Province and in recognition of the twenty years co-operation between the company and the people of Northern Ireland". Charitable projects in Ulster will receive £100,000 each year from the new trust fund.

The announcement followed a remark at the time of closure by the Communist Secretary of the Amalgamated Transport and General Workers Union, Mr. Freeman, to Dr. Zemperlin the Chairman of ENKA that £1m would be appropriate compensation for the Company to leave the people of Northern Ireland.

Mr. Freeman, said:

> **I have never known such an immediate and sincere response to such a request, especially since the company had nothing to gain from it. It is further evidence of its concern for Northern Ireland and the value it places upon its reputation as a good employer, proven often to the people of Antrim"** [Inter-City Bureaux, p.2-3]

ENKA's gesture of goodwill was greatly appreciated. The Belfast Telegraph leader writer commented:

> **"Multinational companies are seldom noted for their generosity, particularly when they have nothing to gain, but the Dutch-owned ENKA group has proved a notable exception.**
>
> **..The publicity given to this gesture should alert others to their reponsibilities, and give capitalism a better name. There is nothing more demoralising for workers, and the community they come from, to find out that a big employer has suddenly cut and run, with a minimum of redundancy payments.**
>
> **..The gift is a tribute, too, to the Northern Ireland work-force, which had no responsibility for the market forces which brought about the closure". [Belfast Telegraph, June 18, 1985]**

9.21.: Conclusions

9.21.1.: Divestment Theory

It was seen in Chapter 3 that Boddewyn [1983] has identified three theoretical models to explain foreign divestment: condition-based theory; motivation-based theory; and, precipitating-circumstance based theory. There were no new men to prompt divestment in the two cases examined, so the third model does not apply to this case study. There was clearly sound motives for closing both plants, but as the author suggested in chapter 3, poor performance and losses merely signal the need for divestment, they hardly cause it. Thus, the two closures examined here here were in direct response to adverse changes in the business environment.

Producers of man-made fibres in Europe became uncompetitive almost overnight. The cause - soaring oil prices. Rivals in the US cushioned by a cheap energy policy, had a field day demolishing once healthy European rivals. The fate of Antrim and Dundonald, opened in 1963 and 1965 respectively, was sealed by the 1974 oil crisis. It was to be only be a matter of time before both companies disposed of their entire European man-made fibre manufacturing operations, including, of course, Antrim and Dundonald.

Such a huge increase in the price of basic raw materials had been unforeseen and lower cost manufacturers won the falling number of orders. In Europe the consequences were all too apparent. Throughout the continent modern plant was closed down, but the industry was still beset by excess capacity. The financial consequences were immediate and grave. 1975 was as disastrous a year as 1974 had been successful.

The oil crisis was the root cause of the Antrim and Dundonald closures, but firms were reluctant to abandon manufacturing facilities that were only ten years old, and so closure was postponed in the false hope that market conditions would improve.

9.21.2.: The Divestment Decision and Employee Disclosure and Consultation

The divestment process is reputed to take 18 months on average, the review process accounting for nine months. Monsanto had conducted a serious appraisal of European operations two years before its closure announcement of May, 9, 1979. The gravity of the situation was abundantly evident in October, 1978, and judging from the US chairman's letter to shareholders, the decision to close Dundonald had been taken in April.

The Canadian MNC, Massey-Ferguson, had announced in February 1979 the closure of its plant located just a few miles from Dundonald. As will be seen in Chapter 12 the conduct of the Canadian MNC was exemplary, while the US employer reflecting a culture less partial to employee disclosure and consultation came in for criticism by shop stewards.

According to the former Chairman of Monsanto PLC, the divestment decision had been made in London. The current Chairman admits it is unlikely that UK management could have reversed the decision without consulting the US parent, but Trades Union officials were denied access to US Management, despite frequent requests.

Such encounters may be powerless to avert closures, but can prove beneficial to both parties nevertheless. They allow Union officials to claim that all options to save the plant have been exhausted, and to enter redundancy negotiations rather than mere face-saving opposition to job losses. MNCs get the opportunity to project a wholesome image of caring capitalism, rather than one of callous profit-maximising and disinterest in the welfare of the community. Direct Union contact with foreign decision-makers was crucial in the Antrim case, and both community and company reaped the benefits.

The divestment decision process of Akzo's subsidiary Enka is unique among those examined in this thesis. The workforce had refused in November 1980 to accept proposals which Management deemed necessary to ensure continued production, eg. short-time working, and job losses, and the phase-out of certain products.

Early in 1981 British Enkalon Ltd (BEL) disclosed that Antrim would close in June 1981 unless Government aid was forthcoming. This deadline was extended to August to allow further discussions but by July the Government had turned down BEL's request for an £8.5m subsidy.

On July 15, BEL confirmed that Antrim would close by the end of August. Trade Union officials challenged the company's judgement and in this instance their arguments received serious consideration. After consultations with British Trades Unionists at Enka's Headquarters in Germany, the divestment decision was revoked and it was announced that production would continue until March 31, 1982, at least, - a final decision being made in February/March 1982.

Market conditions deteriorated further during the seven month extension period and on March 1, 1982, BEL announced its final decision. Antrim closed at the end of the month. No one in Ulster could have been shocked by this latest closure announcement.

Akzo's subsidiaries - Enka, and BEL - more than satisfied UK legal requirements of redundancy notice. Employees at Antrim were entitled to at least 90 days notice of redundancy; they in fact received 12-14 months notice, having been first notified in early 1981. Closure at this plant was conducted responsibly and in accordance with what would be expected of the home country's national culture.

The Netherlands' reputation as a "Feminine" caring country (see Chapter 5) was reinforced by Akzo's conduct. The Dutch MNC had acted considerately throughout the closing process at Antrim. When the firm subsequently donated one million pounds to Ulster it was further enhanced and the gesture evoked the highest praise from the Province's top Trades Unionist.

A fundamental behavioural difference emerges from an analysis of the US and Dutch MNC's conduct. The US MNC, Monsanto, ruthlessly exploited loopholes in Section 4 of the 1975 Employment Protection Act in order to minimise employee disclosure and consultation. The Dutch MNC, Akzo, - in conformity with Dutch national culture - conformed to the spirit of the law.

The Chairman of the American based firm's UK subsidiary correctly dismisses the Guidelines as "nothing exceptional", but Mr. Schierbeek of the Dutch MNC states categorically that the Guidelines are regarded as a floor above which it strives to exceed in its daily business.

However, length of notification of redundancy alone hardly seems a satisfactory measure of employee disclosure and consultation. Trades Union representatives want an opportunity to discuss the merits of divestment decisions with the actual decision-makers. Instead, as some other cases show, they are deprived of this, and so-called "consultations" are reduced to haggling over redundancy payments with Managers powerless to reconsider, let alone reverse the closure decision.

In this case, the Antrim workforce and its Trades Union representatives were kept well aware of the uncertainty surrounding the factory. When it was confirmed in July 1981 that Antrim would close in August, an irreversible or final decision had not been made. Proof of this is, of course, the seven month extension period.

The extent of centralised decision-making assumed in the "Vredeling Proposals" is apparently slightly at odds with Akzo's decision-making structure. Mr. Schierbeek, CEO of BEL, was empowered with a degree of authority uncommon in Subsidiary Management of MNCs. For example, he acted independently, he claims, when issuing the threat to close Antrim in 1980. He therefore had decision-making powers far in excess of those which "Vredeling" attributes to subsidiary Management. He did not merely implement Parent Company decisions, but rather, he apparently shaped them.

This case supports the hypothesis that a firm's divestment strategy is closely related to the culture of the "home" country. Akzo's conduct in the BEL case appears beyond reproach. Similarly, Dutch labour legislation is recognised by some as one of the most progressive among EEC countries. The authors of the "Vredeling Proposals" borrowed heavily from Dutch labour legislation, and, significantly, Mr. Vredeling is a Dutchman.

CHAPTER 10

THE DOMESTIC APPLIANCE/CONSUMER ELECTRONICS INDUSTRY

10.1.: Introduction

Unlike the other industrial case studies included in this thesis, the three firms examined in this chapter produced quite different products, sewing machines, radio cassettes, and washing machines. This case reviews three plant closures in three of the Home Countries. In 1979, the US MNC, Singer announced the closure of its huge sewing machine plant in Scotland. The following year Northern Ireland suffered another body-blow when the German MNC Grundig decided to cease radio-cassette production. In 1981, Hoover of Ohio chose to continue floorcare-equipment production at its Cambuslang factory, at the expense of its Perivale, London plant. These three closures involved a direct loss of 5,000 jobs.

As was seen in Chapter 5, Germany's national culture bears two of the four features which foster secrecy, rather than disclosure. The United States, on the other hand, possesses three key attributes encouraging disclosure; but for the fact that it is a "masculine" and not a "feminine" country it would carry all four characteristics

If corporate behaviour reflects national culture, the German MNC should disclose the least information to employees. The behaviour of the two US MNCs should be fairly similar. Considerable disparity between the disclosure practise of the two US MNCs would suggest national culture is not a key determinant of corporate behaviour.

SINGER

10.2.: Origins and Success

The Singer Company was founded in 1850 when Isaac M. Singer invented the first practical sewing machine. This technical advantage was short-lived, however, and by the end of the decade Singer was selling only half as many machines as its main rival, Wheeler and Wilson. This ratio was maintained until 1867 when Singer finally took the lead and became the unchallenged leader of the sewing machine industry throughout the world.

This phenomenal success was a tribute not only to Isaac Singer the inventor, but also the failed actor who had never lost his sense of the theatrical, and who captured the imagination of the American consumer. The contribution of his partner, New York lawyer, Edward Clark, was also considerable. It was he who foresaw the benefits to the Company of demonstrating and servicing its product in its own sales rooms. He also pioneered Hire Purchase, which allowed people to purchase a sewing machine that would otherwise have been outwith their budget. The Singer Company was the first great exponent of creative selling, American style.

By 1945, the name Singer had been synonymous with sewing machines for almost a century, and the Company was selling more machines than all its competitors combined With market conditions of high demand, and Singer's virtual monopoly of supply, there was a tremendous boom, in which the Company could sell machines as fast as it could produce them. Singer's strength was based upon its product and sales organisation, but the latter would prove a severe handicap after the War, inflating the price of domestic machines when Singer was struggling to meet a ferocious challenge from low-cost rivals.

10.3.: Competition and Singer's Decline

But by the following year Singer was no longer enjoying a monopoly, and competition was intense The Company was exposed as having failed to move with the times. Like some football managers or pop' groups that have produced a winning team, or a succession of hits, it stuck rigidly to the successful formula, but just as players age and tastes change, so too do plant and market conditions. Singer had been lulled into a false sense of security and during the 1950s, it continued to market machines of nineteenth century design, manufactured with nineteenth century tools, in similarly outdated buildings.

In 1957, sewing machines accounted for 94% of the Company's total sales, with virtually all domestic machines being sold in Singer's own retail outlets. Singer was therefore highly dependent on a single product, and one which it had failed to develop and cater for the modern consumer. This alone made Singer very vulnerable to the competition which was emerging in the domestic sewing machine market; the condition exacerbated by the location of virtally all of the production facilities in high-wage countries, and by the Company's reliance on one plant in particular - Clydebank where almost half of its machines were produced.

To make matters worse, the cost of maintaining sales-service centres was as high as 50% of retail prices, and these were a luxury the firm could not afford. Whereas, when the sewing machine was first launched on the market, and no none knew how to operate it, Singer needed trained staff to demonstrate the unknown to confused customers, but once established, the brand name "Singer" sold the machine, and operating instructions were readily obtained from friends or neighbours, if the manual was found too complicated. In short, after the war there was nothing to suggest that Singer sold more machines because it had its own shops, than it could have done had independent retailers sold them. On the contrary, they would have sold them more cheaply, and there would have been a consequent increase in demand. In the early days Singer's other advantage in having its own shops was that it could offer credit, but now hire-purchase was universal.

Competition came first from Pfaff of Germany, Necchi and Vigorelli of Italy, and Elna of Switzerland Eventually, in 1954, Singer responded to this threat and launched a new range of advanced and lightweight domestic models in pastel colours. This retaliatory measure dealt a significant blow to these European producers, but in the meantime, the Japanese had stormed world markets with low-cost domestic machines making substantial inroads into Singer's markets.

Before the War, Japan had produced virtually no sewing machines and Singer had a 90% share of the Japanese market but in 1945, US General Douglas McArthur, responsible for rebuilding the war-torn Japanese economy, decided that the vanquished Japanese should produce sewing machines instead of munitions. Singer was forbidden to re-enter the Japanese market. The irony was that Singer patents and plans were provided along with US capital investment to establish the industry in Japan. By the 1950's Japan had made great progress, and by 1957 over 300 companies were producing over two million domestic machines.

The Japanese firms succeeded where their European counterparts failed. Singer's US market share for domestic machines plummeted from 66% in 1950 to 33% in 1957, and to make matters worse the latter year saw a sharp decline in the US market. Singer's market share fell to approximately 35% in most foreign markets.

The decline of Singer in the domestic sewing machine was in marked contrast with the Company's continued dominance of the industrial sewing machine market.

In 1957 industrial sewing machine output worldwide was 400,000 units, of which Singer produced 175,000 units (44%). The Company still dominated the US market with a 35% share. Its main rivals were 6 major American companies, but the largest of these had only a 14% share.

It was, therefore, the poor performance in the domestic sewing machine markets that accounted for Singer's 25% drop in profits between 1951 and 1957, and the drop in earnings on total declared assets from an already low 6.1% in 1951 to 3.3% in 1957.

10.4.: Company and Plant, 1958-1975

It was against this background that a new president was appointed on January 1, 1958. Forty-two year old Donald F. Kircher took over "the stumbling sewing machines giant... at the time of its greatest crisis" [Palmer, December 31, 1975]. He correctly recognised that the root cause of Singer's difficulties was its Management, which had "simply congealed like cold porridge", not competition 'per se' [Thackray, June, 1966]. This accusation, as shall be seen, could never be levelled at Kircher; he was quite the reverse - hyperactive, particularly when it came to acquiring companies. Kircher's priority was not diversification, but the revitalisation of the sewing machine industry. This demanded major changes at Clydebank.

It has already been noted that Singer's difficulties were due largely to its poor performance in the market for domestic machines. Between 1948 and 1952, 79% of Clydebank's total production was of domestic machines. It would seem then that Singer's oldest factory outside the US partly contributed to the Company's problems. It shall now be seen why this was the case.

Kircher was aware, that the Scottish factory as it stood was a monument to Singer's period of masterly inactivity - a relic of the nineteenth century. Machine tools, bought for opening the factory at Love Loan in 1867, were still in use at Clydebank during the 1960's. In 1867 feudalism prevailed in Japan, yet by the 1960's low-cost Japanese sewing machines, and a host of other manufactured goods, produced by cheap labour, often with the most advanced technology, had erupted on to the market. Japan had become one of the world's most advanced economies. Major changes were necessary, if Singer and its Clydebank facility were to compete successfully against such a rival. The plant was to be reorganised and revitalised.

It was felt that new faces were needed to implement the proposed changes. In the period between 1912 and 1962 there had been only four Managing Directors at Clydebank; all but one were local to the area. Managerial positions were filled by men who had worked their way up through the factory's ranks This pattern was now to change. In the period 1962-70, there were four Managing Directors and all but one were Americans.

In 1961 a Forward Planning Unit was established and staffed by Americans from the Parent Company. Its task was to pinpoint and remedy the defects within the factory, and devise a campaign of modernisation which would reduce costs and increase productivity.

The FPU decided to decentralise the plant and introduce Divisional control, in a bid to improve communications and to develop cost-consciousness and authority among middle and lower Management.

Previously there had existed more than fifty departments, all centrally controlled, but now six independent divisions were introduced: Cabinet, Needle, Electric Motors, Process, and Domestic and Industrial Machines.

Under this set up, while the Company had a clear picture of each division's performance, it did not know exactly how much it cost to produce one complete sewing machine. Accordingly, in July 1964 the Divisional structure was replaced, and the factory was basically divided into two Groups, the Consumer Products Group (CPG) and the Industrial Products Group (IPG). The CPG manufactured only domestic machines, the IPG only industrial models As a result, Singer could better assess the efficiency of the Clydebank plant.

Kircher had also recognised the dangers involved in Singer's excessive reliance on its nineteenth century Scottish plant. He decided that this should change:

> **"We are scaling down Clydebank somewhat by transferring one line to Bonnieres. Clydebank will still be our largest factory, but the others will be much closer in size than in the past"** [quoted in McDermott, 1982].

Clydebank and Bonnieres were to produce 'middle-of-the-line' domestic sewing machines, but demand in Europe and the US was increasingly either for the best, or the cheapest models produced at Karlsruhe and Monza, respectively. Therefore the Scottish and French plants produced domestic machines with the least market potential.

Bonnieres had a great advantage over Clydebank, however, as it was closely integrated with Monza, Karlsruhe, and Wurselen, in Germany. The closure of any one of these plants would have upset production in at least two of the others. Clydebank, being a 'serious anomaly' in its singular self-sufficiency, was more vulnerable to closure.

Between 1961 and 1965, £7.8m was invested in Clydebank, most of it in the CPG which continued to produce models designed for the European and American markets. Singer's return on its investment was determined by the level and nature of demand in these markets.

During the same period, investment in the IPG was almost negligible. This appeared very ominous to the local work force who had been informed that a new factory was being built at Blankenloch in Germany, which would produce only industrial machines; it opened in 1967.

The IPG at Clydebank remained housed in a six-storey Edwardian building which was unsuitable for manufacturing any sewing machines, never mind heavy cumbersome models. From 1964 on, the IPG was trapped in a "Catch-22" situation: unless a profitable position was reached there would be no investment; unless there was investment, a profitable position could not be reached. As early as May 1965, employees were warned that the IPG's future was uncertain [Singer Speaker, May 1965].

By the 1960's it was evident that Clydebank was no longer consistently profitable. During the period, 1962-71, it made a profit of only £4.6m, and there was considerable fluctuation in profits from year to year, as Table 10.1. shows.

Singer was producing industrial machines at two factories in

Europe by 1962, - at Clydebank, and at the brand new factory in Blankenloch.

In 1972 the US market peaked, and two years later the European market stopped growing. As demand from these depressed markets dropped, the closure of Clydebank grew nearer. An indication of their importance is that in 1975 they accounted for 85% of the factory's domestic sewing machine output and 43% of its industrial machine output. The growing Third World markets were now being served by new plants which Singer had opened in the developing countries. The Company was clearly reducing the strategic importance of its European operations and of Clydebank in particular.

This was indicated by the drastic reduction in the Scottish plant's labour force from 15,866 to 6,400 during the decade 1960 to 1970.

In 1975, the IPG was still producing machines in conditions which rendered profit-making well-nigh impossible, and indeed it had not known a single profitable year in the 1970s In that year the factory sufferred a loss of £1.3m.

From what has been seen so far, the closure of the IPG seemed imminent, but in 1975 Singer announced that Blankenloch would be closed and production transferred to Clydebank, thereby creating 500 jobs! There was sound logic behind this apparent surprise decision: closing Clydebank's IPG would have involved considerable losses in write-offs, whereas the modern German plant could be sold The transfer of plant was completed within a year and was fraught with difficulties. Management later described it as "a mistake before we even started"

The machinery had satisfied German Health and Safety requirements but it failed to comply with British standards. The Health and Safety Inspector, who surveyed the factory at the Unions' request, concluded that, in addition to 100 machines from Blankenloch, a further 4,000 failed to meet the required standard Singer was fined £5,000 for this breach of regulations.

Table 10.1.: Performance data on The Singer Manufacturing Company Ltd. (ie.the Clydebank factory)

Year	Sales	Pre-Tax Profits	Post-Tax Profits	% Return on Investment
1962	n.a.	74.5	52.7	0.9
1963	n.a.	246.8	246.8	2.9
1964	n.a.	58.1	58.1	0.7
1965	n.a.	(889.0)	(889.0)	negative
1966	n.a.	(117.0)	13.0	negative
1967	11,826	(183.0)	(294.0)	negative
1968	15,478	1,388.0	1,388.0	13.5
1969	19,463	2,516.0	2,516.0	20.0
1970	17,219	1,111.0	766.0	8.3
1971	18,445	1,312.0	738.0	7.7

Source: Company Accounts; Extel Statistical Services.

In 1958 Kircher had taken over a profitable single-product Company, but some of its major markets were close to saturation although demand was still rising. Therefore the principle of diversification was unquestionably correct.

Between 1962 and 1973, he acquired some 22 companies in such diverse fields as furniture, housing, banking, valves, heating and air conditioning, power tools, business machines, aerospace and tufted and knitting machinery, and even a German mail order firm, Friedrich Schwab. But in 1958 Kircher had stated that Singer should only diversify into those industries with features similar to the sewing machine business. Some of the above acquisitions clearly did not comply with his guidelines.

As a result of this activity, sewing related products accounted for only 30 per cent of Singer's sales in 1973 compared to 94 per cent in 1957, and profits had climbed to record levels, reaching a peak of $94.5m. This apparent prosperity disguised the fact that Kircher had made some very unsound investments.

Many of these firms had been acquired at the wrong time, and at the wrong price. For example, Friden Ind., which manufactured electro-mechanical calculators, was bought at a cost of $182m. just as electronics were about to revolutionise the market. Then in 1968, General Precision Equipment was acquired at a cost of \$450m. for its aviation electronics technology, but shortly afterwards the aerospace boom collapsed.

To finance these acquisitions, Singer's long term debt rose from \$86m, between 1962 and 1974. In the latter year, only twelve months after the Company's profits had reached an all-time peak, Singer reported a los of \$10m! The Company had not made a loss since 1917, when it had to write off properties in Russia that were confiscated during the Revolution.

Although Kircher had improved the efficiency of Singer's world sewing machine operations, it was evident that his diversification policy had plunged Singer into even deeper trouble.

By 1975, Singer's total debt exceeded \$1.25 billion, its diversification policy was in tatters, The Company's banks were by now disillusioned.

The resignation of the autocratic Kircher created yet another problem. He had not identified his sucessor and the banks demanded that the next Chief Executive be experienced in Finance. None of Singer's Vice-Presidents was thus experienced.

10.5.: The New Men

In September 1975 Joseph Flavin the Chief Executive Vice-President of Xerox, was first approached, and in December he was appointed President He did not have any experience of the sewing machine industry but in other respects he was exceedingly well-qualified to tackle Singer's problems An accountant by training, he had spent most of his life in Finance, - with IBM and Xerox, - and both these firms were very successful in business machines, Singer's main disaster area.

Flavin's first priority was to eliminate money-losing ventures, particularly business machines which were severely draining earnings. Singer incurred a $414.4 million write off divesting this product range, and this disposal largely explains the Company's $452m loss in 1975.

Once again, Singer was highly dependent on its sewing related products, and ironically the Company's domestic sewing machine operations proved highly profitable in 1975. The CPG at Clydebank had not contributed to this success.

In addition, the IPG at Clydebank had been largely resposible for the Corporation's worldwide industrial sewing machine operations reporting a loss of $10 milion.

The Clydebank factory was a massive drain on Corporate resources. Its role in the Corporation's strategy had been greatly reduced during Kircher's reign, and the Company was no longer dependent upon it. Would Flavin try to return Clydebank to profitability, or would divestment be the preferred strategy?

10.6.: Clydebank: the final years

During the Blankenloch transfer, Flavin came to Clydebank on a fact-finding mission. His main concern at the time was reducing Singer's debt and ridding the Company of its less successful acquisitions. He realised that the Sewing Machine business needed to be rationalised. Clydebank management attached great importance to Flavin's first visit on St Andrew's Day, 1976, and prepared a comprehensive report on the factory.

Ian MacGregor, a former Director of the Company, and now Chairman of the National Coal Board informed the author that:

> **"....due to low productivity and high costs the plant (Clydebank) was very vulnerable. So when Singer's set out to rationalise, it was very high on the list"** [McDermott, 1982].

The report prepared for Flavin shows, however, that despite a lack of investment, there had been a significant increase in productivity since 1967. Given the age of the plant's capital equipment this was quite an achievment. As of November 1976, the total number of machines in the factory was 7,512, of which: - 862 were over 50 years old, - 128 were over 75 years old, - 7 were over 100 years old.

The "Flavin Report" also revealed that despite the age of the machines, much less was added to the factory's fixed assets than was written off in depreciation. In 1974 investment was only 42% of depreciation, and in 1975 it was only 40%. In 1976 the level of investment equalled the value of depreciation.

In 1976, the Singer Organisation made a profit of $74.2m., and in 1977 the profits rose to $94.2m. It appeared to some commentators that Flavin had saved the Company and according to the "Wall Street Journal" he had given a "Textbook example of saving a firm from near disaster" [Wall Street Journal, date of publication unknown].

Clydebank, however, remained the thorn in Singer's flesh. Instead, Clydebank, which had returned a loss of £2.6m in 1975 (the IPG alone lost £2.2m) lost £680,000 in 1976. The following year Larry Neely, an American, replaced John Wotherspoon as Managing Director, Wotherspoon being made Chairman of Singer U.K. In that year, Clydebank's loss was $2.8m and this could be directly attributed to the IPG which reported a staggering loss of $8m. The CPG, on the other hand, which had received some investment, made a profit of $5.2m.

By the end of 1977, it was hard to believe that the Clydebank factory had once been the hub of the Singer empire. Its ancient buildings served as a powerful symbol of a by-gone age, and dwarfed the smaller, newer factory unit which housed the CPG. This indeed was tangible proof of the Company's failure to invest in Clydebank Such an ill-equipped and inappropriate facility was no match for modern Japanese producers. The town had viewed with dismay the workforce dwindling from over 16,000 to under 5,000. Redundancies had been the order of the day for almost twenty years, and morale fell. Closure seemed inevitable, but the Shop Stewards were determined to fight for the plant's survival.

The US and European markets were of vital importance to the Clydebank factory, for together they had accounted for 80% of its production. Between 1972 and 1979, the American market for domesic machines fell by 50% and the European market began to show a significant drop in the late 1970s.

As a result of this slump in domestic sewing machine sales, the Singer Company had "serious overcapacity" in Europe and the US. The first step of a "restructuring programme" to solve this problem was the closure of Clydebank [Singer Shareholders' News letter, Third Quarter, 1979]. The CPG of the Company's oldest factory in Europe had the lowest productivity of Singer's 28 plants, and unlike the others in Europe it could be closed without disrupting production elsewhere. Clydebank was an anachronism. Its productivity in the late 1950s was lower than in 1913.

The result of lack of investment was clearly illustrated in the IPG at Clydebank. Management recognised that productivity was low and costs were high, but instead of providing investment, it expected the workers to find a solution. In 1977, the year Queen Elizabeth celebrated her Silver Jubilee, the IPG, operating Victorian tools, and functioning in an Edwardian building, reported a loss of $8m.

Even the CPG which had received almost all of the £10m invested at Clydebank did not get sufficient resources. 50% of the CPG's tools which had been in use during the 1950s were still in use in 1976. This lack of investment and a demoralised workforce explains the CPG's productivity. During the late 1960s, Singer management constantly broke its promise not to introduce compulsory redundancies. As the labour force contracted, many of the remaining workers believed that the Company had already decided to close the Clydebank factory. By doing so, they credited management with a long-term strategy it did not possess.

10.7.: Employee Disclosure and Consultation

March 13, 1978: John McFadyen, (the Factory Convener), and his deputy, Hugh Swan, travelled to London to meet National Officers, including Gavin Laird of AUEW. Two days later, these officials discussed the factory's future with Mr. Bruce Millan, the then Secretary of State for Scotland, and he indicated that Government money was available, but so far Singer had not approached the Government.

March 18-19: the Labour Party in Scotland held its annual conferance over this weekend. A lobby of Shop Stewards from the Clydebank plant attended to convey the gravity of the situation at the factory. They discussed the matter with the then Prime Minister, Mr. Callaghan, who promised to raise the matter with President Carter, during their forthcoming meeting in America.

March 22, 1978: Trades Union representatives met Mr. Ed Keehn, President of Singer's European Division, Sewing Products Group. According to the "Press handout" issued by the Unions after the meeting, Mr. Keehn had agreed to the Stewards request:

> **".. that prior to any decisions being made relative to the future of the Clydebank factory and its total workforce, and in light of the fact that Management is currently conducting a World Wide Survey of its products manufacturing base and selling outlets, the Trade Unions should be given an opportunity to -**
>
> **a) examine the draft proposals srising from this report**
>
> **b) be given the opportunity to view the alternatives contained within the report, as these alternatives may**

affect the Clydebank plant, and

c) be given a commitment that no decisions will be taken by Singer Corporate Management on the results of this survey prior to the foregoing procedures being carried out".

The statement does not reveal, however, that during this meeting, Keehn assured the Union delegation that the Clydebank plant would not be closed.

In the first six months of 1978, Singer had reported a loss of \$3.4m. on industrial sewing machines. Clydebank's IPG, which produced half of all Singer industrial machines, was "mainly to blame".

Singer had three plants producing industrial machines (Clydebank, Elizabethport, and Utsunomiya in Japan) and operating at 34 per cent capacity. Clydebank's IPG operated at 35 percent capacity, and to make matters worse, many of its machines were not being sold, so the level of inventories was involuntarily increased. Corrective measures were urgently required.

April 4, 1978: a Union delegation met Mr Keehn who had discussed the Clydebank factory with Flavin during their recent meeting at Company headquarters in Connecticut. Keehn informed the Stewards that Flavin had agreed to visit Britain in June to discuss the factory's future with Government Ministers and the TUC.

On June 22, 1978, Flavin announced his plans for the Clydebank factory. These are outlined in his letter, to its employees, which is reprinted below:

"Dear Fellow Employees:

I am sure that you are aware of my visit this week to Scotland and London in order to discuss the future of the Clydebank Factory with senior government ministers, civic leaders, trade union officials and local management. I would like to share with you some of the facts and conclusions of these conversations.

For a number of years demand for all sewing machines in the US and Europe, Clydebank's principal markets, has gone down. As a result we face a serious problem of excess capacity. The future, unfortunately shows no sign of change. Thus, we have spent many months exploring ways to remain viable in Clydebank, to protect as many jobs as possible as we can under the circumstances, and to remain the leader in sewing worldwide.

With the help and cooperation of our unions and managers, we can accomplish all of this As we see it, the mission for Clydebank's future must be one which permits most cost-efficient manufacture based on fewer products, with high volume and streamlined production methods. We are prepared to spend about £8 million in updating operations, restructuring of work force and tooling for a new household sewing machine - one that will give Clydebank a vital new role in developed markets. However to accomplish these goals, will require a streamlining of consumer sewing operations, phaseout of industrial sewing machine and needle manufacturing with concentration on household needle production only.

This program will take some five years, after which time, by a continuing and evenly spread programme of natural attrition, early retirement and minimal redundancies the factory will be operating with a labour force of around 2,000 people. It is our belief that this course of action and no other can ensure the continuation of the Clydebank Factory.

I do not expect the loss of jobs to be welcomed and I do not enjoy having to carry this news The main point which I wish to leave with you is that we believe this program can succeed and it will, as long as we can count on the cooperation and understanding of the Clydebank workforce which has contributed so well to our history".

According to newspaper reports, the whole factory had faced closure, and it was only the personal intervention of the then Prime Minister, Mr. Callaghan, in talks with President Carter, that saved the CPG and 2,000 jobs. Mr. Gregor MacKenzie, MP for Rutherglen, who was Minister of State for Scotland, and Mr. Callaghan's Parliamentary Private Secretary, states that one cannot be sure whether Singer did plan to close the entire factory, but what is certain is that there was considerable pressure on the Company to retain its manufacturing facility at Clydebank.

Flavin's plan involved, however, reducing the labour force of 4,800 to 2,000. This was unacceptable to the Unions and even though Flavin had stated that, "this course of action and no other can ensure continuation of the Clydebank factory", they demanded time to review the Company's proposals. Having promised (see March 22 "Press Handout") not to take any action until the

Unions had considered its policy, management was forced to concede.

The Company agreed to delay implementing its plan until the autumn to allow the Unions time to produce, if possible, a viable alternative. In June, Flavin had declared that the viability of Clydebank must be a prerequisite of any alternative solution and this would be the only background against which the Company would consider an alternative solution. He said that the,

> "Key conditions required from the unions to made Clydebank a cost effective operation were:
>
> 1. Subcontracting of parts and services
> 2. Labour flexibility to move to areas where openings exist, when their own areas did not have enough work
> 3. A new pay plan to generate more productivity, reduce incentive anomalies, and to reduce administration costs".

On June 27, John McFadyen, the Factory Convener, addressed the workers, and asked them to support the following resolution:

> **"This meeting of Singer workers totally rejects the Company's proposals to run down Industrial Sewing Machine Products, and calls for the reversal of the present Company Policy by immediate cash investment to achieve:**
>
> **(a) Continuation of all Industrial Products**
>
> **(b) To maximise job opportunity in the short term and the long-term at Singer, Clydebank".**

Only "about ten" workers voted against the resolution.

June 29, 1978: The unions agreed that the services of professionals should be called upon to advise on a viable alternative for the factory. It was decided at a Factory Committee Meeting on **July 24**, that PA Management Consultants should get the contract. The Unions hoped that the Government would completely finance the project.

August 7, 1978: McFadyen reported that he had received a letter from Gregor MacKenzie, which stated that if the Unions put up £25,000 the Scottish Development Agency would provide the other £50,000. The Factory Committee unanimously decided to accept this offer. The Unions would raise their share by a levy of 50p per worker, per week, for a period of ten weeks.

September 12, 1978: According to the Minutes of the Union meeting held on this day, documentary evidence was produced which indicated that the Company was already in the process of phasing out the IPG - this to be completed by 1980, and not 1981 as had appeared in Flavin's Plan. When confronted, Management denied that they were breaking the agreement not to implement the phasing out plan, until the Unions had some time to consider a viable alternative.

While PA carried on preparing the report in order to save jobs, the workers themselves were apathetic and the minutes of the Special factory Committee Meeting on **October 3, 1978** record that one Shop Steward stated that only 30 per cent of his members wanted to fight for their jobs. The other 70 per cent wanted to collect redundancy money and go.

October 6, 1978: McFadyen informed the Factory Committee that Mr Jack, Director of the SDA had been informed "that if quick decisions were not made, then there was a danger the Company would possibly close down the whole factory.

Later that month it was revealed that all Singer's European plants, with the exception of Clydebank, had obtained an increase in orders for domestic machines in 1979. Clydebank had fewer orders than in 1978.

Early in November, the Union-commissioned consultants report was submitted to Singer Management. This comprehensive 120 page report outlined the alternative strategy which retained a reduced Industrial Products facility at Clydebank, provided employment for 3,000 people (compared with Singer proposals for 2,250), and envisaged development, over the next 1-2 years, of an enhanced Industrial Products range to secure the future and possibly generate further employment.

PA indicated, however, that if the IPG was to be viable the following productivity requirements would have to be met: - 20% increase in labour productivity; - 20% reduction in variable labour employees; - 20% reduction in scrap; - 20% improvement in maintenance productivity; - over 50% reduction in fixed period costs (80% of fixed period costs are employee costs); - 5% reduction in material costs.

November 27, 1978: Singer replied to the factory Trade Union Leaders on PA Consultants alternative strategy. It agreed to continue manufacturing two industrial models and thus save 335 jobs. This would involve a further investment of between £1m and £2m. beyond the estimated £8 million.

The Unions were "bitterly disappointed" that the Corporation had not accepted the alternative strategy in full, and "at this juncture are rejecting the Company's proposals". Neely remained convinced that "If all the parties co-operate to the fullest.... there can be a future at Clydebank." He did warn, however, that the plant had 15 months to prove itself or it faced closure.

December 8, 1978: Singer revised its offer and now stated that "subject to external finance of the estimated order £2 to £4 million becoming available on terms acceptable to Singer", production of another two industrial machine models and related spares would continue thereby supporting 165 jobs in additon to the 335 previously offered.

December 11, 1978: Keehn told the factory's 130 Shop Stewards that Singer had reluctantly agreed to accept the Government's offer to provide the finance necessary to retain a reduced IPG, only because the Company wanted to continue producing domestic machines at Clydebank. He also warned them that if the workers rejected this latest proposal, Singer would close down the whole factory.

Swan, the factory's Deputy Convener, then called on the Shop Stewards to accept, in principle, the Company's proposals, and to advise the workers to do the same. 74 Shop Stewards agreed with Swan's recommendation. 54 voted against his motion.

December 13, 1978: the workers rejected 'by about 2-1', the Shop Stewards' Recommendation "to accept in principle the Company's proposals". The Factory Deputy Convener, Hugh Swan, warned that rejection would lead to closure; he was booed by the workers whose attitude was typified by the one who said,

> **"Singer Management have held a pistol to our heads, let them pull the trigger"** [McDermott, 1982].

A Company statement from the U.S MNC's New York Headquarters was issued saying that The Singer Company was "extremely disappointed and apprehensive about the implications of the vote taken today by manual workers in Clydebank, Scotland to reject the proposal of union leadership to implement a plan designed to save its sewing products factory there" [Company statement issued December 13, 1978].

Mr. Keehn explained that,

> **"This was hoped to have become a solution to benefit everyone concerned, including the Clydebank community as a whole. It is unfortunate that the workforce has chosen to be so cavalier in its first reaction.**
>
> **Without the endorsement by the total workforce the plan to save Clydebank cannot be successful. And without the plan the Company can see no practical way to continue operations there much less invest one penny more in the plant.**
>
> **Although the financial impact on the total company of the plant being closed would be significant, it is a step the Company will take if the memebership causes it.**
>
> **We are hopeful that more responsible consideration will be given to the leadership's call for support of the plan. It would be tragic to force the closing of the plant on the eve of such an enlightened solution to the situation there; a solution developed in an atmosphere of almost unprecedented cooperation between management, labour leaders and government"** [Company statement issued December 13, 1978].

The Shop Stewards realised that closure was likely unless the manual workers accepted the Company's plan. Saving the factory was not uppermost in many workers' minds. The majority were apparently urging their representatives to restrict negotiations to securing favourable redundancy payments [Shop Stewards' Minute

Book, entry for December 21, 1978]

December 15, 1978: A detailed study was published which forecast that the closure of the Clydebank factory would have significant impact on the local, regional and national economy. It outlined its consequences in terms of job losses, income emigration and fiscal costs.

The following Sunday, a "Joint Clergy Statement on the crisis at Singer's" was read out in every Church in Clydebank and the surrounding areas. It said that the clergy were "distressed" to find that the workers had rejected the Company's amended proposals, and appealed "to the workforce of Singer's to think again and to act responsibly in the best interest of their families and the community".

January 10, 1979: In the meeting held in London at the request of Singer, Mr. Keehn informed a Trade Union delegation which included National Officers of the AUEW and the GMWU, that Mr. Flavin's original plan would be implemented immediately.

The Trades Unionists asked Mr. Keehn for a seven day extension before implementing the original plan proposed by Flavin. They argued that the manual workers were now ready to approve the modified plan which would save an extra 500 jobs. Their argument proved persuasive, and during a break in the proceedings, Mr. Keehn telephoned Head Office to seek its approval of the Unions' proposal. The Company agreed to give the manual workers a second chance. There was to be another vote a week later when, once again, the workers would be asked to accept the same motion which they had rejected in December [Shop Stewards Minute Book, entry for January 12, 1979].

January 12, 1979: the acting Factory Convener, Mr. Swan, instructed the Stewards "to go back to their members and impress upon them that this is their last chance to save the factory". [Shop Stewards Minute Book, entry for January 12, 1979]

January 17, 1979: Employees voted, this time two to one in favour of the motion. Shortly afterwards, the Financial Times observed that the future of Singer's Clydebank factory looked "reasonably sure, if not secure". By May, however, a threatening cloud once again hung over the factory's future.

In February the Callaghan Labour Government had been in a similar position, but on May 4, it was learned that the Conservatives, led by Mrs Thatcher, had won the General Election. On the same day, Keehn announced that the Clydebank factory faced closure unless the Unions agreed to accept the new Pay Plan which Flavin had described as one of the three "key conditions... to make Clydebank a cost effective operation".

May 14, 1979: a settlement was reached, but the factory's financial problems remained. In the first six months of 1979, Clydebank made a loss of £6m. and the order books were very low. The Company indicated that it intended introducing a four-day week in several areas of the factory, and that 598 people would be made redundant by September. The alternative was to continue with a five day week in all areas, but the workforce of 3,703 would be reduced to 2,466. On June 27, the Shop Stewards agreed unanamously to accept a four-day week.

August 9, 1979: the factory's losses had continued to mount and Hugh Swan informed his fellow Shop Stewards that losses for the current financial year had reached $14.25m. The £8m. of investment, promised by the Company had still not materialised, although all the conditions laid down by Flavin had been met. It was rumoured that the Company had decided to withdraw from Clydebank and that machinery was already being sold. Labour had lost the General Election in May and the Company felt it was no longer constrained to honour the promises, made to Labour MPs. to remain in Clydebank.

10.8.: The Closure Announcement

October 5, 1979: Haldane, the Clydebank factory's Personnel Director, contacted the Factory Convener, John McFadyen. He wanted to contact Gavin Laird, former Convener of the factory, who had since become an Executive Councillor of the AUEW, and is now the Union's General Secretary. Keehn had instructed Haldane to arrange a meeting with the Unions' National Officials to discuss the "work situation" at the factory. The headlines of the local press described the workers' reaction to this latest development: "New fears as Singer call Unions to talks" [Evening Times, October 8, 1979]. On the other hand, the Financial Times reported that "Singer's European Headquarters in Paris said.... that no decision had been taken about the future of Clydebank" [Perman, October 8, 1979].

October 12, 1979: Union Officials were particularly anxious as they travelled to their 10 am appointment. They wondered why the meeting was being held in the Bellahouston Hotel, Glasgow, and not in the factory; and they had been informed at the last minute, that they would be meeting Flavin, the President of Singer, not Keehn.

Flavin confirmed the worst fears of the 3,000 employees. The US Board had decided that the Clydebank factory should be closed by June 1980. A copy of his letter to employees is printed below:

> **"Dear Clydebank Employees,**
>
> **It is with the deepest regret that we announce today that Singer will be unable to continue sewing manufacturing operations at the Clydebank plant beyond June of 1980. This conclusion was reached after exhaustive studies of all options available to help us to arrest the persistent and growing losses being experienced by our sewing machine operations in the markets of the develped world.**
>
> **We are announcing our conclusion fully eight months early, in order to provide more time for more people to make adjustments in their personal and vocational lives. This timing will also give us a chance to pursue a very intensive effort to find a buyer for the factory and new jobs for its workforce. I'm sure you appreciate that this effort will be enhanced by the continued support of everyone in the manufacture of sewing machines according to schedule.**
>
> **The closing of Clydebank is only a part of a sweeping program to restructure, consolidate and streamline Singer manufacturing and marketing operations throughout North America and Europe. It is a program that will take years, but is essential if we are going to arrest the crippling losses mentioned earlier.**

We will do everything in our power to minimize the effects on our Scottish employees and we will cooperate with government, unions and civic groups to assist in an orderly transition.

But, in the final analysis, it is your continued support that we must have to keep Clydebank, operating as effectively as possible through these next several months, during which we will be trying to make the facility as appealing as possible to a prospective buyer and bring new work to Clydebank" [Joseph B. Flavin, Chairman, October 12, 1979].

Lay-offs would begin after the New Year. At the time, Larry Mihlan broke the news at a press conference in the Central Hotel, Glasgow.

The promise of "a fight to the death" was the first reaction of the Union Leaders, but their members did not support this line of action and encouraged the Unions to channel their energy into negotiating as satisfactory a severance pay-settlement as possible.

The reaction of some politicians was not so docile. Mr. Bruce Millan, who had been Secretary of State for Scotland until May 1979, accused the Company of breaking its word. He said that Singer had told him "it would maintain a substantial operation in Clydebank". In contrast, the new Secretary of State for Scotland, Mr. George Younger, adopted an attitude of "don't cry over spilt milk" and urged the workers "to do everything they could to bring a new industrial concern to Clydebank".

The factory finally closed in late June 1980

10.9.:: The Company and Union View

The author received a reply from the UK Secretary to the Finance Director and Company Secretary explaining that the sole senior Manager with "first hand knowledge" of the Clydebank closure had left the Company [letter of February 4, 1985, to author from Mrs. S. Lymposs].

The General Secretary of the AUEW, a former convener at

Clydebank, Mr. Gavin Laird expressed his thoughts in correspondence with the author:

> **"... Singer Sewing Machine Co. - despite my long association with same and continuing efforts over many years to create and sustain good industrial relations, including just a few weeks before they announced the closure, addressing hostile mass meetings and convincing people to adopt flexible working practices and other unpalatable measures to maintain or create viability - did not inform me beforehand of the closure.**
>
> **Indeed, I was "summoned" from a national level meeting on shipbuilding in Newcastle by a car provided by the Company to a meeting in an hotel in Glasgow where senior American Executives intended to announce simultaneously to the Unions and the public the intended closure of the plant. We were only able to delay the announcement by two hours to allow our Convener to tell our members first hand rather than learn through the media. Taken aback is not the word for it! It was a disgraceful but sadly typical Singer exercise. You know the rest** [Letter of February 10, 1986, to author from Mr. Gavin Laird].

10.10.: Epilogue

The design and condition of the buildings precluded the possibility of their being sold to a private concern, and anyway, other areas, such as the new towns, had more to offer than Clydebank. It was the Scottish Development Agency which bought the site at a cost of £850,000 in June 1980, the machinery which had not been transferred to other Singer establishments having been sold by public auction.

The SDA realised that virtually all the buildings on the site would have to be demolished and new, modern, premises that would attract firms erected; these in turn would provide jobs. The Government, aware of the town's problems and poor prospects, decided that Clydebank should be Scotland's 'Enterprise Zone'. As such the town could offer special conditions to any business prepared to set up in the zone, - 100 per cent de-rating for Industrial and Commercial Companies, and very low, or rent free premises are just two of the financial inducements the zone offers. Ironically, the Singer Company availed itself of the 'no rates' offer and opened an office where six engineers design machines for manufacture overseas.

In retrospect, Singer Management had been completely out of touch with the market. They believed that low demand for domestic machines was due purely to the Jeans fashion amongst women, but their popularity was only a symptom of the real cause - women's liberation.

As one Singer executive concluded on his firm's decline:

> **"What happened is not at all mysterious.**
> **- We neglected product development**
> **- We neglected manufacturing facilities**
> **- We neglected our retail stores**
> **It's a classic case that will be studied for a long time to come"** [Fortune, November 5, 1979].

Since Clydebank closed, Singer has finally realised that it sold machines in spite of, not because of, its retail outlets, and has continued its rationalisation of manufacturing facilities. The shops have been sold and Monza is now the only plant producing sewing machines in Europe. Its two large US plants have also been closed. Virtually all sewing machine production has been concentrated in distant Brazil and Taiwan. By 1986 Singer had finally diversified successfuly and its announcement in February 1986 was not unexpected.

It was then announced that its sewing machine division would be spun off as an independent, separately-quoted enterprise. The stock market's reaction was unequivocal: Singer's share price showed almost an immediate gain of 20%. As the merger craze sweeps America, it is likely that with its celebrated brand name and substantial market share, the newly-formed sewing machine business will attract a bid from cash-rich predators [Taylor, February 19, 1986, p.30; Parkes, March 21, 1986, p.14].

GRUNDIG

10.11.: Introduction

The media in the UK have a tendency to present all plant closure announcements as sudden, unexpected "shocks". It can be seen from the case studies presented in this thesis that many foreign-owned plant closures could have been, and indeed were, anticipated by employees.

In a few cases, however, employees were genuinely stunned to hear of their plant's closure and it is to one such example that we now direct our attention.

At 2.30 pm. on June 30, 1980, the 1,000 strong workforce at the Grundig Dunmurry plant, near Belfast, was first informed that all production would cease at the site on October 10, 1980.

The factory had returned profits from it opened in 1960 until 1978 and 1979 when losses of approximately £0.5m and £1m were reported.

Dunmurry's past performance record was good, no major redundancies had occurred and labour relations were satisfactory. Closure therefore could hardly have been expected by the shop-floor workers.

What makes the Dunmurry case unique is that Management at the Plant was equally taken aback. It had not recommended closure, nor had it made any contribution to the divestment decision. It had not been involved in preparing the time-table for implementing the divestment decision. It had not even been given advance warning that the Parent Company would be making an announcement pertaining to Dunmurry's future.

No, incredible as it may seem, Management at the Ulster plant was informed of the German Board's decision just one hour before shop-floor workers, and like them, was completely taken aback.

Although both Management and shop-floor workers had realised that rival producers from the Far East now dominated the market, Dunmurry's future did not seem to be in jeopardy.

The author spoke to a former Senior Manager at Dunmurry, and to the chief Union official. Neither was aware of the OECD's Guidelines or "Vredeling". The Manager was confident that Grundig had conformed with UK legislation.

Where firms have agreed to participate in this study, the views of both Company and Union have been presented and in most cases the Company has defended its divestment strategy, while the Union officials involved have criticised Management for presenting them with a "fait accompli". In the case of Grundig, Dunmurry, the version of events as described by one side agreed with the other side's version.

10.12.: Background

The opening of a small radio shop in the town of Furth, near Nuremburg, Germany, in 1927, probably aroused little excitement. Today its proprietor is a household name, for from these humble origins Max Grundig created a business empire which was renowned for its high quality television and video equipment, its hi-fi units, and dictation machines. The Company derives the majority of its income from television and video recorder sales.

In 1960 Grundig opened its first foreign establishment. It was located in Northern Ireland at Dunmurry, on the outskirts of Belfast. The plant produced radio-recorders and stereo equipment.

Dunmurry produced high quality goods, but its high labour costs were reflected in the retail price. Rival producers from the Far East with lower labour costs, thus had a cost-competitive advantage.

According to the Irish Times newspaper, a major expansion had been planned in the early 1970s, but the idea was abandoned following the kidnapping and killing in 1974 of the Company's Managing Director in Ulster, Mr Thomas Niedermayer. This may have been a contributing factor, but the growing number of imports from the Far East was the telling influence; Japanese manufacturers of hi-fi equipment had become household names and their share of the market increased dramatically [Irish Times, July 1, 1980]

Until 1975, Grundig International (ie. Grundig's UK subsidiary) operated under franchise in the UK, but in that year it was bought over by Max Grundig, and it became a wholly-owned subsidiary of Grundig, the German MNC.

In 1979, Grundig was reported to have negotiated with the Department of Commerce for loans and cash for investment. In January 1980, the Company terminated these discussions and withdrew its application for funds [Irish Times, July 1, 1980]. A Company spokesman has flatly denied this; no approach was made to the Department of Commerce for funds, other than for the Development Grants which all firms in the Province are entitled to claim. He denies that Grundig had a cash-flow problem.

Like many of the firms examined in this thesis, Grundig operated in a highly competitive market and this competition was the problem, not shortage of liquid capital.

In March, 1979, there was an industrial dispute involving 68 electricians who were aggrieved at not receiving a special £1.28 allowance paid to other workers. Their subsequent work-to-rule led to a Company threat to close Dunmurry and transfer production to Germany where (as in France) a rationalisation of production facilities had begun in January of the same year resulting in a cut of 5,000 in the combined work force over the ensuing eighteen months. It was an exceptional incident at Dunmurry and the dispute was quickly settled, but within a little over a year the shock announcement was made.

10.13.: The Closure Announcement

On June 30, 1980, Dr. Dierolf, Director of Personnel at Headquarters in Germany, arrived in Belfast to meet an anxious local Management team who were anticipating "considerable redundancies", but certainly not closure.

In retrospect, their gloomy predictions can be seen to have erred on the side of optimism. For, Dr. Dierolf informed them that the decision to close Dunmurry had been taken, and that the plant would close on October 10, 1980. All 1,000 jobs would be lost. Even those occupying the most senior management positions at the Ulster factory were stunned by the news.

Local Management informed, Dr. Dierolf then relayed the grim news to the shop floor workers. Within the space of one hour, local Management and ordinary workers alike, heard for the first time that the German Parent Company had decided to terminate the Dunmurry operation.

This decision received a frosty reception from local Management. At the time, they resented being totally excluded from the handling of the closure announcement. It would appear that their reaction has since mellowed, and one manager now agrees that the Parent Company's chosen course of action "was the only way to do it".

His opinion is that early disclosure of the Company's decision, could have led to production being disrupted through some form of industrial action - perhaps, the workers would even have occupied the factory. Grundig's shock announcement, and its insistance that production continue as normal throughout the 90 days notification of redundancy period, led some employees to believe that Grundig was merely trying to frighten the workforce into increasing productivity. It seemed inconceivable to a large number of workers that Grundig would close the fairly modern plant which represented a significant capital investment.

The decision to close Dunmurry was based on the Ulster plant's failure to produce goods capable of competing on a cost basis with rival producers. A gradual run-down of the plant was out of the question, he explains, because it would have necessitated operating at a sub-optimal level, thereby increasing production costs. As it was, Dunmurry's best was not viable.

It was for these reasons that the Parent Company presented both Plant Management and workforce with the minimum legal notice. It was equally adamant that full production be maintained until October 10, 1980, when the factory's gates were finally closed.

10.14.: Union Attempts to Reverse the Decision

Between July and October 1980, local Management met Union officials to negotiate terms of redundancy. The divestment decision was clearly final and local Management had no authority to reverse it.

Accordingly, in late August, Regional Secretary of the EEPTU, and the senior negotiator Mr. Colin Lowry, flew to Germany to meet Company Director, Dr. Richter, and Max Grundig himself. Mr. Lowry argued that the Ulster plant was more efficient than those in Germany and Portugal. However, once he realised that the Company was under pressure to keep the domestic plant open, he tried to persuade the Directors to close the Portuguese plant instead [so much for the ideal of international solidarity among Trade Unions]. Prior to this meeting, Union leaders still had some hope of persuading the Board to reverse its decision; they now realised that closure was inevitable.

The Parent Company blamed closure on competition from low-labour cost countries such as Japan, Taiwan, Korea, and Hong Kong. It was impossible to produce audio equipment in Europe and remain viable while contending with this kind of competition. Closure could only have been avoided by substantial price increases, but the market would not have tolerated such a move without a further decline in market share. The German Parent argued that closure of Dunmurry which had high production costs and had reported a loss since 1978, could not be postponed any longer.

Dunmurry closed on October 10, 1980 - 101 days after its shock announcement of June 30, 1980.

10.15.: Epilogue

In 1984 the German Federal Cartel Office, which five years earlier had prevented Philips from increasing its 24.5% stake in Grundig, allowed the Dutch giant to take control on April 1. The baby of the then 76 year old Max Grundig, which at its peak had 40,000 employees, had seen the labour force cut to 28,900 as it battled in the intensely competitive electronics market. The only condition was that both firms dispose of some divisions or stakes in other concerns. The German FCO's decision was indicative of the conversion of policy makers throughout Europe to the "big is beautiful" concept, and their recognition that a pan-European solution is necessary to arrest Europe's decline.

However, sometimes the distinction between European and national interests is blurred. In such cases, policy makers are likely to block a merger which they suspect is designed primarily to boost a "national champion". Thus, in 1983, the FCO blocked the takeover bid by state-owned Thomson-Brandt, France's largest electronics concern, for Grundig, Germany's largest. The FCO was clearly concerned that national considerations would feature in Thomson's decisions, and thus promote the interests of France at the expense of Germany.

10.16 Origins and Internationalisation

The Hoover family's first business venture was founded in North Canton, (then known as Berlin), Ohio, in the late nineteenth century. As producers of accessories for horse-drawn carriages, future prosperity was endangered by the burgeoning automobile industry. Successful diversification was a priority and in 1908 William H. Hoover formed The Electric Suction Sweeper Company. In 1922 it was renamed The Hoover Company. "The Boss", as he preferred to be called, had foreseen the market potential of a practical vacuum-cleaner and his assessment proved correct. Business boomed.

International production began in 1911 with the opening of a manufacturing facility at Ontario, Canada. After the war the plant exported to the UK where Hoover Limited had been registered and a sales office established in 1919.

By the 1930s the Company had an unchallenged brand image in Britain - where people already spoke of "Hoovering" their carpets; sales soared. The Canadian plant's capacity was being stretched beyond its limits, and it was decided to establish a factory in the UK. Production commenced at Perivale, London, in 1932, and five years later a flotation was made of the UK subsidiary's shares on the London Stock Exchange. Hoover Limited became a public company.

After the Second World War the market for domestic appliances flourished, and further plants were opened in the UK, at Cambuslang, near Glasgow, in 1946, and at Merthyr Tydfil, Wales in 1948. Hoover PLC, the UK subsidiary, in turn has wholly-owned subsidiaries in Austria, Portugal, Australia, South Africa, and in the Scandinavian countries. It also has a 50 per cent share in Hoover (Holland) BV., a holding company for operating units in Holland, Belgium, France, Germany, Italy, and Switzerland. These plants were established to meet buoyant demand for the Company's highly popular products.

Hoover's success, like that of Singer, had been due to an individual with foresight improving the design of a crude product, and then skillfully marketing the refined version. Similarities with the sewing machine producer do not end there.

As with Singer, Management has been strongly criticised, and the diversification policy of Herbert Hoover and his successor, Felix Mansager, was a failure. A small appliance manufacturer had been taken over during the 1960's acquisition boom by US MNCs, but it was subsequently divested in 1977, just after Singer had completed divestment of money-losing ventures. This move had followed a sharp deterioration in the Parent Company's net income which plummeted from a peak of over $33m in 1973 to under $9m in 1974. Despite a mild recovery the following year, net income dropped to $6.8m in 1976. (see Table 10.2.)

The decline in the Company's fortunes led to changes in top management. Mr. Merle Rawson was appointed Chief Executive Officer in place of Mr. Mansager who retired when profits slumped in 1974.

Table 10.2.: Performance Data on The Hoover Company

Year	Sales ($000)	Assets ($000)	Net income ($000)	Employees
1983*	666,847	338,587	28,006	n.a.
1982*	662,549	372,377	3,953	n.a.
1981*	749,919	449,721	(18,778)	n.a.
1980	830,465	532,367	30,048	20,081
1979	754,324	491,091	39,263	21,523
1978	691,817	474,350	24,648	22,587
1977	590,740	425,981	23,462	23,370
1976	571,913	391,248	6,838	22,886
1975	593,747	391,489	11,903	23,713
1974	502,731	384,617	8,711	27,452
1973	534,655	399,076	33,035	27,947
1972	458,415	346,123	29,514	25,499
1971	402,282	309,094	21,673	22,578
1970	346,686	275,522	17,860	22,602

Source: * Company accounts
Hood and Young [1982, p. 98]

After the mid-1970's, the market for floor-care and laundry equipment became increasingly competitive, and served to highlight Hoover's failure to diversify successfully into growing market areas. The Company's major rival, the Swedish MNC, Electrolux, benefited from having diversified successfully into lawnmowers. To the consternation of investment analysts and employees, Hoover continued to rely on two products. It was to their relief that in recent years Rawson successfully led Hoover into the growing market for home security products.

Under Rawson's guidance, Hoover has overcome tough opposition in the US market from other US cleaner manufacturers, and Electrolux. It was not so successful in overseas markets which accounted for 70% of sales, including the UK market where one third of total sales were made. Hoover PLC and its subsidiaries served markets which had been swamped by cheap imports from the "Iron Curtain" countries. As unit sales fell, the Company's three UK plants cut back on production, and operating below capacity, demanded significant reduction in the number employed. Failure to respond earlier to changing market conditions had taken its toll, especially on the UK subsidiary, Hoover PLC.

10.17.: Hoover PLC

UK sales alone account for well over a third of total sales of The Hoover Company, and exports from the UK plants account for a considerable percentage of other foreign sales. Dependence on the UK subsidiary is illustrated by the fact that, at a peak in 1978, UK. employees accounted for 60% of total employment. The fortunes of Hoover were therefore highly dependent on the UK subsidiary.

Table 10.3.: Vacuum Cleaners - UK Market Share

Company	1976	1978	1980
Hoover	49%	50%	40%
Electrolux	31%	32%	32%
Goblin	5%	9%	9%
Moulinex	2%	-	6%
Others	13%	9%	13%
Total	100%	100%	100%

Source: Crisp, February 26, 1982, p.18.

Despite a strong brand image, Hoover saw its share of the UK vacuum-cleaner market fall from 50% to 40% between 1978 and 1981 (see Table 10.3.) whilst the French firm, Moulinex, increased its market share by a vigorous sales promotion. Hoover was more concerned, however, by an influx of Eastern European machines.

Profits fell by almost 50% between 1972 and 1977 despite the fact that during the same period turnover increased from £98m to £191m (see Table 10.4.). Whereas previously profits were about 20% of sales revenue, by 1978 that figure had fallen to 3%; and Return on Investment (ROI) had fallen from 35% to 7%. Added to this, the Company had a cash-flow problem. The Group Balance Sheet had shown over £22m in liquid funds at the beginning of 1977, but by 1980 it showed net borrowings of £15m.

All of these problems came to a head and a post-tax loss of £4.1m was reported for 1980 - the first since becoming a public company in 1937. In an effort to restore profitability, 900 workers were made redundant, 400 at Cambuslang, 300 at Merthyr Tydfil, and 200 at Perivale. Critics blamed the UK subsidiary's low productivity, poor labour relations, weak marketing, low investment, and unresponsive management. Remedial action was required [Perman, March 5, 1981, p.6].

Table 10.4.: Performance Data on Hoover's UK Subsidiary - Hoover PLC*

Year ended Dec. 31	Sales (£m)	Net profit before tax (£m)	average number of UK employees (000)
1981	201.1	(31.8)	9.8*
1980	206.7	(2.7)	10.2*
1979	203.7	1.9	11.8
1978	212.1	5.3	13.5
1977	191.0	12.2	13.5
1976	180.0	17.0	13.3
1975	162.9	20.7	14.2
1974	113.8	4.2	15.8
1973	121.0	24.0	14.9
1972	98.4	19.5	13.1

* At year end 1980, UK employment was 10,224. By year end 1981, the figure had fallen to 6,854.

Source: Hood and Young [1982, p.99], and Company accounts.

Even more ominous for UK employees was the revelation that the US Board had decided to reduce the strategic importance of British operations:

> **"We expect 1981 to be a difficult year, especially in the first half, as we continue to restructure the United Kingdom manufacturing operations. This action will incur one-time costs, but will help increase productivity and reduce ongoing costs"** [The Hoover Company, 1980 Annual Report].

When Hoover PLC, the UK subsidiary issued its "Report for the Six Months Ended 30 June, 1981", a trading loss of £6.1m was revealed against a £2.5m profit in the comparable period of 1980. During the same period of 1979 and 1978, a trading profit of £636,000 and £2.9m respectively had been returned. The Parent therefore exerted pressure for a reduction in costs and a return to profitability before the end of 1981. In the UK 6,000 jobs had been lost since 1975 and it was believed that more would be announced by the subsidiary's new Managing Director, Mr. Peter Goode who had replaced Mr. Gwynne Lloyd in mid-August 1981 when the latter resigned [Balfour, August 16, 1981].

Some journalists and employees believed that Mr. Goode would close Cambuslang in order to reduce from 9,000 to 7,000 the UK labour force [Balfour, August 16, 1981; Hetherington, September 18, 1981, p.2; McBain, October 17, 1981]. The number employed at the Scottish facility had already been halved since the mid-1970s, and the plant was now operating at less than two thirds capacity. The media speculated that Perivale had a secure future, but the London factory's workforce had, for a number of years, expressed grave concern over job-security. In 1978 Shop Stewards there had approached the Company, requesting information on future investment plans. Hoover PLC refused to disclose this information and the General Municipal Boilermakers and Allied Trades Union (GMBATU) reported the US MNC to the Central Arbitration Committee (CAC). The Unions' complaint is briefly examined below.

10.18.: The GMWU Reports Hoover to the Central Arbitration Committee

On March 27, 1978, the General Municipal Workers' Union (GMWU) complained to the Central Arbitration Committee (CAC) that Hoover had failed to disclose information collated in the document "Financial Statement, Hoover Ltd.", and in another report "Sales and Cost of Sales Analysis" which focussed on products manufactured at Perivale.

The case was heard on August 18, 1978. The GMWU's representatives claimed that "it was not seeking disclosure of the contents of the reports but only sufficent information to enable them to ascertain trends in the profitability of particular product lines manufactured at Perivale". The information was necessary, they argued, for negotiating with Hoover on pay and the "future allocation by the company of its production and investment".

The Company, for its part, opposed disclosure on four grounds:-

> "(i) that lack of the information sought did not impede union representatives in bargaining,
>
> (ii) that disclosure would be incompatible with good industrial relations practise,
>
> (iii) that the amount of work and cost involved in providing the information was disproportionate to its value to collective bargaining ,
>
> (iv) that some of the information was commercially sensitive, disclosure of which could damage the Company".

The Company's view was upheld by the CAC. Undaunted, the Union submitted another complaint the following year, on May 18, 1979. The Unions motivation for obtaining the information remained the same; the case was examined by the CAC on July 10,1979.

At this hearing, Hoover challenged the Union's assertion that investment and product allocation were matters for negotiation. It argued that consultation on these decisions was acceptable to the firm, but negotiation implied bargaining which could alter the original stance of either party concerned.

10.19.: Timetable of Events Prior to the Closure Announcement

December 18, 1980: At the 37th Ordinary Meeting of the Joint Consultative Committee, Mr. Bristow, Director, read aloud a statement which included the following extracts:

> "Today, I propose to give you a review of the state of the business, how it has changed during the past four months, and what has been the Perivale contribution to that change.
>
> ....I must point out that the Government have recently announced that the short-time working support grant will be reduced from 75% to 50%. We have had to factor this change into our current thinking.
>
> There will be little point in taking periods of lay-off when we will receive only 50% if they can be rescheduled to a time when 75% is still available.
>
> At Perivale, during the period July to November sales of our products exceeded production by 20,000 units, resulting in approximately a £0.5 million fall in finished goods inventories, leaving us currently just over £1 million over target.
>
> Unfortunately, despite the fact that additional weeks of lay-off have been announced at all three plants, our net borrowings of £11.2 million in June have increased to in excess of £20 million.
>
> The weeks of lay-offs have been reflected in our Company results, which showed a trading loss of £1.6 million on a turnover of £51.3 million in the third quarter.
>
> Our overall performance for the first nine months represented a trading profit of only £862,000 on a total turnover of £151.7 million which is only 0.6% of turnover.
>
> With these sort of results, the Company still has a major task to get back into a profitable situation. ....Subsequent to our last meeting, at a Joint Wages Committee meeting on 15 October I reported that our stocks were not expected to reduce at the rate we had hoped and that we are going to increase the number of declared redundancies to the Department of Employment by 25%, thereby affording us the opportunity to maximise the amount of financial assistance from the Government.
>
> We also announced that it would be necessary to extend short time working in 1981 by taking 5 days lay-off in January and 5 days in February.
>
> The current situation is as follows.
>
> We actually made 53 Directs redundant and we also reduced by

42 Indirects and Staff through voluntary redundancy, turnover or retirements".

Mr Bristow then moved on to comment on the performance of the Perivale factory during the latter part of 1980.

> **"Compared to the activity of 88.1% in July, during the periods when the factory has been operating it has fallen to 82.3% in August, 84.9% in September, 80.0% in October and 79.5% in November. ......**
>
> **Our overall performance for the first 10 months of the year was 103%"**

March 4, 1981: The 38th Extraordinary Meeting of the JCC was held at Perivale. Mr Bristow started the proceedings:

> "On 18 August 1980, meetings took place in all our factories to explain to you the difficult situation facing the Company. As a result of our discussions at that time, all factories, unfortunately, had to effect some redundancies.
>
> The number of people made redundant were kept to the absolute minimum...... By now, you will have seen that our programme was not totally effective.
>
> In 1980 our turnover only increased by £3 million - less than 1.5% - largely because we had to drastically cut prices in the increasing competitive market place to keep our volumes up and preserve as many jobs as we could. But our profit continued to plunge further down to £4.1 million. The first published loss in our history. It is, perhaps, even more serious that most of that loss was made during the last quarter of the year when our short-time working programmes were operating to attempt to keep the Company viable.
>
> Despite redundancies and short-time working our stocks continued at a high level and at the end of the year we held £56 million in stock. This is some £20 million above our requirement to operate the business normally. Because of this excess we had to borrow money and at the year end we were borrowing £13 million and we paid £2 million in interest throughout the year. So, although our short-time working was necessary, it did not go far enough to effect any real improvement.
>
> We have entered 1981 with high stocks, a continuing recession and an increasing overdraft. Even the confidence of our shareholders has been shaken, not only by the first loss on record but also because their dividend has been slashed to half the level of previous years.
>
> Our continuation of short-time working in January and February has helped, but as with last year it is not enough to keep the Company viable and guarantee any real improvement in our situation.

There is no sign that the recession in the United Kingdom is abating and the high value of our currency makes it almost impossible to increase exports of our products to other countries where inflation is lower. Meanwhile, our stocks will continue to increase our borrowings and pay higher interest charges. Unless we take concerted action now, Hoover Limited will be heading for a further loss in 1981. This business cannot survive if we continue to lose money.

Meetings are taking place throughout the Company today to tell our employees of the crisis we are facing and of the Company's determination to effect a major improvement in the situation. The proposals we are announcing are designed to achieve a return to profitability during this year.

In Merthyr we are proposing a redundancy of around 300 people and a continued programme of short-time working.

In Perivale we are proposing a redundancy of around 200 people and a continued programme of short-time working.

In Cambuslang we are proposing a redundancy of around 400 people and a continued programme of short-time working.

In the Head Office of the Company at Perivale we will be reviewing all jobs during this month with a view to eliminating unnecessary work".

On completion of his general statement on the UK subsidiary, Mr. Bristow informed the JCC of Perivale's performance. He told them that sales of the factory's products were "disappointingly low" and that stock levels had not been reduced to the desired level. His statement then read as follows:

"Unless we take some further corrective action, these stocks will continue to rise. We are therefore faced with two options:

1. To declare further redundancies now.

2. To continue with short-time working and extend our present application by a further 90 days.

But the situation at Perivale is further affected by two other factors:

1. In July we will close out the Diecast Foundry and complete the transfer of the MC01 Motor to Cambuslang. Also in July, the additional work gained from export orders for the Model 4014 Senior will have been completed.

Unfortunately we do not envisage having any alternative work to offer employees affected by these changes,and therefore a declaration of redundancies which will be

effective in July is unavoidable.

2. During the past 5 years the output levels from the Perivale factory have approximately halved, and during these five years, although we have refrained from replacing Indirects and Staff wherever possible, the total reduction in manning levels has not in any way matched the substantial reductions in output.

This has had a very serious impact on our manufacturing costs and has been a contributory factor to the Company's poor performance in 1980.

If the Perivale manufacturing operation is to remain a viable unit, it is now essential steps are taken to reduce our manufactured costs through lower Indirect and Staff manning levels.

Therefore, our proposals for Perivale are designed to achieve both the objectives of reducing finished stocks and manufacturing inventories, and to reduce operating costs.

We are therefore proposing a combination of both extended short-time working and redundancies.

This will be achieved by the following proposals.

I. Production schedules have been set to absorb all existing production labour on the assumption that an additional 3.6 weeks of short-time working will take place in March, April, May, and June.

II. The 99 production manual Directs and Indirect workers surplus in July will be made redundant. They comprise: Ranger Cleaners 41, MC01 Motors 38, Diecast Foundry 18, plus 2 affected by other schedule adjustments.

The selection and nomination of employees to the total of 99 to be the subject of detailed discussions later.

III. To reduce manufacturing costs, the following (i.e. the above) actions are necessary for immediate implementation".

March 5, 1981: The day after the Company had issued the above statements, Management met the Joint Wages Committee (Combined) at 10.30 am in Perivale's Personnel Conference Room to discuss the "Redundancy and Short-Time Working Programme".

Mr. Cope, an employee representative at the meeting (and currently a full-time official with the GMBATU) was higly critical of the Company's proposals. According to the Minutes, he argued that they "simply aggravated the situation whereby fewer manual workers were expected to shoulder the burden of a disproportionate number of administrators". Indeed the number of workers involved in the production process had been disproportionately reduced. For example, between the January of 1975 and 1981, the number of manual Direct workers had been reduced by 44.5%, from 1,283 to 712, whereas the number of manual Indirects was cut by only 19%, from 609 to 494. He believed that they were "a forerunner of things to come".

Mr. Clarke, the Factory Convener, criticised the Company for failing to invest in "people or plant in order to develop products or plant". He called on the Company to manufacture home protection equipment at one of its three UK plants. He argued that it had a moral obligation to maintain the Perivale factory.

Mr. Bristow replied that Hoover "had gone a long way to do just that". He assured the JWC (Combined) that the London factory had a "significant range of new products on the drawing board".

April 23, 1981: The Company retracted its short-time working proposal when Management and Employees Represenatives met at 9.30 am. in the factory's Personnel Conference Room. Mr. Bristow explained to the JCC that Perivale had obtained approval to produce 60,000 special Junior Hard Bags, and that consequently, short-time working would end .

Mr Bill Clarke, the Factory Convener, commented that the information given at the last meeting of the JCC had demonstrated that the Soft Bag Cleaner was selling well, whereas the Company was having difficulty selling the Hard Bag. According to the Minutes of the meeting, he concluded that "it was therefore difficult to understand the current emphasis within the marketing strategy on the Hard Bag Cleaner".

Mr. Bristow replied that it was "the Company's intention to have greater price flexibility and it was hoped that this, together with a special Summer offer of free tools, would considerably improve sales performance".

As regards the Company's decision to return to full production, Mr. Cope claimed to be somewhat confused as this contradicted the Company's earlier statements. He explained his predicament:

> **"On two previous occasions the Trade Unions had been informed that the decision to introduce periods of short-time working had been taken in order to avoid or reduce the requirement for redundancy . What the Company was now saying was that it intended to discontinue short-time working and replace it with redundancy".**

Mr. Bristow also estimated future production trends:

> **".....there is a possibility we will have to consider short-time working during the second half of the year, but we believe ,at this time , that decision should be delayed until we have seen the effects of the marketing campaigns on our Upright cleaners during the second quarter".**

It was also revealed that a firm of Management Consultants, A. T. Kearney, had been recruited to investigate the firms operations, particularly the floorcare sector of the business.

August 25, 1981: Mr. Peter Budd, Hoover's Associate Director in charge of Personnel, met the Perivale shop stewards to review "many of the problems facing our Company's manufacturing operations". He reminded them of an earlier meeting the previous year at which the Company informed employees of its four major problems:

> **"1. Falling sales**
>
> **2. High stocks**
>
> **3. A shortage of cash**
>
> **4. Overmanning."**

He gave the following explanation for the Company's response to these problems, over the previous twelve months:

> **"These actions of redundancies and short time were right for the Company, without them we may not have been here today, but they did not go far enough".**

He stated that the root cause of Hoover's "profitability problem" was overmanning and increasing wage costs.

He told Perivale stewards that,

> **"In general, it is apparent that we must undertake a very positive restructuring of our manufacturing facilities in all three plants. This must involve the rationalisation of premises and further manpower reductions ....**
>
> **It is the production of our UK floorcare range which offers the greatest scope for rationalisation and A.T. Kearney have now reported on the options available to us for the Directors to evaluate. These options are:**
>
> **1. Slim down Perivale and Cambuslang to manning and cost levels which bear international comparison.**
>
> **2. Concentrate Floorcare manufacture at Cambuslang and close Perivale.**
>
> **3. Concentrate Floorcare manufacture at Perivale and close Cambuslang.**
>
> **4. Consider alternative sites where Floorcare will be manufactured at the minimum cost to the Company".**

Mr. Budd stressed that the Company had not yet decided which option to pursue. He also listed other measures which had been deemed necessary for re-structuring the UK operation. These included new work practices, a longer wage agreement (30 months instead of 12), a reduction in manning levels, no wage increases or industrial action until the Company returns to profitability, and the centralisation of wage negotiations.

The Company presented various tables which showed that the Company was making a loss, that sales were down, and that high inflation and the strong pound made it particularly difficult for Hoover to compete with its foreign rivals.

Mr. Budd described the loss of £6.1m for the first half of 1980 as "unacceptable" and he stressed that this situation could not continue: (Table 10.4 showed the deterioration in profits since 1977)

> **"Let me repeat - this business cannot survive unless we make profits. We must start making profits <u>now</u>".**

But this would not be easy, particularly as unit sales of the UK subsidiary's products were in 1981 well down on previous years (see Table 10.5 below).

The proceedings closed with Mr. Budd informing the stewards that he looked forward to meeting them again to discuss their "considered reply".

Table 10.5.: Hoover PLC, Floorcare and Laundry Equipment Sales (000s)

Laundry Equipment Sales

Year	Home	UK Exports	Total
1977	544	142	686
1978	552	135	687
1979	502	107	609
1980	473	48	521
1981 Jan./June.	194	33	227

Floorcare Sales

Year	Home	UK Exports	Total
1977	940	839	1,779
1978	964	740	1,704
1979	899	602	1,501
1980	725	403	1,128
1981 Jan./June	367	214	581

Source: Hoover PLC., Manufacturing Review, August 25, 1981.

August 27, 1981: The shop stewards at Cambuslang called on the Company to issue a clear statement on the plant's future and they agreeed to meet their counterparts from Perivale to discuss common threat of closure.

The Scottish press still believed that Perivale was "safe" because it was not only Hoover's headquarters, but the only plant owned by the Company; the other two were only leased, so either the Scottish or Welsh plant would be closed. However, one commentator believed that Merthyr Tydfil was "unlikely to be closed" as it was the only UK operation producing washing mashines and the Company was committed to maintaining this business.

September 16, 1981: The 38th Ordinary meeting of the JCC was held at Perivale. The Company told the Committee that "the reductions in manpower announced in March have so far been achieved as planned". During the previous month the factory had operated at 83.9% capacity, compared with 75.3% in January, 97.5% in March, and 92.5% in June.

September 17,1981: The AUEW organised in Brighton a meeting of officials from Hoover's three UK plants. Earlier in the month, Hoover had asked employees to accept a 10% wage cut and a pay freeze until 1985. A coalition was formed to reply to the Company's proposals. Mr Gavin Laird, then Assistant General Secretary of the AUEW, urged Hoover to "tell us your problems in detail and we will take it from there". The coalition group requested a copy of the consultants' report which Hoover had commissioned on its UK operations, so that its recommendations could be considered.

September 28, 1981: Mr. Budd at an exta-ordinary meeting of the JCC at Perivale, said that:

> **"No decision has been made as to the future of this factory"** [Hoover Shop Stewards Minutes, September 28, 1986].

September 29, 1981: Perivale Management Staff met Mr. Budd who gave the impression of being "deliberately provocative in order to prompt an unruly or abusive response to portray the Perivale Management staff in a bad light to justify the plan to close down the Perivale factory" [Hoover Staff Statement to Mr. Rawson].

The staff asked what forecasts "The Kearney Report" was based on, to which Mr. Budd replied:

> **"I don't know and if I did I wouldn't tell you"** [Hoover Staff Statement to Mr. Rawson].

After this meeting the staff prepared a statement which was sent to Mr. Rawson, Chief Executive Officer of the US parent Company, because they believed that he was about to make "a decision on the future of the UK manufacturing organisation". The statement was prepared in the hope that it would produce a decision favourable to Perivale.

Another Staff Statement (undated and unaddressed, though apparently intended for Mr. Budd) was issued around this time. It included the following passage:

> **"The opinion of most of the people we speak to ... is that the Executive have already made up their mind long ago that they will close Perivale and all this activity, including the engaging of the consultants, is a not very convincing charade in an attempt to give the eventual announcement some credibility. This might be totally untrue, but you should perhaps spend some time considering your past record your attitudes and your communications with your employees that give rise to these strongly held beliefs, because such a credibility gap is not conducive to creating a strong and profitable Company.**
>
> **Hence we are not sure if we can take your statement 'The decision we finally make will be significantly influenced by the outcome of the discussions we have in coming weeks' at its face value"** [Hoover Staff Statement to Mr. Rawson].

This was followed by a critical analysis of the document issued by the Company on August 25, 1981, entitled "Manufacturing Review".

October 7, 1981: The Company met the JWC to discuss the 1982 Wage Claim. The Minutes of that meeting, signed by Mr D.L.B. Iver, Employee Relations Officer, reveal that National Union officials had requested a meeting with Directors "in order to see the Kearney report, to look at the Company's future plans, and to reject the Company's declared desire to interfere with wages". According to these minutes, Mr. Bristow said "it was clear there was a need for rationalisation" and it would have "a significant impact on the company's manufacturing operation, however it was achieved".

October 16,1981: Company/Union talks broke down after three and a half hours. The Unions issued a statement declaring that they would resist any plant closures or wage cuts "with all possible means" [The Times, October 17, 1981].

Company Directors promised that the period of uncertainty would end within a week, as the Company would by then have decided which option to follow. An undertaking was given to National Officials that the Company would make its decision regarding rationalisation of manufacturing facilities by October 23. Mr. Goode, Managing Director of the UK subsidiary, said:

> **"it would be impossible to deny the possibility of plant closures"** [McBain, October 17, 1981].

10.20.: The Closure Announcement

October 23, Hoover announced its rationalisation plans. Cambuslang and Merthyr Tydfil would lose 350 and 400 jobs respectively. These two plants had won a reprieve, but only at the expense of Perivale which would close with the loss of 1,100 jobs. The decision had been taken, it was said, under the direction of Head Office in Ohio.

Mr. Bristow issued a statement confirming that "the Company intends to comply with all its legal obligations, particularly those contained within Sections 99 and 100 of the Employment Protection Act 1975".

With the benefit of hindsight, industrial reporters saw the economic logic in closing Perivale whereas before the announcement, they had argued, by the same criterion that Cambuslang would be closed. It was now claimed that perhaps the telling factor in the decision to close Perivale was the attraction of raising capital by re-developing its nine-acre site. In addition, Cambuslang was the most modern plant and so it made sense to transfer production from Perivale and invest in new production facilities. It was also suggested that Hoover had been under pressure to maintain the Scottish site and avoid a further sharp increase in unemployment in an area notorious, even by Glasgow standards, for its deprivation. Besides, the Cambuslang factory was located in a Special Development Area and was therefore eligible for Government grants.

Perivale was a casualty of Hoover's competitive weakness and previous unsuccessful attempts to diversify, plus external factors, especially high interest rates, and the strong pound. The upshot of this was that its market share shrank as cheaper imports from Italy and the Iron Curtain countries flooded the UK market.

10.21.: Company/Union Meetings After the Closure Announcement

The first took place on **October 28, 1981**, and Mr. Gibbard, Divisional Organiser of the AEU, speaking on behalf of the union officials present, asked the Company to reverse its decision. Mr. Budd then called for an adjournment.

On re-assembling Mr. Budd explained the reasons for closure and said that "it is on this basis that we are not prepared to withdraw from our position. Mr. Bristow will be meeting the stewards next week to discuss an orderly run down of the plant".

After another adjournment, called for by Mr. Gibbard, he criticised the Company for not consulting the unions on the Kearney Report.

Two meetings took place on **November 2nd and 3rd,** and according to the Union's Minutes, discussion was centred on the introduction of a 39 hour-week.

On November 4,1981, Union officials told Company Directors that Perivale had been the most efficient and profitable of the three plants, and once again they requested an opportunity to analyse the consultants' report on which the closure decision was based. The Company refused to release a copy of the report to the Unions.

At the final meeting on **November 12, 1981**, Mr. J. Wyman, the chief union spokesman, told Management:

> **"We cannot assist in the closure. We are asking that we discuss the future of Perivale"** [Hoover Shop Stewards' Minutes, November 12, 1981].

Mr. Budd stressed that the closure of Perivale was the only viable option facing the Company.

10.22.: The Union's View

On November 12, 1981, union officials at Perivale had met to discuss tactics for the meeting with Management later the same day. According to the Shop Stewards' Minutes this was to be the last Company/Union meeting, and the thoughts of the shop stewards are recorded:

> **1. The run-down of the factory, which was under way, had to be halted for meaningful discussion to take place.**
>
> **2. The decision was irreversible.**

Mr. John Cope was a leading shop steward at the Perivale factory and was a participant at all Company/Union meetings. He confirmed reports that employees realised that Cambuslang or Perivale would be closed. He was very critical of the Company's continued refusal to disclose certain information.

According to Mr. Cope, the Company disclosed a great deal of information, but it was considered of little value, and in an effort to extract more specific information the GMWU complained to the CAC. Prior to the down turn in the fortunes of Hoover's UK operations, the GMWU believed it had been succesful in establishing a sophisticated disclosure of information process at Perivale. Once the employees' concern over job security grew, Hoover's reluctance to disclose its investment plans grew apace.

According to Mr. Tony Lusby, a regional official with the GMBATU, the trades unionists were familiar with the OECD Guidelines. Mr. Carl Casserini, Assistant General Secretary of the International Metalworkers' Federation, was informed of the situation at Perivale, but there seemed little purpose in referring the case to the UK National Contact Point. The unions had indicated to Hoover's management that they considered the Company's behaviour to be in violation of the Guidelines:

> **"This point was made to the Company. The answer was a "lemon". To pursue this point we involved our National Officer, Ken Baker who in turn involved Carl Casserini of**

the International Metelworkers Federation. The object was to secure help from our European and American colleagues. You will appreciate that an exercise of this magnitude would take some considerable time - one commodity we were short of. The outcome did not materialise due to events overtaking this initiative" [note to author from Mr. Lusby].

Mr. Lusby accuses Hoover of failing to provide adequate information on the grounds for closure:

> **"To this day we don't know the cost comparisons with Perivale and Cambuslang"** [interview with Mr. Lusby, November 11, 1984].

He alleges that Hoover's policy was to present employees with a "fait accompli", and the closure decision was no exception:

> **"the (closure) decision was irreversible -that was normal Hoover practise. The unions were not involved before the decision was taken, and nor were they allowed to have an input into the argument"** [interview with Mr. Lusby, November 11, 1984].

Mr Cope affirms that employees' representatives were consulted only after decisions had been made and the expected outcome of these decisions was discussed. They were presented with a "fait accompli" situation until the very end, when Perivale's closure was announced. They never participated in the decision making process.

Mr. Lusby believes "there is an absolute need" for the "Richard's Directive", "but", he confessed "it could be a hot potatoe for unions" [interview with Mr.Lusby, November 11, 1984].

10.23.: The Company's View

Unfortunately Hoover was unwilling to accept the author's invitations to cooperate in this study. Their explanation is not dissimilar to that given to the CAC when the GMWU complained that the Company had not provided information which had been requested:

> **"We hope you will understand that we are unwilling to enter into correspondence on the matters you have raised as they are of commercial importance to us".**

In a telephone conversation with Mr. Budd on November 2, 1984, the author explained that he had already recorded the views of some employees' representatives, and wanted to be given an opportunity to note the Company's position. He declined this offer.

In the course of conversation, the author revealed that he already had copies of the Minutes of many Company/Union meetings. Mr. Budd wanted to know which union had allowed me to inspect these, so that he could proceed to make a formal complaint to the union concerned.

10.24.: Epilogue

In 1983, Hoover increased its 58% stake, and acquired total control of the UK subsidiary, at a cost of £19m. But then two years later when America was gripped by merger fever, the US parent was swallowed by Chicago Pacific, a former railway company, in a $530m deal. Although dwarfed by other deals concluded in 1985, Chicago Pacific's offer was considered very generous and the bid was uncontested.

10.25.: Conclusions

Three plant closures are examined in this case study, Grundig (Dunmurry), Hoover (Perivale), and Singer (Clydebank). The two US MNCs - Hoover and Singer - were established in Britain long before Grundig became a multinational company. The key factor in the divestment of each was the adverse business climate which the firms confronted. The section below reveals once again the appropriateness of the eclectic theory of divestment which encompasses condition-, motivation-, and precipitating circumstance-based theories.

10.25.1.: Divestment Theory

(a): Condition-based Theory

Singer in 1867 at Clydebank, Scotland and Hoover in 1932 at Perivale, England, opened their first plants in Europe when each was the undisputed market leader in sewing machines and vacuum cleaners, respectively. Their success was attributed to their quality products and substantial marketing skills. By the time these pioneering operations were closed, each Company had declined to a a mere shadow of its former glory. Mastery of business functions had been dissipated and rivals had mercilesssly exploited the weaknesses of the former market leaders and encroached upon markets previously monopolised by Singer and Hoover.

Looking back, events political, economic, and social were militating against Clydebank's survival as early as 1917 when the revolution in Russia lost Clydebank its major market. The Japanese miracle and the emancipation of women made closure inevitable.

None of the plants examined in this thesis had a lifespan as long as Clydebank's 95 years. It is not surprising therefore that conditions, prevailing when the original investment decision was made, had been totally eroded when the divestment decision was finalised almost a century later. In the mid-1970s the labour force was less than half in number the previous decade's peak. The history of The Singer Company and the Clydebank plant conforms to the Product Life Cycle model of divestment. A century after the Company opened its original Scottish plant, the sewing machine was a mature product facing negligible local demand: Clydebank was on its last legs.

Unlike Singer's, Hoover's post-war rivals were not in the East but nearer home, in the US and Western Europe. Its major European rival was the Swedish MNC, Electrolux, which expanded rapidly in a series of astute acquisitions.

The problems facing Hoover stemmed from four key factors: overcapacity as markets matured; poor marketing; inadequate investment in research, new products, and plant; structural changes in the retail trade. Independent dealers were undermined and powerful multiples took over. Large chain stores and discount warehouses used their not inconsiderable purhasing power to steal the price initiative from the makers and force further cuts in margins. As with Singer, by the late 1970s/early 1980s manufacturing, marketing, and distribution techniques were totally different from those of half a century earlier when Hoover opened Perivale.

Grundig was never synonymous with its product as were the two US MNCs - only a handful of firms have achieved this kind of name-fame. The comparitively small German MNC, like other Western manufacturers, was swamped by the numerous Japanese firms which quickly became household names throughout the world. A concerted European response was necessary to hold back the Japanese invaders, and Grundig was acquired by Dutch giant Philips, only after the West German Cartel Office blocked a bid by Thomson of France.

The Grundig plant closed within just twenty years of opening, but in this comparitively short period, the consumer electronics industry was revolutionised. Whereas, significant product differentiation was achieved in sewing machines simply by introducing pastel coloured models, success in the consumer electronics industry demanded innovation, cost-competitive models, and skillful product placing and marketing. The Japanese at first merely offered cheaper copies of Western rivals, but then they too achieved strong brand image with new products - eg. Walkman, pioneered by Sony, became synonymous with personal hi-fi.

Within its short lifespan, Dunmurry found market conditions in 1980 totally transformed and the plant's future became increasingly tenuous.

(b): Motivation-Based Theory

Singer was overwhelmed with motives for closing the Clydebank operation. The parent Company was in tatters after decades of managerial ineptitude. The diversification policy had been an unmitigated disaster, and "core" business had been neglected. The Scottish manufacturing operation was a monument to these failures; crumbling Victorian buildings and ancient outdated plant precluded the demoralised workforce from achieving productivity levels comparable with their Japanese counterparts. However, even efficiency and modern equipment could not have saved the factory. The market for domestic machines was dwindling in Western Europe, and Singer began transferring European production to Latin America and the Far East.

Clydebank was Singer's first major European plant to close. Dwindling markets eventually compelled the company to spin-off its entire sewing machine business and concentrate on aerospace technology. The basic cause of closure, therefore, was clearly changing conditions.

Hoover's decision to close Perivale stemmed from excess capacity in the UK, a problem which plunged the once highly profitable subsidiary into a loss-maker, and with it, the US Parent Company. Other producers of vacuum-cleaners in both Eastern and Western Europe had made serious inroads on Hoover's markets. Four possible solutions to the problem were considered but finally Management took the decision to close Perivale.

Throughout the twentieth century, the time lag between invention and mass consumtion has been steadily reduced; no sooner have new products been launched, than the market is swamped with rival models which swiftly pull down prices and profit margins. Whereas, Singer and Hoover had established themselves as undisputed market leaders, and basked in this fortunate position for eighty and fifty years, respectively, Companies formulating investment decisions today realise that they shall never achieve such lengthy domination. It is only to be expected, therefore, that the lifespan of the average manufacturing operation will be shorter as the rate of change accelerates and that the divestment process will have to be considered at the time of investment.

(c): Precipitating Circumsatnce-based Theory

Singer decided to close Clydebank only after the appointment of a new Chief Executive, Mr. Flavin, who came to power with one over-riding objective - the disposal of "dogs". Within months of his appointment, he visited Clydebank on a fact-finding mission. Shortly afterwards he implemented major senior staff changes at the UK subsidiary.

In 1977 Clydebank's Managing Director, Scotsman, Mr. John Wotherspoon, who was committed to Singer's oldest foreign operation, was promoted sideways to Chairman of the UK Subsidiary. He was replaced by the parent company's own man, American, Mr. Neely who had no emotional attachment to the crumbling factory. Significantly, this appointment followed the 1976 visit of newly appointed Chief Execitive Officer, Mr. Joseph Flavin. The appointments of Flavin and Neely broke down any "barriers to exit", thus precipitating divestment.

Perhaps, significantly, the Managing Director of Hoover's UK subsidiary resigned only two months before the Perivale closure announcement. His replacement, Mr. Goode, lived up to expectations and quickly streamlined operations. This strategy proved successful and the UK subsidiary was restored to profitability in 1983 having returned a loss of almost £32m in

1982. In 1984 post-tax profits doubled to £11m, and in 1985 Mr. Goode stepped down, his mission accomplished [Dodsworth and Reeves, November 1, 1985, p.30].

The decision to close Dunmurry was taken by well-established management at the German parent, suggesting that sufficiently adverse conditions and strong motivations will eventually trigger off a divestment review by managers, regardless of any commitment to certain manufacturing units.

10.25.2.: The Divestment Decision and Employee Disclosure and Consultation

In the three cases examined, the divestment decisions were taken by parent company executives, Flavin for Singer, and Rawson for Hoover. In the case of Grundig, identifying the executive(s) proved impossible.

Hofstede and Gray's "cultural relativism" models indicate that America is more disposed to disclosure and the two US MNCs, Hoover and Singer, provided enough information for employees to appreciate that their plant's future was in jeopardy. Unions, however, have accused both firms of misleading the workforce.

(a): Singer

Mr. Neely was only months into his new job in Scotland, when on March 9, 1978, he warned shop stewards that Singer was considering closure. The Company's 1977 Annual Report issued the following day, also contained an ominous message concerning the future of the Clydebank plant, but European Division President, Mr. Ed Keehn assured shop stewards on March 22, that the Clydebank plant would not be closed. Then on April 4, they were told by Keehn that Flavin was coming to Britiain to discuss the factory's future with the Labour Government.

Following talks with Government, Flavin announced on June 22, 1978, that the labour force would be reduced by more than half, from 4,800 to 2,250, and that a five-year £8m investment programme would be launched. All production of industrial machines would be terminated. The media alleged that only Government pressure had saved the Victorian site from total closure.

The proposals were unacceptable to Trade Unions and they persuaded Singer to give them four months to find a viable alternative that would protect more jobs. Shop stewards' own perception however was of a workforce more interested in redundancy payments than in continued employment.

In November 1978, the Union presented its counter-proposals, prepared by PA Management Consultants, which included retaining the Industrial Products Group and saving another 750 jobs. On November 27 Singer responded by agreeing to continue production of two industrial models, thus saving 335 jobs.

This compromise was rejected by the Shop Stewards. Plant Managing Director, Mr. Neely, warned that the plant's performance in the forthcoming fifteen months would determine its future. On December 8 the Company backed down once again, and offered to produce two additional industrial models (four in total) thus saving another 165 jobs, provided the Government came up with another £2-4m. This was to be the Company's final offer and employees were presented with the grim reality of the situation: to accept the offer would save the plant, rejection would mean immediate closure.

Incredibley, the workforce rejected this proposal on December 13, yet the Company retracted its threat to close. On January 17, the workforce, was afforded the opportunity, and voted 2-1 in favour of Singer's latest proposals. Observers believed that at that point the plant's future was "reasonably sure". However, it had been political intervention which had saved Clydebank and the Labour Government's subsequent defeat in the 1979 General Election placed the Scottish plant in jeopardy.

The divestment decision had certainly been taken by early October 1979, but on October 8 European headquartes denied closure - perhaps it too had not been informed by the US parent. On October 12 employees were informed of the closure decision. After years of uncertainty, Clydebank closed eight months later in June 1980.

(b): Hoover

On September 28, 1981, only four weeks before the Perivale closure announcement of October 23, UK Management told employees that no decision had been taken on the four options. Management's statement did nothing to dispell employees' fears. On September 29 the workforce in a strongly worded statement alleged that Hoover had decided to close Perivale at least five months earlier, in April, and was currently conducting an elaborate masquerade.

The author initially viewed this claim with a degree of scepticism, but in the course of research saw that the charge could not be dismissed lightly. Why was management so fearful of Company-Union minutes being examined; did the Company have something to hide? Hoover's announcement that the closure of Perivale was only one of four options being considered, appears a noble gesture, but was it a tactical masterstroke, eliminating the possibility of concerted industrial action at all three UK factories.

Hoover divided and conquered. While national officials were passing motions threatening all out opposition to job losses and wage cuts, shop stewards at plant level in Scotland and London were claiming superior performance by their respective plants, and implicitly arguing for the closure of the other. Seven months after the closure announcement, manufacturing was terminated at Perivale.

(c): Grundig

Subsidiary management of the two US MNCs participated in the divestment process; not so with Grundig. Local management was no better informed than the worker on the shop floor. Executives from the German parent company flew to Belfast to deliver personally their shock news. Management and the labour force was stunned by the irreversible decision. On October 10, 1980, 101 days later Dunmurry closed.

It is not surprising that frustrated European labour movements have clamoured for EEC legislation to outlaw such corporate behaviour. Paradoxically, although Germany has progressive legislation on employee disclosure, national culture, like that of France, places a premium on secrecy.

Hampered by lack of corporate frankness, the author was unable to establish exactly when the closure decisions were made. He suggests that both US MNCs had reached a decision several months before employees were informed. However, although both delayed disclosing their decision, each firm was faced with quite different circumstances.

Hoover had a crucial advantage:- several UK plants, not just one. This situation was skillfully exploited. Hoover disclosed enough information to cause maximum panic at its Cambuslang and Perivale plants. It thus played the two workforces off against each other. The London plant was just as efficient as any other in the group, and had a good labour force exasperated by a none too impressive management.

Clydebank, on the other hand, bore all the marks of a plant which ahd known decades of neglect and mismanagement by its US parent. The dwindling work-force was demoralised and apathetic when the crunch came and it had lost the will to fight for jobs. The Company's plan to save the plant was only marginally different from the Unions', yet the workforce, as though fulfilling its death-wish, rejected the survival plan and treated corporate warnings with contempt. Nevertheless, Singer afforded the workforce an opportunity to reverse its previous decision.

Clydebank had not attracted sufficient investment, but during the Second World War, the factory, which had been the largest in the world at the start of the century, produced munitions, an activity that attracted the Luftwaffe. Ironically, the factory suffered only minor damage from the bombing, but the German blitzkrieg wiped out the heart of the town, destroying homes, schools, and churches.

The Hoover and Singer cases highlight major differences in Company motives for information disclosure and employee reactions to it. Hoover disclosed information in order to achieve a trouble-free closure, while Singer tryed to ensure continued production, if only on a reduced scale. Perivale employees grappled for further information in order to save jobs, Clydebank's workforce demonstrated that they cared little whether their plant closed or not. Shop stewards, however, at the Scottish plant, like their London counterparts, did everything in their power to prevent closure. Their effort was not backed up by those they represented.

Both US MNCs gave their employees more than double the legal minimum notice, and the closure of Clydebank and Perivale could hardly be described as totally unexpected. Grundig gave 101 days redundancy notice, eleven more than the basic minimum requirement; the Dunmurry workforce was presented with a fait accompli. Grundig's conduct was unacceptable - probably more reprehensible than that of any multinational examined in these industrial case studies.

Hoover's former employees at Perivale are in no doubt that they were victims of an elaborate deception. No evidence was found to refute that belief. Once again the OECD Guidelines for Multinational Enterprises played no part in the divestment process. Shop stewards at Hoover examined the Guidelines, but concluded correctly that it would serve no purpose to appeal to the Contact Point.

CHAPTER 11

THE TYRE and RUBBER INDUSTRY

11.1: Introduction

The Tyre and Rubber Industry has traditionally been dominated by US and European MNCs. In recent years, however, Japanese and Eastern European producers have made serious in-roads into markets once the preserve of Western producers.

In this chapter we examine employee involvement during the plant closure process when the world's three largest tyre manufacturers closed one or more of their UK factories. In 1982, Goodyear with a 22% share was the market leader, followed by Michelin and Firestone with a 19% and 10% share respectively. Comparison will be made between the two US firms with that of the French MNC, Michelin.

It has been found that those firms involved in divestment and with no other investment in the host country, nor plans to invest there in the foreseeable future, are particularly prone to minimise or avoid negotiations and discussions [BI Study, 1976]. Of the companies examined in this thesis, Firestone, alone, has ceased all production in the UK.

The tyre industry merits close study because improved employee disclosure and consultation practices are seen as an integral part of the Tyre Sector Working Party's programme for reflating the ailing industry. It was reported in July 1982, that Management members of the Tyre Sector Working Party (TSWP) believed that,

> **"all the tyre companies have established well-defined lines of communication with their own workforce, that these are working well and that the risk arising from the involvement of third parties such as the SWP is disproportionate to the benefit to be obtained from such involvement"** [letter from I.D. Macdonald, Assistant Industry Director of the National Economic Development Office to J. Millar, National Secretary

of the TGWU, dated July 4, 1982]

11.2.: The World Tyre Market

In the 1960s, Goodyear, Michelin, and Firestone opened new plants and set employment levels for their worldwide operations, but by the mid-1970s their predictions of demand in the tyre market had not been realised.

Contrary to Michelin's estimates, between 1979 and 1982, European and North American demand for car and truck tyres (as original equipment and replacement) fell by 38m units from 314.7m to 275.8m.

The result of this was that tyre manufacturers faced serious overcapacity. The source of the overcapacity problem can be attributed to the huge popularity of radials which lasted twice as long as cross-ply tyres.

The radial tyre had been invented by Michelin in 1948, but failed to conquer the global market until about 1970. The French MNC's invasion of the giant US market caught domestic producers off guard, and Michelin strengthened its market position. US tyre manufacturers, quick to recognise the threat posed by their arch European rival, launched a massive capital investment programme to upgrade plants and convert them to radial production. For example, between 1974 and 1984 Goodyear spent $3.2 billion to cancel out Michelin's temporary technological advantage [Labich, May 28, 1984].

By the early 1980s, virtually all new cars produced in France, Italy, and West Germany, and all but 5% in the UK were fitted with radials. Japanese car manufacturers showed the the same degree of preference for radials as European manufacturers. In the US, radials have not proved so successful in the market, but they still account for 60% of new car tyre production.

Compounding the industry's problems, motorists drove their cars a little less each year in the period 1978-1982. In Britain,for example, the average car covered 9,710 miles in 1978, but only 9,400 in 1982. The main reason for this was undoubtedly an increase in the price of petrol. The universal imposition of speed limits also led to a reduction in sales of replacement tyres [Marshall, April 4, 1986, p.23].

The number of tyres bought per car per year dropped sharply. Tyres had a longer life-span, and in the same period there was a decline in sales of new cars in the big "western markets" - ie. the US, W.Germany, France, Britain, and Italy. Between 1972 and 1981, these markets sufferred a 5% decline in the annual number of new vehicle registrations.

During the 1970s, Nissan, Toyota, and Honda made great advances in Western car markets by increased import penetration. By 1983, Japan was the largest automobile manufacturer and the tyres for its vehicles were supplied by Japanese firms.

Table 11.1: Net Income of Firestone, Goodyear, and Michelin (millions)

Year	Firestone	Goodyear	Michelin
1985	$ 3	$411	$110
1984	102	411	$(256)
1983	111	306	FFr(4,165)
1982	6	330	FFr (290)
1981	135	368	FFr 815
1980	(106)	312	FFr 598
1979	113	202	FFr 686
1978	(148)	253	FFr 675

Source: Corporate accounts; various copies of Fortune magazine.

Consequently, Japan's three major tyre makers - Bridgestone, Sumitomo, and Yokohama, - have increased their share of the world market from next to nothing in the early 1970s to 13% by 1982, and with productivity levels more than double those attained at the older US and UK plants. A high proportion of Japanese plants were originally equipped for radial production, thus, unlike their US rivals, they avoided the expensive transition from cross-ply.

In 1982, Bridgestone, for example, increased its net profit by

21% to $72m. In the same year, Michelin lost $609m and Firestone's net profit fell to $6m. Goodyear's net profit fell by $38m on the previous year to $330m (see Table 11.1).

Both Goodyear and Michelin have fought ferociously to protect their market share of the world tyre market, but Firestone has eliminated one third of its capacity, and in 1982 it sold to Bridgestone a radial tyre plant in Tennessee, sparking off rumours that it planned to divest its tyre operations and sell out to Japan's number one tyre producer [Labich, May 28, 1984].

Bridgestone's decision to establish a presence in the US was based on the realisation that it had to have local manufacturing capacity in order to mount a succesful onslaught upon the US market. Under Firestone's ownership, the plant, deprived of investment and with an appalling industrial relations record, would have closed. During the first year under new ownership, output was doubled and a large capital expenditure programme was launched.

In the increasingly competitive market, tyre producers have been compelled to seek a short-term advantage either through improved productivity which generates further surplus capacity, or through technological innovations which render their products more durable, but in the long-term lowers demand. Whatever the option chosen it precipitated the need for plant closures.

Rationalization was initiated by US MNCs. Firestone and Goodrich closed plants in Switzerland and West Germany respectively. In early 1979, Uniroyal, the third largest US tyre manufacturer, sold its entire European operation to Continental Gummi-Werke, West Germany's leading producer, and Phoenix, Germany's second largest manufacturer, decided to withdraw from the tyre market. By the late 1970s, early 1980s, it was apparent that producers in the UK were being weighed down by excess capacity, and that retrenchment and restructuring was imperative [Hood and Young, 1982].

11.3.: The UK Tyre Market

Between 1979 and 1982 the decline in the UK market was even more severe than in Europe, where sales contracted by 16%, compared with 12% for the region as a whole, from 27m units to 22.5m units.

As foreign-owned firms have ceased or reduced production in the UK, imports have increased substantially, contributing to Britain's balance of payments problems for manufactured goods. In 1975, imports accounted for one sixth of the UK market, and as import penetration increased, they accounted for one quarter by 1980. By June 1984, UK imports reached a staggering 46%. Six countries have been identified as "main low price suppliers" - East Germany, Yugoslavia, South Korea, Poland, Portugal, and Turkey. Table 11.2 shows that imports from these Iberian and Comecon countries has risen at the expense of imports from other EEC countries.

Table 11.2: UK Replacement Tyre Imports -supplier countries

Market Segment	1982	1984 (Jan.- June)	1982	1984 (Jan.- June)
	Cars		**Trucks & Vans**	
EEC	71%	59%	70%	65%
Spain & Portugal	10%	13%	4%	6%
Eastern European (incl. Yugoslavia)	11%	12%	9%	11%

Source: Tyre Sector Working Party: internal document

Faced with the above market conditions, the only consolation for Western tyre manufacturers is the increase in the number of cars on the road. Replacement tyres account for a bigger share of the market than the tyres on new vehicles. In the UK, for instance, sales of replacement tyres account for 75% of the market.

This factor did not compensate for the other deteriorating conditions, and a major shake-out in the UK market was necessary. Between 1978 and 1982 employment in the UK tyre manufacturing industry was cut by more than half, from about 45,000 to 22,000. Table 11.3 shows the composition of the UK industry in 1979.

Table 11.3: Tyre Manufacture* in the UK in 1979

Company	Number of Plants	%of production	Number of Employees
Michelin	5	24	11,000
Dunlop	4	23	10,749
Goodyear	4	21	7,062
Firestone	2	11	4,764
Pirelli	2	9	3,837
Avon	1	7	3,347
Uniroyal	1	5	967
Total	21	100	41,326

* Goodyear, in fact, had only two tyre manufacturing plants, Drumchapel and Wolverhampton. Barnsley and Dudley were retread plants, and Craigavon produced rubber products.

Source: "Tyres - an industry gone flat", Labour Research, July 1979.

In 1979, the Dunlop-Pirelli merger was dissolved, and the British MNC closed plants at Inchinnan (Scotland), Cork (Eire), and Speke (England). Theoretically, these closures cut capacity by a quarter, but productivity gains were so sharp that in 1983 Dunlop could equal 1979 output levels [Seargeant, September 20, 1983].

In September 1983, Dunlop revealed that it was selling its 40% shareholding in Sumitomo Rubber Industries, and the bulk of its loss-making European tyre operations to Sumitomo, Japan's second largest tyre producer. Ironically, Sumitomo was founded as a wholly-owned subsidiary of Dunlop in the 1920s. This deal had been concluded in utmost secrecy, and Dunlop found itself berated by British journalists and Trades Unionists alike. The TUC referred Dunlop to the UK National Contact Point, accusing it of breaching the OECD's Guidelines for Multinational Enterprises.

UK subsidiaries of foreign-owned firms did not escape unscathed either. By 1981 Firestone had terminated UK production, and the following year, Michelin announced the closure of its larger plant in Northern Ireland. We begin, though, by examining the divestment process and employee disclosure and consultation when Goodyear closed its Scottish tyre manufacturing operation in 1979. This is followed by an examination of the closure in 1983 of Goodyear's Craigavon plant in Ulster which manufactured rubber products only, <u>not</u> tyres.

GOODYEAR

11.4.: Origins and Internationalisation

The Goodyear Tyre and Rubber Company was established in 1898 in Akron, Ohio. It manufactured bicycle and carriage tyres, but during its second year, car tyres were added to the product line. There was no looking back, and Goodyear mushroomed, becoming one of the world's largest MNCs.

In 1910, Bowmanville, Canada, became the site of the Company's first foreign venture, and sales branches were opened in Australia, Argentina, and South Africa in 1915. Production of rubber tyres had grown so rapidly, that by 1916 Goodyear found it ecoonomical to acquire a plantation in Sumatra. In 1927, the first plant in Europe was opened in the UK, at Wolverhampton:

> **"This was the beginning of a European manufacturing strategy which was heavily based on the UK"** [Hood and Young, 1982, p.137].

Just before war broke out, construction began on a plant at Norkopping, Sweden, but the first major plant on the Continent was established in 1949 in Luxembourg. The Company reinforced its UK presence with the opening in 1957 of a plant at Drumchapel, on the outskirts of Glasgow. In the 1960s, further plants were either acquired or built in France, Germany, Italy, Luxembourg, and Sweden. Despite expansion on the Continent, almost half Goodyear's European employment and a third of its European assets were in 1965 still in the UK plants. In 1977, UK operations accounted for 45% of the company's 24,000 strong European labour force [Hood and Young, 1982].

Hood and Young [1982] examined in depth the corporation's European manufacturing strategy. They believe that by the mid-1970s it was obvious that Goodyear's European manufacturing base was burdened with excess capacity. They argue that,

> **".. it was inevitable that if the corporation were to fulfil their rationalisation aims, this would have particularly serious implications for the Goodyear Tyre and Rubber Company (Great Britain) Limited"** [Hood and Young, 1982, p.140].

Table 11.4: Goodyear Tyre and Rubber Company (Great Britain) Ltd.

Year	Sales (£000)	Net Profit before Tax (£000)	Number of Employees
1984	244,121	6,006	5,840
1983	231,760	873	6,302
1982	226,089	(13,656)	6,578
1981	216,476	(17,093)	7,626
1980	217,176	(717)	8,662
1979	206,318	(13,392)	8,998
1978	179,752	(21,401)	10,785
1977	187,571	(507)	11,432
1976	159,267	611	10,979
1975	131,715	92	11,212
1974	111,955	3,605	10,942

Source: Extel Statistical Services

Goodyear's UK subsidiary had been highly profitable, but following the 1974 oil crisis its fortunes deteriorated sharply, and before the end of the decade it was carrying heavy losses (see Table 11.4). 1978's pre-tax loss of £21.4m outweighed the profit of £18,621 made in the seven years between 1970 and 1976! Remedial action had severe implications for UK operations.

Between 1978 and 1984, employment was reduced from 10,785 to 5,840, as the company closed its tyre plant and rubber products facility in Scotland and Ulster respectively. A number of factors which prompted the decision to close the former site proved irrelevant in the latter divestment, and vice versa, and this divergence in key divestment factors appears to have influenced Goodyear's handling of each case, in terms of employee disclosure and consultation. Our analysis begins by examining the Drumchapel closure.

A. DRUMCHAPEL

11.5.: The Background

Plans for the Drumchapel Factory were first announced at the Scottish Motor Show in November, 1955, and 18 months later the factory was in production, the first tyre coming off the production line on May 28, 1957. The plant produced car, truck and tractor tyres both for motor vehicle manufacturers and the replacement market.

On September 26, 1957, at the official opening, the President of Goodyear International testified to the high standard of equipment installed at Drumchapel:

> **"The best I have seen in Goodyear, or indeed in the rubber industry of the entire world"** [quoted in Hood and Young, 1982, p.141]

In common with other manufacturers, Goodyear in the 1960s forecast dramatic increases in tyre sales, and the Drumchapel plant was expanded. The introduction to this chapter showed that this optimism was mis-placed and by the mid-1970s the industry was well and truly flattened. Beset by excess capacity, it was predictable that Goodyear would trim down its operations. Drumchapel's productivity and labour relations record was the worst in Europe. It was, therefore, high on the list of candidates for divestiture.

By early 1978, Goodyear was already meeting Scottish MPs, local dignatories, and senior Trades Union officials with the express objective of acquainting them with the problems associated with its Scottish plant. It also held a continual dialogue with the labour force.

May 1978: Three senior managers of the UK subsidiary presented union representatives with the results for the first quarter. It was stressed that Drumchapel's performance would have to be improved significantly or closure could follow. Management stressed that it was imperative the plant's ticket (ie production target) be met.

June 1978: Mr. Donald Dewar, currently Shadow Secretary of State for Scotland, had just become MP for Garscadden, and the Drumchapel operation was within his constituency. The local Management, therefore, invited him to the plant to explain its position first hand.

August 1978: Second quarter results showed further deterioration and employees representatives were warned once again that better utilisation of manpower must be achieved.

September 1978: local factory management briefed all employees of Drumchapel's poor performance. Mr. Gregor McKenzie, MP, then Minister of State at the Scottish Office, received an updated review of the situation.

It became abundantly clear that the US Board was far from pleased with the factory's performance when the Chairman of the Board himself, flew in from the US to visit the Scottish Factory.

He told Mr. James Milne, then General Secretary of the Scottish Trades Union Congress (STUC), and senior shop stewards of the three unions represented at the plant that closure had already been recommended but that he was reluctant to act on this advice. It was during this meeting that he said a prerequisite for retaining the factory was a return to 15 shift working.

Later, in a letter to the then Provost of Clydebank, Mr. William Johnstone, the Chairman of the Board wrote:

> **"I specifically advised them (ie the Union officials) that unless we could make our Glasgow Plant viable, it would have to close"** [Letter to Provost Johnstone, April 5, 1979].

His visit coincided, he wrote, with the introduction of a programme designed to ensure Drumchapel's future:

> **"We produced fact sheets and sent letter to the homes of our employees clearly spelling out the gravity of the situation and the need for the sucessful implementation of the program".**

October 1978: Local Management's dialogue with Mr. Dewar was continued. Discussions were held with Mr. R. Macdonald, Regional Secretary of the TGWU, Mr. H. Parker, a local official and Mr. H. Wyper, then understudying for the Regional Secretary position.

December 1, 1978: The Plant Manager and Production Supervisor, updated Mr. Milne of the STUC on the plant's financial position. The latter was told that closure was likely unless there was an improvement. The plant manager telephoned the local MP, Mr. Dewar, to relay the content of the meeting with Mr. Milne.

11.6.: The "Plan for Survival"

December 8, 1978: a number of Shop Stewards were informed of the third quarter results and the "Survival Plan" in a broadsheet entitled "Requirements for Continued Operations: Scotland Plant". It read:

A. Factory returns to 15 Shift operations.

B. Plant standards of methods, procedures and <u>manning</u> to be competitive with other Goodyear Factories.

C. Maximum Plant coverage with piecework rates fair to both Company and Employee with proper piece accountability.

D. Spirit of Union/Management agreement.

E. Company/ Union agreements to be abided by in full to the final conclusion.

F. No outside procedure restrictions or actions to be initiated, such as overtime bans, movement of equipment, etc..

December 11, 1978: A second presentation of third quarter results and the "Survival Plan" was necessary "because individuals from the Trade Unions could not be present on the previous occasion". Mr. Milne, and officials from the TGWU and the AUEW, plus plant shop stewards were in attendance.

The Plant Manager issued the following letter to all employees at the Scottish Plant:

"During our meetings in September we explained to you the problems facing our Plant. Since early October you are aware of the improvement in our performance. Although this is encouraging there is till some considerable way to go before we become competitive.

In these meetings we stressed four main points to help us become competitive these were:

- Meet our daily ticket

- Reduce all in-plant losses - waste, manpower etc.

- Reduce Absenteeism

- Resolve our disagreements by using the agreed procedural arrangements and not by instant action which interrupts production.

We all know some progress has been made in these areas but we still have a long way to go.

A further point mentioned to all of you in September was that the Company was reviewing its whole structure of operations. The announcement made today was the result of that review and with it you have learned the conclusions reached and how they affect our factory. To help you understand the thinking and proposals attached is a copy of the statement and it is also arranged for Supervision to answer your questions aided by a "Facts" sheet.

Your comments about our plan will be welcome because there is no doubt that continued employment for all of us depends upon our collective efforts being channelled to achieve the targets for which we strive - a low cost, high quality product delivered on time.

We are sure that given the necessary co-operation our problems can be resolved with the objective that Goodyear will continue at Garscadden for a long time to come."

The Department of Employment was notified of 200 proposed redundancies, their 90 days notice to expire on March, 10, 1979.

December 12, 1978: Each and every employee was informed of the "Plan for Survival".

December 22, 1978: The Plant Manager issued the following letter to all employees at Drumchapel:

"The representatives of the T&GWU have informed the company that at a Branch meeting on December 17 the six points of the company's Plan for Survival for the Goodyear Glasgow Factory were rejected.

We have had several meetings with the shop stewards negotiating committee to attempt to clarify the company's position. The company has also been attempting to find a basis for discussion that would allow the Survival Programme to be implemented. To date a mutually agreed programme has not been formulated. The management feels that the subject under discussion is so serious that it wishes to be sure that any final decision is not influenced by the feelings of emotion that have obviously affected all of us in the few days after the announcement of the programme. It is for this reason that discussions with the shop stewards negotiating committee have been continued.

It must be emphasised that the magnitude of the daily financial losses being sustained by the Glasgow Plant and absorbed by the company cannot be continued for any length of time. We, therefore, must be sure that everybody is aware that without some meaningful progress towards the implementation of the Survival Programme in the next several days it will be necessary for us to proceed with whatever course of action is necessary in the circumstances".

11.7.: Goodyear's Warnings

December 28, 1978: From Company documents it appears that the plant Shop Stewards had told Management that the membership had voted against accepting the "Survival Plan". Goodyear, for its part, emphasised that without its implementation, "the Drumchapel factory would not be financially viable and could not, therefore, hope to exist in today's competitive markets".

A Company spokesman stressed that:

> **"The magnitude of the financial losses currently being sustained by the Drumchapel factory cannot continue"** [Company Statement issued December 28, 1978].

It would appear from the cartoon below, drawn by an employee, that closure was expected.

January 11, 1979: By this stage Goodyear anticipated rejection of its "Plan for Survival", and was busy weighing up the various factors that would come into play in the event of closure.

An official Company document dated January 11, 1979, and entitled, "Assumption of Closure: assumption of closure based on anticipated refusal of rubber workers to accept proposals that


CLOSED
"RADIALS"
MXs
B.O.M.S.
LAB
P.Bs
BANNER
EXTRUDER
BEAD ROOM
J.K. LINE
CEMENT HOUSE
10x10

would make the plant financially viable" was prepared by the Director of Personnel, and this document, more than any other actually seen by the author, highlights the various factors considered by a firm facing a possible divestment.

It pinpointed the perceived pros and cons which Goodyear would face in the event of closure. For example, the Clydeside's notorious industrial relations were seen as a major plus for Goodyear. Goodyear believed the public could well be expected to blame closure on what it perceived as an awkward militant workforce. As evidence of the public's image of Glaswegian workers, it cited the article, "Singer Chief Repeats Ultimatum", published in the Financial Times the previous week.

This feature had been highly critical of the workforce at the Clydebank plant of the US-based sewing machine manufacturers. The article was reproduced in full in the report. Goodyear therefore believed that its employees too would be lambasted for refusing to accept the Company's proposals, especially in view of the poor recent industrial relations record at a number of foreign-owned plants in the Glasgow area.

On the other hand, it warned that 1979 was General Election year in the UK It therefore expected resistance to closure from the then Labour Government.

The report also focussed on the various layers of the Trades Unions representing the Drumchapel workforce, and concluded that employees' representatives at plant level tended to be the most politically motivated.

The summary of the Report was entitled, "most likely sequence of events once closure intention is announced". It is reproduced in full below:

> **"(1) Unions will want to carry on "negotiations" with the company to dilute the conditions.**
>
> **(2) Failure to achieve above will result in the following course of action from the Union:**
>
> **(a) acceptance of conditions**

(b) intense industrial activity

(c) acceptance of closure

(c) is thought most likely after a period of (b)

(3) Acceptance of closure will bring pressure to improve redundancy terms.

(4) There would be no resistance to pay in lieu of notice (90 days) thus a relatively quick closure instead of 90 day wind down.

January 15, 1979: National and District officials of the Transport and General Workers Union met with Management at the plant to discuss the Company's six-point programme for survival which included the rationalisation of production, involving the loss of 200 jobs, the re-introduction of five day, three shift working, and adherence to agreements between the Company and the Unions involved [News from Goodyear, Statement Issued: January 16th 1979].

After the meeting a Company spokesman commented:

> **Very little progress, if any, was made at the meeting owing to the refusal of the union representatives to accept items in the programme which will provide for better utilisation of plant. This will give the factory the only opportinity to cut its losses and become competitive, in what is a very competitive market"** [News from Goodyear, Statement Issued: January 16th 1979]

The Company stressed the gravity of the situation and asked the union officials "to report back to a full meeting of the branch to get a more flexible mandate from their members" [News from Goodyear, Statement Issued: January 16th 1979].

The spokesman warned:

> **"No-one should be left in any doubt of the serious nature of the situation. The company has repeatedly stressed that the financial losses currently being sustained at the Drumchapel factory cannot continue. Unless substantial progres is made very quickly then the company will be forced to find some other solution to ensure its survival in the United Kingdom"** [News from Goodyear, Statement Issued: January 16th 1979].

February 8, 1979: The Chairman and Managing Director of Goodyear Great Britain, issued the following letter to the plant's employees:

"Fellow Goodyearite

For the last nine months, we have been talking about the future of Goodyear Scotland and we all know the situation is very serious. To remain competitive, in a shrinking tyre market, we have to improve our performance.

We have emphasised through plant-wide presentations, letters and 'facts' sheets that our Scottish plant compares unfavourably with the rest of the UK tyre industry. ....

In September last year, our Board Chairman, Charles J Pilliod, came to Garscadden from the USA. During his meetings, with management and employee represenatives, he emphasised that the plant's poor performance justified the announcement of its closure. He pointed out that our performance in production, quality, scrap and employee attendance was the worst in every aspect when compared with the remainder of the company's European factories. He said the only way for us to stay competitive was to establish - and achieve - realistic goals which could make Garscadden viable. Mr. Pilliod said the most important goal was to return to a fifteen-shift working system.

Following Mr. Pilliod's visit, we announced a programme for our survival. During the past few weeks, all employees have been fully briefed on the need for the acceptance of this programme, the main points of which are:-

1. Factory returns to 15 shift operations.

2. The ticket is produced.

3. Maximum plant utilisation with manning and piecework rates, fair to both employees and the company based on actual production competitive with other Goodyear factories.

4. The right spirit of union/management agreement, with better understanding and co-operation, for example with overtime issues and the movement of equipment as necessary.

Since that time, in addition to a series of meetings between management and employee represenatives at local level, the company has also had discussions with national and regional trade union officers; members of parliament; the Scottish Trades Union Congress; Government officials and the Lord Provost of Glasgow. On all these occasions, the company expressed its concern over the future of the Garscadden plant and has emphasised the need for mutual agreement on the steps that now have to be taken.

.... In this business climate and with its current operating

performance, it must be obvious to all of us that Goodyear Scotland cannot survive. The present situation cannot justify the continuation of the plant.

But in the 85 years Goodyear has been in business, the company has always tried to avoid plant closures. Management, therefore, presented your union representatives with a basis for agreement that will keep our factory alive and ensure a future for us all.

During these meetings, the company has advised your representatives that to make the plant viable it has carried out studies to simplify production by reducing the number of tyre sizes, compounds and treatments.

At these discussions, your representatives expressed their concern about the future of the plant without radial tyre production.

Because we wish to explore every opportunity to make the Scottish plant viable, the company this week made another proposal.

Subject to agreement being reached on the points under discussion, the company would consider continuing the production of radial tyres at Garscadden. In turn, this would mean an increase in the number of employees who would have to become redundant.

To ensure the continuation of the Scottish plant - which has been so much a part of our lives since 1957 - it is vital that flexibility is also shown by employees. A return to a fifteen-shift system is the most important aspect of the survival programme. Without this we cannot make the plant viable.

All employees should be fully aware of the gravity of our present situation. You are asked to carefully consider all the points that have been made so you can make the right decision to secure the best future for yourself, your families, your community and the Garscadden plant".

11.8.: Employees Vote for Closure

February 13, 1979: less than a week after this solemn warning was issued, employees were given the opportunity to accept in full the "Plan for Survival", and prevent the closure of the factory, for the time being. However, at a mass meeting, held in Clydebank Town Hall, 500 of the 700 employees instead chose to reject the recommendation of their District Secretary, Mr. Parker, to accept the "Plan for Survival", and thereby gave Goodyear ample justification for closing Drumchapel.

The Factory Convener, Mr. Eddie Duffy, said:

> **"We put it very strongly to the men that if they did not accept these proposals, however unpalatable they are, then the plant would be closed completely and not only their jobs but those of others in the factory would go. ... The Company have left us in no doubt that it would be closure unless the plan was accepted"** [quoted by Baggot, February 14, 1979].

A return to 15 shift working was considered unacceptable by the majority present. Of this majority, most were still confident that the company was bluffing, whilst others refused on principle to accept the extra Friday night shift, as only a few years earlier a protracted strike, lasting eleven weeks, had achieved the abolition of this shift which had been highly unpopular. In the West of Scotland, Friday night is by tradition the "boys'-night-out".

The Scottish media was normally highly critical of foreign-owned firms closing their Scottish operations. But on this occasion, the workforce was held responsible, and, therefore, it was to be the subject of a vitriolic attack by the Industrial Correspondents of the various media.

February 14, 1979: <u>The Scotsman</u> newspaper ran a headline which said it all:

> **"Clydeside tyre workers vote away their jobs".**

<u>11.9.: Goodyear Acts</u>

February 20, 1979: Following the workers' rejection of its proposals Goodyear announced the closure as it had warned it would. Despite repeated warnings, the workforce had refused to accept the Company's "Survival Plan", but, had voted instead for closure.

The Chairman and Managing Director of Goodyear Great Britain informed employees, trade unions and the appropriate Government departments of the Company's decision to close its plant at Garscadden. This was the Goodyear International's first plant closure. A press conference was held at the Excelsior Hotel at Glasgow Airport. He explained the situation:

"After 52 years of operation in the UK. and 22 years in Scotland, the decision to close the Goodyear Scottish Plant has not been taken lightly.

We have three plants in the UK two of which are engaged in tyre production and one in general rubber products. The current competition in the UK. market has resulted in increasing pressure on our UK. plants' productivity. We have, therefore, had to consider drastic reductions in manning and simultaneous initiation of productivity drives in these three plants.

In our English tyre plant at Wolverhampton and in our general rubber products plant in Northern Ireland, we have had good co-operation and the position in both these locations is slowly being corrected through joint management/union progress.

Our Scottish tyre plant, however, for the past five years has been working only 14 shifts, or 4 2/3rd days per week. In order for this plant to have become viable it would have been necessary to revert to a five-day week, similar to that worked in other UK. plants and on the Continent.

During the last nine months every avenue of negotiations has been explored within the plant and at national and regional union levels to achieve this situation. Despite these efforts the workers have refused to return to the five-day work week system.

We have emphasised through plant-wide presentations to all employees, as well as through letters and company publications that our Scottish plant compares unfavourably, not only with the rest of the UK industry, but also with other Common Market plants.

With output per-man-hour at less than half the average production of any of the other company plants in Europe, Goodyear tyres produced in Scotland have, for the past few years, been sold at substantial losses which have been offset by the more productive European plants.

Employees at Garscadden have refused to accept a productivity plan calling for a resumption of a normal five-day week, a reduction in manning and the acceptance of performance measures, together with an undertaking to settle disputes within procedure. As a result, we have reluctantly reached the conclusion the Scottish plant can no longer operate as a subsidised plant within our European production system.

The competitiveness of today's tyre business in the UK. has been intensified by competition from Common Market countries and from East European plants -built with Western European technology. In the harsh reality of this business it is

vital we secure the Company's future position in the market. Because of our employees refusal to co-operate, we have no further option but to terminate tyre production at our Scottish plant.

We have, therefore, today taken the necessary steps to notify our employees, trade unions, the appropraite Government departments and the public of our decision to close down the Goodyear Scottish plant"

Preparations by the Company for meeting employees and holding the press conference were very thorough. It drafted a list of questions likely to be posed, and prepared answers. Some examples from the document, Questions Which May Be Asked By Employees Or At The Press Conference On February 20th 1979, are reprinted below:

Question

What will Goodyear do if the employees agree to all their requirements within the 90 day notice period given to the Department of Employment?

Answer

During the last nine months we have done everything possible to arrive at an agreement with our employees. We have discussed various ways the plant could remain open. In view of how much the production of radial tyres appeared to mean to our employees in Glasgow, we recently agreed to this as well, although we know from a cost point of view it will not benefit the Company. The employees have repeatedly turned down these suggestions and voted against our latest proposal last Tuesday. After nine months we cannot believe any purpose will be served now we have announced the closure of the plant, for re-opening discussions which proved so unsuccessful in the past.

Question

With shrinking business for the tyre companies in the UK, Goodyear - like Dunlop - would have probably inevitably had to close one of its plants. The employees believe Garscadden was singled out for this treatment and that management are using the argument of the 15 shift to place the blame on employees. Is this correct?

Answer

No, this is not correct. We wanted to use Garscadden as our European cross-ply tyre manufacturing unit. When this became an emotive point with employees, we agreed to allow radial tyre production to remain in Garscadden. If the plant had become productive, we could have used the capacity.

Question

The employees say management has changed its mind several times on the future of their Scottish plant and the closure announcement has been designed to place the blame on employees?

Answer

With the market conditions altering considerably during the past year, we have certainly had to make several different proposals to our employees. It is the rejection of these proposals by the rubber workers that has caused us to announce the closing of the plant.

Question

If employees had agreed to the 15 shift system would the closure have been averted?

Answer

It certainly could. There were other considerations but this seemed to be the main area of difference.

11.10.: "Who's Sorry Now?

If Management was bluffing, it was certainly doing so in a most convincing manner. But, of course, it was not wasting time and resources on theatricals.

At last, it finally dawned on the workforce that Goodyear had not been bluffing. Another mass meeting was hastily reconvened for February 25, 1979, at La Scala cinema in Clydebank. It was clear that the employees regretted their act of folly, committed the previous week.

February 21, 1979: the Department of Employment received notice of Closure and so the 90 days notice period was due to expire of May 21, 1979.

February 22, 1979: A Company official based at Drumchapel prepared a hand-written brief for senior management at the UK headquarters in Wolverhampton. He realised that the original decision of the workers would be reversed, and his report presented his superiors with the ammunition they needed to justify proceeding with closure. It reads:

"Indications are that at this meeting opposition to the 15th shift working will disappear and indeed there may be overwhelming acceptance of the 15th shift".

He added that whilst the press had been favourable so far to the company it may change "The Industrial Suicide" headline for the "Management Murder" headline when there is no Company response to acceptance of the 15th shift by the Union".

He therefore advised that Goodyear,

"should have a position which reflects its complete scepticism about the Unions ability to 'deliver the goods' at the end of the day, particularly in the area of performance on a continuing basis".

His six reasons for scepticism on the Company's part included a twelve month overtime ban by rubber workers in 1977/1978 a similar ban for six months by engineering workers in 1978, failure to meet its ticket, and high absenteeism.

Between January and October 1978, production was more than a third <u>below</u> its ticket, and between October and February there was an improvement but production still fell 13% below the required volume.

Absenteeism, over the thirteen months preceding February, 1979, for the entire labour force was 7.2%, and this figure disguises a more serious problem. The figure for rubber workers (ie the production side) was 10.8% and for the 6 months preceding February, 1979, the figure for Supervisors was 11.7%.

February 25, 1979: as everyone at the time had predicted, the workforce reversed its original decision, and the "Survival Plan" won overwhelming acceptance. M.Ps. and local politicians rallied together, exhorting Goodyear to reconsider its decision. The patience of the US MNC had been sorely tried, however. It had plainly had enough. The President of Goodyear International issued the following statement:

"The decision is final.... this Scottish Plant is rated at the bottom of the totem poll in just about every respect. I

am not apportioning blame, but we have failed either as a company, managers, shop floor or union" [Glasgow Herald, March 20, 1979]

Drumchapel, one of the largest housing estates in Europe, was the post-war planners' dream, but it has proved a nightmare for its residents. It is an area where unemployment was, and still remains, high above the national average. In 1984, male unemployment exceeded 60%. The action of the Drumchapel factory workers from locations throughout Strathclyde, seems even more incredible today, in 1985, than it did, in 1979, to the writer of the following Glasgow Herald editorial:

> **"The Drumchapel plant's industrial record is appalling in absenteeism and productivity alike ... The STUC might take its nominal socialism a bit more seriously and start telling Scottish workers to change the way in which they see the world and their work. Unless they do so our problems cannot begin to be solved"** [Glasgow Herald, March 8, 1979, quoted in Hood and Young, 1982].

11.11..: The Company's View

The author met with Mr. Charles Corfield, Director of Personnel for Goodyear's UK subsidiary, in December 1984 and April 1985 to discuss the Drumchapel closure. It was closed, he said, because of its high costs and poor performance. Craigavon had a satisfactory production and industrial relations record.

11.11.1.: The Divestment Decision

Mr. Corfield explained, that Drumchapel was opened in 1957 by the then Chairman of Goodyear (Great Britain) who by 1979 had risen to become Chairman of the Board, the top man, in charge of all Goodyear's operations.

The parent company's Chairman, therefore, had a certain empathy to the Drumchapel plant, and, according to Mr. Corfield, he was particularly anxious that UK subsidiary Management ensure that everyone - (employees, the media, the community, and the politicians) - was aware of the consequences of rejecting the Company's proposals. "UK subsidiary Management appreciated that the parent company was particularly anxious that Goodyear (Great Britain) adhered to the Company's general policy of frankness in employee relations. Management therefore did everything possible to ensure that the Drumchapel workforce was fully aware of the problems facing the Company and what the situation demanded of them".

Mr. Corfield agrees with the literature on the divestment decision, that sentiment plays "a vital part in business decisions". Anyone who thinks that it does not, is, he suggests, rather "naive". Indeed, he suggests that Drumchapel "would have been closed earlier if sentiment had not played a part".

Production costs at Drumchapel exceeded the retail price. The Company could not withstand increasing the latter, so if Drumchapel was to become a viable operation, its costs had to be reduced. The first step in the cost-reduction programme was to be the resumption of 15 shifts, as Drumchapel worked only 14. Mr. Corfield explained that the Company would have demanded further productivity gains from employees, in order to make the plant viable. The Unions, he explained, thought the Company was bluffing, when it threatened to close the plant if they refused to accept its six proposals. When the workforce rescinded its original decision, and finally agreed to accept the proposals, "it was too late, it had gone too far down the road".

According to him, production would have continued at Drumchapel if the workforce had accepted <u>all</u> six of the Company's proposals. That is not to say, however, that the plant would still be open today, as it would be subject, like all plants, to a regular performance evaluation.

<u>11.11.2.: Employee Disclosure and Consultation</u>

He commented:

> **"Because of the reason for closing Scotland (ie. Drumchapel) we wanted everyone to realise what was happening".**

He believes, "we have an obligation to keep employees fully informed of the Company's performance". When asked if this statement applied to Goodyear's world-wide operations, Mr. Corfield said it applied to Goodyear Great Bitain.

He argues that if a Company fails to keep employees abreast of developments in the business, "and then out of the blue comes closure, that's not fair".

11.6 .3.: Codes of Conduct and Current and Proposed Legislation

The OECD's "Guidelines for Multinational Enterprises" do not constitute terms of reference for senior UK. management. Mr. Corfield explained: "The Guidelines at the moment are something we are aware of and we believe that what we do fits in with them. We believe that what we are doing is right - employee participation is a must in what we are trying to achieve in the business world".

Mr. Corfield asserts that Trades Union representatives at both Drumchapel and Craigavon were consulted "at the earliest opportunity". He believes that in both cases the Company met the obligations imposed by the Employment Protection Act 1975.

He opposes both the "Vredeling/Richards" and the Fifth Directive Proposals. As politicians strive to score points over their rivals, industrial relations problems in Britain may be exacerbated. He is convinced that legislating for further employee involvement is undesirable. Introducing legislation throughout the EEC, without allowing for national and cultural disparities, will, he emphasises, only create further problems.

He believes that multinationals in particular, must consider the nature and character of people. He even gave examples of trouble which Goodyear had faced in the UK. On one occasion when the Company had presented a video directly to Craigavon's labour force, rather than indirectly through Trade Union channels, the Shop Stewards were most aggrieved, but when the same procedure for the same video had been followed at Wolverhampton, the Stewards there were quite amenable.

Goodyear has made a submission on "Vredeling" to the British Rubber Manufacturers Association (BRMA), but the Company has kept a low profile on this issue. Mr. Corfield said his Company's position on the Directive is "exactly the same as the BRMA and the CBI; we just don't like it".

11.12.: The View of the Unions

The author interviewed a number of the Drumchapel plant's former employees and Shop Stewards. They all confirmed that Goodyear had repeatedly warned them of the consequences of rejecting the "plan for Survival". They, therefore, could not and did not, criticise the Company for failing to keep them informed of the seriousness of the situation. It was also acknowledged that Management consulted the trade union representatives on a regular basis.

On December 12, 1984, Mr. Parker, District Secretary of the Transport and General Workers Union was interviewed. He recalled that from mid-1978 a series of Company-Union meetings were held at which the gravity of the situation at the Drumchapel Plant was outlined. He was informed that "the situation was pretty drastic in respect of cross-ply tyres", Drumchapel's main product.

The Company argued that economies and redundancies were necessary if the plant were to become cost-effective. It was stated that these measures would be implemented at the Wolverhampton and Craigavon Plants also. Cheap imports from Poland were alleged to be the main reason for these proposed cutbacks.

Mr. Parker recollected with dismay his unsuccessful attempt at the critical first mass meeting, to convince those present that Goodyear would carry out its threat to close Drumchapel if all of the "Plan for Survival" was not accepted.

Although he exhorted the workforce to accept the Company's proposals, he believed that doing so would only stave off closure. His prime concern was to protect the reputation of Clydeside workers who had already, though often undeservedly, achieved notoriety for industrial militancy. As far as he was concerned, the closure of Goodyear "had been pre-determined" by the Company.

According to Mr. Parker, the eventual acceptance by employees of the "Survival Plan" was only five days outwith the deadline set by Goodyear. His opinion is that a decision was taken in early 1978, at the latest, to close Drumchapel, and that from then on the Company had sought justification for implementing the decision. He therefore believes that the labour force was tricked into a closure situation, and the US Tyre manufacturer was relieved to see the plant close.

He believes that once stewards are informed that their plant is regularly unprofitable then closure is anticipated, especially when the owner is a foreign multinational.

Drumchapel's poor performance and the introduction of redundancies evoked anxiety in the plant's stewards and they demanded information on the plant's future.

He was highly critical of those firms which inform their employees that a reduction in manning is necessary to <u>save</u> a plant, whilst knowing all along that the aim is to <u>close</u> it. He urges firms to disclose the whole truth.

When asked whether, in his opinion, Goodyear's behaviour was more acceptable to Trade Unionists than that of, say, Firestone which gave the legal minimum notification of closure, without any previous indication that a divestment review was being undertaken, Mr. Parker replied:

> **"I hate like hell saying it, but Goodyear's is preferable. The Firestone case gives you no room to maneouvre".**

He himself was unaware of the OECD Guidelines but confident that the National Secretary for the industry, Mr. Millar would be familiar with them.

Nor was he familiar with the "Vredeling Proposals", and said he was sceptical that legislation could control the activities and conduct of MNCs.

B. CRAIGAVON

11.13.: Background

The Craigavon factory, opened in 1967, did **not** produce tyres. Instead, it manufactured conveyer belting, fan belts, rubber hoses, and a variety of other industrial rubber products. At its peak in 1976, it employed 1,800 workers.

Craigavon, however, lost money from the day it opened and by the early 1980s employees realised that the plant's future was, at best, uncertain. In **August 1980** The Lurgan Mail, the local newspaper, reported that Craigavon "may be on its last legs". It warned that "a shorter working week could be the first step towards that closure".

11.14.: Timetable of Run-Down

In **October 1980**, 100 employees were put on a three-day week, and by the end of November half the workforce was on short-time. Local Councillor, Tom French warned:

> **"The consequences of reduced work days and an acceleration of a run down of employment in Goodyear spells disaster for Craigavon"** [The Lurgan Mail, November 20, 1980].

Local Management refuted this allegation, claiming,

> **"there is absolutely no substance whatsoever in the suggestion that Goodyear is pulling out of Northern Ireland.**
>
> **We have every intention of maintaining our presence in Craigavon and look forward to the long term with optimism"** [The Lurgan Mail, November 20, 1980].

In **June 1981** , 300 redundancies were announced and Goodyear predicted Craigavon would lose £4-5m in 1981. According to The Lurgan Mail,

"only the promise of financial aid from the Government to offset some of these losses has prevented the plant from closing down" [The Lurgan Mail, June 11, 1981].

Craigavon was allegedly losing more money than any other Goodyear plant [Portadown News, June 12, 1981]. Following discussions with anxious local councillors, the Plant Director gave an assurance that no further redundancies were contemplated, "and that production of the company's industrial rubber products would continue at Craigavon" [quoted in Belfast Telegraph June 11, 1981].

This reduction in manpower was only one of a series of options which were tried and tested. They all failed to reverse the tide of increasing losses. In **April 1982** it was revealed that in 1981 Craigavon had sufferred its heaviest loss since its openining in 1967.

In **January 1983** a local newspaper revealed that Unions at a Goodyear plant in Germany had legally prevented the transfer of production of "vitafilm" (a thin plastic wrapping substance) to Craigavon. The Lurgan Mail warned that failure to secure this extra production "could sign a death warrant" for the Ulster plant [The Lurgan Mail, January 21, 1983].

The following month the same newspaper reported that more redundancies were imminent and that "a question mark hangs over the future of the Goodyear plant in Craigavon" [The Lurgan Mail, February 10, 1983].

In the first week of March, Goodyear's Vice-President, along with the Director and the Manager at Craigavon, met Secretary of State, Mr. James Prior, to spell out the plant's problems. Ominously, the Company statement following these discussions warned:

"there will be a further review later in the year - the situation is clearly serious".

The fact that Goodyear saw fit to dispatch one of its most senior men from Akron across the Atlantic to Ulster, underlined the gravity of the situation.

Clearly, the decision to close Craigavon "was not made overnight".

11.15.: The Pre-Closure Announcement Preparations

In May 1983, the new Chairman of the Board, "a subdued New Jersey native", who had taken office only a few months earlier as Goodyear's number one man, decided that Craigavon should be closed. Senior Management at the UK Subsidiary's Wolverhampton Headquarters were informed shortly afterwards. They then proceeded to prepare a masterplan in which every possible eventuality was carefully considered, and a timetable of events was prepared. The author was allowed to study three key internal Company documents: "Goodyear - Craigavon: Lead In To Plant Closure", "Goodyear - Craigavon: Plant and Technical Centre Closure",and, "Goodyear - Craigavon: Closure of Plant and Technical Centre".

Goodyear aimed to achieve the closure of Craigavon "with an orderly rundown of production/work, with no industrial action, and at minimum cost". The Company was confident that Wolverhampton workers would not resort to industrial action in support of their Ulster colleagues [Company document, Goodyear - Craigavon: Plant and Technical Centre Closure]

Goodyear expected some reaction from Craigavon employees:

> **"Employees in the plant believe a major statement will be made shortly.**
>
> **An announcement in July will not be unexpected but people are anticipating some production to continue but with a very much reduced work force.**
>
> **Closure will come as a shock, with dismay, but this is very much the way of life in the Province.**
>
> **People know how bad the results are - (the Plant Director's) last Presentation was given March 1983. Also people are aware of the discussions with James Prior, Secretary of State for Northern Ireland held with Ib Thomsen in early March 1983.**

People will put up some token resistance to save the plant - the following are possible:-

- Involving National Officials of the Trade Union.

- Seeking discussions with local MPs as well as those from the European Parliament.

- Attempting to get public opinion on their side through the Lurgan Mail and other newspapers; also the TV.

- Getting dignatories to make approaches to the Company.

- Letters to Mercer, Thomsen etc.

Once the resistance phase is ended and plant closure becomes accepted, people will then turn their minds to getting improved severance payments" [Company document, Goodyear - Craigavon: Plant and Technical Centre Closure]

The Company also anticipated the local Community being shocked by the closure decision as the extent of the factory's problems had not been fully appreciated. The Lurgan Mail newspaper was identified as "the one which could do the Company most harm". [Goodyear - Craigavon: Plant and Technical Centre Closure"]

11.16. Implementing the Divestment Decision

June 25, 1983: The first step of the divestment strategy, prepared by UK Management, was implemented. The Chairman of the U.S. Board, the President of Goodyear International, and the Chairman and Managing Director of Goodyear Great Britain, met the Minister of State for Northern Ireland, Mr. Adam Butler. They told him that Goodyear could no longer continue production at the loss-making Craigavon plant, and employees would be informed of this decision in the near future.

June 27, 1983: Goodyear's supremo wrote thanking Mr. Butler for agreeing to meeting him and his two colleagues, "despite the rather short notice of our visit". He reminded him that Craigavon's losses since opening, exceeded $100m, "most of which occurred in the past five years". The Company Chairman paid high tribute to Craigavon's employees and their representatives:

"Our dealings with trade unions and our workforce have at all times been both responsible and realistic and have enabled us to make significant gains in productivity, which,

unfortunately, failed to offset the price erosion in the market".

He added:

> **"This is a most unpalatable decision for both Goodyear and Northern Ireland and we have agonized deeply over the impact that this decision would have on your Government's effort to reindustrialize Northern Ireland".**
>
> **However, I would be remiss in my duties to our shareholders if I did not take action in the light of our present projections.**
>
> **I hope that we can postpone any official announcement until the end of July in order to open negotiations with our employees for an orderly shutdown, which should definitely precede any public announcement".** [Letter dated June 27,1983, from Chairman of the Board, to Mr. Butler, Minister of State for Northern Ireland]

June 29, 1983: The five most senior executives of Goodyear's UK subsidiary met to review the divestment strategy. They knew Akron would be releasing Second Quarter results on August 2, 1983, and these included the costs for closing Craigavon. They, therefore, had to ensure that closure was announced in advance of this date. Its proposal to issue notification of closure on July 28 had been approved by the U.S. Board, and it was agreed that Craigavon would close on the ninetieth day after the closure announcement, namely, on October 28, 1983:

> **"Pressures to continue production on a reduced basis should be resisted".**

A team of seven was selected for handling the closure, three of them were based at Wolverhampton, and the other four employed at the Craigavon Plant. Only the three executives based on the mainland would be involved throughout, but,

> **"The four Northern Ireland people ... should be informed at a time when it becomes absolutely necessary and no earlier".** [Minutes of Meeting of June 29,1983]

July 11-22, 1983: All Craigavon's employees received their annual fortnight summer break. Their first day back would be Monday July 25, 1983. The glorious summer of 1983 was to come to an abrupt end for the employees returning to the Craigavon plant.

On Sunday afternoon of July 24, 1983, the Personnel Manager at Craigavon, issued invitations to Union officials employed at Craigavon to attend a meeting which would be held first thing on the following morning. Some officials suspected that the closure of the plant would be announced.

At the same time, Mr. Tom Murray, a full-time official with the Amalgamated Transport and General Workers Union (ATGWU) was contacted and told that closure would be announced to employees the following day. Goodyear believed that Mr. Murray would have "a major influence" on the employees' reaction to the closure announcement: -"he has handled the Michelin closure - he is one who normally urges restraint". [Goodyear - Craigavon: Lead In To Plant Closure]

Goodyear believed its announcement would be "unlikely to trigger any hostile reaction", and took comfort in the knowledge that "by and large the Craigavon workforce have reacted predictably in the past to situations - they have demonstrated that they do not live 'in cloud cuckoo land'" [Goodyear - Craigavon: Lead In To Plant Closure].

11.17.: Closure is Announced

July 25, 1983: The worst fears of the Shop Stewards were realised when they were told that the factory would close on October 28, 1983, with the loss of 756 jobs. They were told that the Company's decision was final.

Formal announcement of closure was made to Craigavon's 756 employees. The American Managing Director of Goodyear Great Britain said that key divestment factors were the depressed market conditions and the poor performance of the factory. Craigavon had sustained heavy losses since its opening. Losses reached £8m in 1981 and a further £6m in 1982. By 1983 it was operating at less than a third capacity and in the first seven months of that year lost £4.5m.

After holding various press conferances at which the media was informed of the closure decision, the UK Managing Director returned to the mainland on the 3.30 pm. shuttle from Belfast. Mr. Corfield, Director of Personnel, remained behind as chief on-the-spot negotiator with Union officials.

July 27, 1983: Consultations with Unions began.

July 29, 1983: The 90 day notice requirement started.

11.18.: The Company's View

Craigavon was closed because there was no market for its products. By the time of the closure announcement it was operating at only 40% capacity and losing £600,000 -700,000, per month.

Employees were aware, Mr. Corfield, Director of Personnel, claimed, of the adverse market conditions and their effect on the factory. When the Company announced closure, its decision was irreversible; it was evident that an upturn in the market was out of the question. According to Mr. Corfield, Union officials realised that the Company had no option but to close Craigavon. He suggests that, privately they were surprised the plant had not been closed years earlier. He claims that the Company postponed the closure, "and I'm not talking about months", because it was aware of its social obligations and the Province's severe problems, - "Goodyear had no hassle closing Craigavon"; employees had been well aware of the situation.

11.19.: The Union's View

Mr. Murray was not particularly willing to discuss the cases, other than to judge Goodyear's conduct an improvement upon Michelin's handling of the Mallusk, Belfast closure.

11.20.: The Politician's View

According to Mr John Taylor, M.P. for Strangford, the Company had kept him informed over the previous 18 months of its serious problems, and, therefore, he was not surprised by the decision to close the plant. This is in marked contrast to his highly critical view of Michelin's handling of the Mallusk closure announcement.

11.21.: The Origins and Development of the Company

The Firestone company was founded by Harvey Firestone in 1900, and became incorporated in 1910. In the mid-1920's it leased a million acres of jungle in Liberia and developed rubber plantations. Forward integration was achieved by the end of the decade with the opening of its own chain of car supply and service stations in the US.

After 1945, penetration of international markets was deepened and these markets were increasingly served by plants within these foreign markets, rather than by exports. A large foreign base was created throughout Europe, Latin America, and more recently in the Far East.

Until 1982, Firestone was organised into four operating groups: "Corporate Development", "Sales and Marketing Operations", "North American Tyre", and "International" which manages the Company's business outside North America. It is currently organised into three operating groups: "Developing Product Group", "Sales and Marketing Operations", and "World Tyre Group".

Between 1970 and 1975 Firestone's sales outside the US doubled and in the 1976 Annual Report the Company indicated that it expected this growth rate to be matched in the next quinquennium. Only one year later, however, it was evident that this projection had gone sour. In his annual Report to Stockholders, the Chairman, Mr. Richard Riley, admitted that Firestone had faced "unexpected challenges in 1977". He described the European market as the "major international problem", and diagnosed overcapacity as a causal factor.

Table 11.5.: Performance on Firestone 1974-1985 ($m)

Year	Net Sales	Net Income (Loss)	Number of Employees
1974	$3,675	$154	120,000
1975	3,724	134	111,000
1976	3,939	96	113,000
1977	4,427	110	115,000
1978	4,878	(148)	
1979	5,284	113	112,000
1980	4,850.5	(106)	107,000
1981	4,361	135	83,000
1982	3,869	6	73,000
1983	3,866	111	65,000
1984	4,161	102	59,900
1985	3,836	3	54,700

Source: Corporate accounts; various editions of Fortune magazine.

The Company's financial problems began in 1978 when it suffered a loss of $148m (see Table 11.4). This can be explained by the expensive restructuring program which Firestone had initiated, and also by the recall in the US of eight million faulty tyres of the 500 series of steel belted radials which resulted in pre-tax charges of $243m. A further set-back came in 1979 when the proposed merger with Borg-Warner was called off.

By the late 1970s, Firestone subsidiaries produced tyres and tubes in France, the UK, Italy, Costa Rica, Portugal, Sweden, Brazil, Argentina, Chile, Venezuela, Kenya, Thailand, and New Zealand. Affiliates had plants in Spain, Mexico, Uruguay, India, the Phillipines, and South Africa. Within these nations some plants were now surplus to Firestone's requirements, and drastic cuts in plant and labour were implemented. The implications for UK operations proved severe, and they are the subject of this chapter. It shall be seen below that although British Trades Unionists were warned by European colleagues that divestment was likely, they were unable to alter Firestone's pre-conceived course of action.

11.22.: British Trades Unions are Warned

The ICEF Secreteriat notified affiliated organisations that evidence showed that Firestone was embarking on "a massive restructuring programme to alter the shape of company operations for the coming decade". It added, ominously, that,

> "**ICEF affiliate experience has already shown that Firestone is intent upon pursuing this programme in a high-handed, non-cooperative and socially irresponsible manner**" [ICEF document, Firestone Restructures: Plant Closures, Job Losses, Contract Valuations]

It identified four major causal factors for restructuring. In addition to falling sales, and managerial incompetence, it alleged that Firestone had been in the vanguard of transferring production to Eastern block countries where "authoritarian governments pursue a repressive labour policy resulting in low relative labour costs". ICEF alleged this "Vodka-Cola" policy of Firestone and other manufacturers was "substantially affecting" the West's tyre industry. Fourthly, banks lost confidence in Firestone as problems afflicting industry and Company mounted, and they demanded Firestone make provision for guarantees against loan default. Consequently, large reserves were set-aside to finance plant closure.

The first plants to close were located in Switzerland and Sweden, and the US MNC achieved notoriety for its failure to respect national law.

Swiss Unions reported Firestone to the Committee for International Investment and Multinational Enterprises (CIME) for failing to comply with the OECD's Guidelines (see chapter 6). More importantly a Swiss court found Firestone guilty of violating a collective agrreement, and fined the Company SW. frs. 2.6 million.

In Sweden, the 350 employees at the Viskafors plant received only six weeks notification of closure, when they were entitled to six months notice. The Swedish Government intervened, ordering Firestone to guarantee employment for the workforce throughout the period specified by national law. ICEF indicated that it expected the US firm to disobey this instruction, since it would be cheaper to pay a fine than meet its legal obligations.

Union officials at UK plants had been well warned of the

Company's flagrant disregard for Codes of Conduct and national legislation. An analysis of Firestone's conduct in closing its UK operations is presented below.

11.23.: The Brentford Closure

The plant at Brentford, near London, which was opened in 1928, as Firestone's first operation outwith North Amarica. Forty years later another plant was established at Wrexham, but Brentford was much larger. The older plant had been tooled to make only cross-ply tyres, and, as was seen earlier, the demand for these had been superceded in the mid-1970s by demand for radials.

As demand for cross-ply tyres fell, output was cut-back and this exerted upward pressure on unit costs as economies of scale were lost. The Brentford factory had become a millstone round the Company's neck, and largely accounting for the £6m loss which Firestone's UK operations reported for the year ending October 1979.

November 13, 1979: Mr. John J. Nevin was elected as the eleventh President of the Company with effect from December 1. His predecessor Mr. Di Federico had retired, and Mr. Nevin was now second-in-command to Mr. Riley who was still Chairman and CEO.

November 14, 1979: Firestone announced that the 51-year-old Brentford factory would close on February 15, 1980 and all 1,500 jobs would be lost. A statement issued at Company Headquarters in Akron, Ohio, also warned that there would be further closures or rationalisation in Europe. A gross cost of £33m was placed on all European closures. In addition to a factory at Wrexham, Firestone had eight plants on the Continent, three in Spain, two in Sweden, and one each in France, Italy, and Portugal. The statement did not reveal the Company's plans for any individual plant [Erlichman, November 15, 1979].

On December 14, 1979, Mr. Bidwell, MP, asked the Secretary of State for Employment what notification and representations he had received "concerning Firestone Tyre and Rubber Company's decision to close Brentford?" In his written reply, on behalf of the Minister, Mr. Jim Lester stated that the Department of Employment was notified on November 14, 1979 "in fulfillment of its obligations under section 100 of the Employment Protection Act 1975" [Hansard, 796, December 14, 1979].

Brentford closed on February 15, 1979.

11.24.: The Wrexham Case

Despite the Brentford closure, employees at the Welsh plant were fairly confident of a bright future for their factory. Only two years earlier, during celebrations of Firestone's tenth anniversary at Wrexham, the Plant's Industrial Relations Manager, Mr. Elliot Ball, announced that "we are more convinced than ever that this was a good decision to come to North Wales", though he did add that,"Our plans for the future must naturally be decided by the demands of the market and our ability to compete" [Evening Leader, November 29, 1977].

But in the two years between Mr. Ball's assuring speech and the closure of Brentford, industrial relations had detiorated and production at Wrexham was subject tp regular disruption. From its opening, Wrexham had been dogged by unofficial stoppages and these reached a peak in the first half of 1978, with 42 being recorded. Management calculated a loss of the equivalent of 41 days' production per man out of a possible of 237 days [ACAS Report, 1979].

Following this period of prolonged unrest, the Advisory, Conciliation, and Arbitration Service (ACAS) received an invitation in February 1979 from the Plant Manager and the Unions to conduct a survey on industrial relations throughout the Wrexham factory.

The ACAS team noted that production and personnel matters for the two UK factories were administered by the UK Chairman, and the Production Director, both of whom were based at the Brentford plant.

It was highly critical of Management's and Union's failure to accord the Industrial Relations Department the status it deserved:

> **"The Industrial Relations Department was seen by many as not performing its proper function; it lacked the status and authority to influence management and act as a true co-ordinator. At the Wrexham plant the Industrial Relations Manager is regarded by both management and trade union representatives as a mouthpiece only, and not as a custodian of agreements as in most other establishments"** [ACAS Report, 1979].

The report presented a dismal picture of a fragmented managerial team which was disloyal to the supervisors in the front line. The operators frequently witnessed management humiliating supervisors. The latter claimed that management gave them verbal instructions to transmit to workers on the shop-floor, but "later on these same managers would deny to the operators that any such orders or decisions had been given" [ACAS Report, 1979].

The supervisors were also critical of management's refusal to elaborate on the rationale behind decisions. One claimed that,

> **"You are seldom told anything or given a reason for management decisions; you do not know where you stand"** [ACAS Report, 1979].

Another complained bitterly that,

> **"No guidelines are given by managers to us; what is good for today is disowned tomorrow"** [ACAS Report, 1979].

The observers from ACAS reached the folowing conclusion:

> **"We see training of management of all levels in industrial relations as one of the foremost needs of the plant at present. Management also needs an awareness of the new circumstances arising from the growth of individual statutory rights and the expansion of employment law in the last few years"** [ACAS Report, 1979].

The labour force too was found to have contributed to Wrexham's woes. Manual workers were represented by the Transport and General Workers' Union (T&GWU). In early 1978, however, the official employee representatives apparently "lost control ... to unconstitutional factions" which were described as "irresponsible".

Employee disclosure and consultation were amongst the subjects examined by ACAS. The study found that management did not disclose information directly to employees, but relied "entirely on information being percolated through the union machinery". This is allegedly normal practise in America [ACAS Report, 1979].

Union representatives admitted that whilst they received "a lot" of information formally from Management, they lacked a systematic method of relaying information to their membership [ACAS Report, 1979].

ACAS researchers found that in terms of information disclosure, employees were the victims of negligent management and incompetent union representatives:

> **"We found communication blockages throughout the plant - between different management levels, between departments, between the unions. Management quite complacently considered they had discharged their obligations about passing information by simply telling the union representatives, who often kept it to themselves"** [ACAS Report, 1979].

Employee consultation was undertaken through the Company-Union Committee and the Management-Staff Union Committee. A meeting was held every two months, the minutes of which were posted on factory notice boards. 73 such meetings had been held by March 1, 1979 since opening in 1967 [ACAS Report, 1979].

It was observed that Shop Stewards at Wrexham did not hold these meetings in high regard, and indeed, they claimed that consultation did not take place:

> **"They (the meetings) were regarded as exercises in autocracy, giving information on executive decisions already taken unilaterally, with little or no scope for consultation"** [ACAS Report, 1979].

11.25.: Timetable of Run-Down of Wrexham

March 23, 1980: Company-Union discussions on short time working and some redundancies were issued [Memo signed by E. Ball, June 20, 1980]. A week later a four-day week was introduced, and on **June 18** discussions were held on short time working and redundancy. Firestone was represented by Mr. J. Fitzpatrick, UK Managing Director, and Mr. E. Ball, the Industrial Relations Manager. Employees were represented by Mr. P. Jones, Convener Transport and General Workers' Union (TGWU), and Mr. R. Butler, Convener for the Association of Clerical, Technical and Supervisory Staffs (ACTS), Mr. M. Jefferies, District Secretary of the TGWU, and Mr. J. Millar, a National Officer with the TGWU [Memo signed by E. Ball, June 20, 1980]. Two days later, Mr. Ball informed union representatives that 95 employees would be made redundant "due to a reduction in demand for our products" [Memo signed by E. Ball, June 20, 1980], and on the last day of the month, all 600 workers at the Wrexham factory were put on a two-day week, in what the Company described as a "final bid to stave off redundancies".

August 6, 1980: only nine months after its promise of further investment at Wrexham, Firestone announced that it was selling its retail outlets in the UK to Kwick-Fit Holdings for £3.3m. The significance of this plan was not lost on Union officials.

UK Company Secretary, Mr. Hector Mackenzie, gave an assurance, however, that production would be maintained at Wrexham [Evening Leader, August 6, 1980].

Mr. Jim Morris, Divisional Officer of the TGWU, contacted the office of UK Managing Director, Mr. Fitzpatrick, "requesting an urgent meeting to discuss the overall situation, but specifically the Wrexham factory and Hawarden Distribution centre" [letter from J. Morris to J. Fitzpatrick, dated August 7, 1980].

August 7, 1980: Mr. Morris was informed by Mr. Tampling, Corporate Personnel Manager, that whilst Mr. Fitzpatrick was "willing to have a meeting", he felt that, "at this stage it would not have a useful purpose because the company in America have not reached any final decision" [letter from J. Morris to J. Fitzpatrick, dated August 7, 1980]. This confirms that the decision to close Wrexham was a centralised one.

Mr. Morris, however, was not satisfied by Mr. Tampling's message, and so, he wrote as follows to Mr. Fitzpatrick:

> **"In my view we do need an urgent meeting, as we would like to discuss the situation with you prior to any firm decision being taken by the parent company, otherwise all we would be faced with at a future meeting would be a fait accompli one way or the other".**

August 13, 1980: Union officials once again, called for a meeting with the Company's UK Executives to discuss Firestone's plans for Wrexham.

According to Mr. Jones, Firestone had been always very reluctant to meet unions, but on this occasion the Company agreed to a meeting on the 20th [Interview with Mr. Jones August 1984].

August 19, 1980: Firestone revealed that in the first nine months of fiscal year 1980 it had suffered losses of $98m on sales of $3.62 billion compared with a profit of $78m on sales of $3.87 billion for the same period in 1979 [Gooding, August 21, 1980].

11.26.: The Closure Announcement

August 20, 1980: When the Union delegation attended their pre-arranged meeting at the Company's UK Headquarters in Brentford, Mr. Fitzpatrick, the UK Managing Director, declared that the Parent Company had decided to close Wrexham, with the loss of 574 jobs. Firestone had thereby decided to withraw from the UK market. The "Announcement to Sales and Administrative Employees Located at Brentford: Closure of Wrexham Plant" read as follows:

> **"Current losses resulting from overcapacity in a declining market and the cost/price pressures generated by overcapacity, have necessitated the company examining whether continued production at the Wrexham plant should continue. After due consideration of these studies and options which have included short-time work week, limited redundancies, etc., the company has concluded that the**

Wrexham plant is no longer viable.

It has therefore been concluded that all production will cease at the Wrexham plant on 18th November, 1980.

Union representatives have been told of this conclusion today and consultations will take place with them over the next few days to determine selection for redundancy and how the close down of production will be achieved. ... ".

Mr. Tampling, Firestone's Personnel Manager, completed form HR1 which was delivered to the Department of Employment and the two Unions involved, the TGWU and ACCTS. The form reveals that consultations with Unions began on August 20th, and that the first redundancies would be effected on November 18, 1980. According to Mr. Tampling it was "not known" when the last redundancy would occur [Firestone, Form HR1].

Subsequent Company-Union meetings were "a complete and utter waste of time", according to Mr. Jones, Factory Convener. Management insisted that their decision was irreversible. By October 10, 1980 all but 15-20 employees had been paid off and on November 18, 1980 the factory closed completely.

11.27.: The View of the Unions

Mr. Jones explained:

"... selling the retail outlets placed the future of the plant in grave danger as they had accounted for 35% of its output" [interview with Mr. Jones, August 1984].

He said the factory was thereby made dependent on the unstable car industry, and that "total closure of the works could not now be ruled out". He also added that employees had been assured by Firestone that it planned expanding its retail operations, and that the sell-off had come as a shock [Evening Leader, August 11, 1980].

He immediately wrote to the US Board asking them to take into account, before making any major decision, Wrexham's past performance and the social problems that would be greatly aggravated by the plant's closure. In order to increase Wrexham's appeal to any cost-conscious Executives, he said that the union was prepared to make various concessions to reduce unit costs [interview with Mr. Jones, August 1984].

Mr. Jones is now a full-time official with the TGWU. At the time of closure he was not aware that the OECD had Guidelines. The possibility of referring the case to the UK National Contact Point was, therefore, not even considered. Mr. Jones believes that current UK legislation is inadequate on notification to employees of redundancy in the case of plant closure. He argues that if Firestone's conduct was in accordance with the OECD's Guidelines, then these are in need of revision [interview with Mr. Jones, August 1984].

Mr. Roy Butler, Staff Convener, explained to the author that in the 1970's, a "new, low profile tyre was developed at Wrexham". In order to reduce scrap, the workload was cut by 50%, but by 1978/79 the teething problems had been overcome [interview with Mr. Butler, August 1984].

Meantime, Firestone had increased the number of imports from its factories in France and Spain. Mr. Butler alleges that "Firestone and Dunlop were behind the huge increase in imports of East European manufacturers tyres which were flooding the market.

According to Mr. Butler, the Union officials representing employees at Wrexham had only one meeting with the Company's UK Managing Director, Mr. Fitzpatrick; namely, the one at which the plant's closure was announced.

He described how each member of the Union delegation attending the meeting was given a letter, announcing the divestment decision, before the proceedings got underway. They were told, he alleges, that if they could raise £11m the factory would be kept open. Mr. Butler argues that as Union efforts to raise capital began to prove quite successful, it became clear that Firestone was determined to close the plant.

Mr. Butler believes that the decision to close Wrexham was closely related to market conditions in the United States. He considers that the Company was facing fierce competition, especially on the West Coast, from Bridgestone, the Japanese MNC, and it was decided to close plants throughout the world and consolidate operations in the US.

He maintains that within Europe, Wrexham was earmarked for closure because UK Employment legislation offers workers comparatively little protection, and, therefore, it is cheaper to close down a British, rather than a Continental plant [interview with Mr. Butler, August 1984].

11.28.: The Company's View

The extent of centralised decision making in Firestone can be seen in the reply from Mr. Hector MacKenzie, formerly Company Secretary of Firestone UK, and now responsible for winding up the Company's afairs in the UK, to a request to participate in this study:

> **"I now refer to your letter of 14th September addressed to me.**
>
> **We had two telephone conversations on the subject. As I mentioned to you, I was awaiting instructions from parent company in U.S.A. whereby I might be enabled to give you answers to your enquiry about disinvestment by multinational companies operating in this country.**
>
> **Today I am in receipt of instructions to the effect that Firestone would not wish to participate in your enquiry".** [MacKenzie, letter to author dated November 21, 1984]

11.29.: Origins and Development

The Company, established in 1893 by brothers Edouard and Andre Michelin, originally produced rubber goods, but towards the end of the century it foresaw the advantages of supplying the burgeoning motor trade, and shifted to tyre production. This step was well-timed, and the Company enjoyed a boom as it struggled to keep pace with demand. Its growth was impressive, and with its tyres selling throughout the Continent, foreign sales subsidiaries were established.

Michelin integrated backward into natural and synthetic rubber, (thus guaranteeing supplies of vital raw materials), and integrated forward by taking a substantial minority holding in Citroen, therby gaining a captive outlet for the final product, tyres.

By the late 1930s, it was by far the largest French tyre producer, and after the war rapid growth continued apace with the car industry. This expansion came exclusively from internal development and the Company enjoyed a major technological advantage with its invention, radial tyres in the late 1940s, and steel-belted radials in the 1960s. These technological innovations were to contribute, however, to the decline in demand for tyres for they now retained their road-holding features much longer.

Michelin's main markets are the car, motorcycle and bicycle, agricultural equipment and aircraft industries. The Company is also the largest shareholder in Kleber-Colombes, France's second tyre producer, and it has a 9% share in Peugot-Citroen, the largest French car manufacturer. It is therefore highly dependent on tyres, specialising in steel belted radials which it pioneered. While most of its competitors have diversified in an attempt to reduce dependence on the somewhat volatile automobile industry, Michelin is confident that cars will retain their popularity, and it believes that motor vehicles will always need tyres. Michelin's dependence on tyres for 95% of total sales revenue does not worry executives at Michelin's Clerment-Ferrand headquarters [Betts and Rodger, July 3, 1985].

Michelin is, and has been for some time, the largest tyre manufacturer in Europe with an overall market share of 40% and 60% on new cars and new trucks respectively. It is the market leader in every country, but by the late 1960s, it foresaw the need to capture a good chunk of the largest tyre market, the US. It appreciated the reluctance of the "big three" US automobile producers (General Motors, Ford, and Chrysler) to fit Michelins until they were produced locally. Cracking the North American market was a daunting task for the French company "that was about one-fifth the size of Goodyear". Over $1bn was spent building eight plants in the US and Canada [Betts and Rodger, July 3, 1985].

The gamble paid off. The US accounts for 25% of total sales (compared to 15% from France) and total output quadrupled in ten years. But in 1978, the market was slack, and Michelin found excess capacity a heavy millstone which dragged its fortunes down. Fortunately, the US market proved a valuable outlet greatly appreciated by M. Michelin:

> **"If we had not gone to the US we would be dying"** [Betts and Rodger, July 3, 1985].

Michelin, like all Western tyre producers, became a victim of intensive competition in a depressed market whose decline is due, in no short measure, to the major firms' own technological development of their product. Within the space of a year the Company's fortunes were transformed, - from being highly profitable in 1980, to a loss-maker in 1981 (see Table 11.6). In the three years to the end of 1984, total losses amounted to FFr8bn (£627). Retrenchment was the order of the day and plants were closed in Italy, Belgium and the UK. The section below examines the recession's impact on the French MNC's UK subsidiary.

Table 11.6.: Performance Data on Michelin (Fr.fr. unless where indicated).

Year	Sales	Net Profit	Total Employees
1985	$5,190	$ 110	NA
1984	$5,075	$(256)	120,000
1983	39,637	2,178	131,000
1982	34,567	(4,165)	115,000
1981	31,337	(290)	128,000
1980	28,178	815	125,000
1979	22,712	598	120,000
1978	19,671	686	120,000
1977	17,439	675	115,000

Source: Corporate Accounts; and editions of Fortune magazine;

11.30.: Michelin in the UK

In the mid-1920s, certain Government restrictions on foreign direct investment in the UK were lifted, and construction work began in Stoke-on-Trent on Michelin's first plant in the UK. Shortly before Christmas 1927 the factory came on stream. After the War, the French MNC strengthened its presence in the UK, opening five other plants: Burnley, 1960; Belfast, 1965; Ballymena, 1969; Dundee, 1972, and Aberdeen 1973.

Unlike Goodyear's UK subsidiary, Michelin's proved profitable in the late 1970s (see Table 11.7.)

Table 11.17.: Performance Data on Michelin Tyre PLC (£m)

Year	Sales	Net Profit before Tax	Average Number of Employees
1984	£466	(£12)	14,779
1983	£475	£3	15,699
1982	474	(11)	20,041
1981	484	11	18,629
1980	474	13	19,229
1979	424	27	18,893
1978	398	21	18,728
1977	342	30	18,658
1976	299	34	18,356
1975	218	23	17,992

Source: 1984 Annual Report, and Extel Statistical Services; (N.B. 2,600 redundancies were announced in January 1985, leaving a 6,600 strong UK labour force once they are effected).

Since late 1982, Michelin's UK workforce has been halved. In

December 1982, it announced that 3,175 jobs would be lost in the following two years. In January 1985, a further 2,600 job losses were announced. The Company, which had been losing £1m a week in Britain, has decided to reduce car tyre production and cease making truck and cycle tyres at its Stoke-on-Trent works. Rubber production at Burnley is to stop with the loss of 200 jobs [Bain and Rougvie, January 9, 1985]. The Industrial Editor of the British Broadcasting Corporation's television news service, Mr. Martin Adeney, reported the announcement. He described Michelin as "intensely private", a view shared by Paul Betts, French cor respondent of the Financial Times, who says the company is as secretive "as a Vatican conclave" [Betts, September 6, 1984].

The same description would be equally appropriate of the parent company's top man, Francois Michelin, who prefers, and still carries the modest title of "gerant" (manager). In June 1985, the Michelin man gave the Financial Times his first newspaper interview in six years, and the Howard Hughes of international business lived up to his reputation:

> **"M. Michelin talked to the FT for several hours in a hotel meeting room. There was no question of our visiting the group's factories. Even so, the secrecy conscious gerant sheepishly checked the next room, apparently to make sure no one was eavesdropping"** [Betts and Rodger, July 3, 1985].

The job-losses announced in 1982, allowed for the closure of the Mallusk plant and the attendant 2,000 redundancies. An examination of this closure annoucement now follows. It shall be seen that Mr. Adeney's observation was an accurate one.

11.31.: The Closure Announcement

Monday, December 13, 1982: the Firm's UK Executive Director, Mr. Croiselle, told the Minister of State for Northern Ireland, Mr. Adam Butler, that the Company would be announcing, at the end of the week, the total closure of the Mallusk site. Mr. Butler offered the firm financial assistance, however, Michelin's problems stemmed from excess capacity, not lack of funds and this offer was rejected [Northern Ireland Assembly, Official Report of Debates, December 22, 1982].

During that week the Department and Personnel Manager were working on at the factory after normal hours . The Unions knew that this was common practise when Company Statements to employees were being printed, the contents of which were not to be disclosed or "leaked" prior to the time appointed for release.

December 17, 1982: in the course of the morning, the local radio station telephoned the Factory Convener, Mr. Lagan, asking for his reaction to Michelin's decision to close the factory. Mr. Lagan had not heard of any decision of this kind and the stewards believed that the media was merely speculating. As far as they were concerned, the Company had convened a meeting for 1.30 pm. at which they expected the Company to present its pay offer, or at worst, announce some redundancies. Instead, the union delegation received stunning news: Mallusk was to close [interview with Mr. Billy Condit, September 5, 1984].

The Irish Times highlighted just how unexpected the closure decision was:

> **"There was speculation yesterday morning that major redundancies would be announced .... , but the news of a total closure came as a complete surprise to both trade unions and workers"** [The Irish Times, December 18, 1982].

As the Stewards left the meeting which lasted less than thirty minutes, they discovered that employees had been issued with three forms. In the first, Michelin informed employees that up to 4,000 jobs would be lost at its UK plants over the next couple of years; more than half of these would come from the closure of Mallusk. In the second, all of the factory's 2,000 employees were served their 90 days redundancy notice even though the factory would be phased out "over about one year", and outlined their terms of redundancy. It was made clear that these would be reduced unless the workforce cooperated in an orderly rundown. The final form called for 600 volunteers for immediate redundancy.

11.32.: The Union's View

Mr. Billy Condit, Branch Chairman of the Transport and General Workers Union at Mallusk, believed that only the top four managers at the plant knew of the Company's decision before the employees . He alleges that the Company had given "no indication" of its plan to close Mallusk.

He believes that Michelin had decided to close a plant in the UK because of its surplus manufacturing problems. The reason that Mallusk was chosen, he alleges, was that the British Government and Media do not accord the same importance to events in the Province that they do to those on the mainland. For example, in the summer of 1981 violence erupted on the streets of some of the mainland's major cities. These scenes were not dissimilar to those normally associated with sectarian clashes in Northern Ireland. But whereas those in the Province had been met with almost indifference by the mainland population, there was a public outcry at the violence in Liverpool and London. Mr. Condit believes that despite its superior performance Michelin chose to close Mallusk rather than Stoke, in the knowledge that its decision would receive comparatively little unwanted attention .

He and his union colleagues were familiar with the Employment Protection Act, but he was, and is, unaware of the OECD's Guidelines. He said that even if they had known of their existence, Michelin would still have presented them with a "fait accompli". Unsolicited, he said that employees need legislation to compel firms to consult employees before the final decision is made. "Being informed at the last moment is just not good enough".

He also stressed that the workforce was not divided, and thereby weakened, on religious grounds.

11.33.: The Politicians' View

The closure announcement was the subject of a lengthy debate in the Northern Ireland Assembly. The factory was one of the

Province's major employers and its closure represented a loss of 2.3% of total employment in the manufacturing sector of the six counties. One politician put the proposed closure in perspective, commenting that it was the equivalent of the UK losing 150,000 jobs in one sweep [Northern Ireland Assembly, Official Report of Debates, December 22, 1982].

During the debate, Councillor Agnew revealed that he had been told in confidence in late October that Mallusk was going to close:

> **"Plant on order had been cancelled, existing plant had been transferred to Stoke-on-Trent, workers had been put on a four-day week and the situation looked fairly ominous"** [Northern Ireland Assembly, Official Report of Debates, December 22, 1982].

Councillor Agnew did not feel free to divulge the source of his information, but it was, he claims, a Michelin Executive. His informant "leaked" the Company's plans to him in the hope that he would be able to launch a public campaign to reverse the decision [interview with Cllr. Agnew, September 1984].

When the Councillor subsequently approached both management and unions, the former denied that there was any proposed closure, whilst the latter were convinced that this was indeed the case. He commented:

> **"The unions themseves did not get much help or co-operation when they approached the management after I had spoken to them"** [Northern Ireland Assembly, Official Report of Debates, December 22, 1982].

He also believes that Michelin singled out Mallusk for closure because "a militant, leftist element" had gained control of the union within the plant.

Mr. Taylor, one of the Province's three MEPs, was highly critical of the firm, and he alleged that there had been no prior consultations with the employees' representatives:

> **"I think that throughout Western Europe....the manner in which Michelin have handled this whole decision will go down as one of the most shameful examples of multinationals in**

operation" [Northern Ireland Assembly, Official Report of Debates, December 22, 1982].

The full title of Britain's major right-of-centre party is the Conservative and Unionist Party, and as a member of the Official Unionist Party, one would have expected Mr. Taylor to have a negative view of the "Vredeling-Richards Proposal", but Mr. Taylor argued that Michelin's handling of the closure announcement was further evidence of the need for the legislation which this Proposal offered. He compared the four days notice received by Mr. Butler with the original "Vredeling Proposals" requirement of a minimum of 40 days notification to employees before the final decision is made.

The Reverend Dr Ian Paisley added that Michelin had a history of non-consultation:

> **"I salute the patience of the workforce in Michelin because I...know some of the difficulties that the workforce has been up against. That workforce has been patient despite not being consulted through the unions in the way that other firms consult their unions, not only in this decision, but on many, many other decisions..."** [Northern Ireland Assembly, Official Report of Debates, December 22, 1982].

Councillor Cook reminded the Assembly that soon after it began producing in the Province, Michelin withdrew from the Engineering Employers' Federation which had encouraged "good practises of management and union negotiations and relationships".

The feelings of the Ulster politicians participating in the Northern Assembly debate were best summed up by Mr. Allister, Councillor for North Antrim:

> **"Michelin, it seems, has come to epitomise all that is worst in the excesses of the handling by multinationals of their workers. These were job losses which were inflicted on the people affected without the least consultation. There was no consultaion whatever with unions from management. There can be no excuse for that. The very least the workers of Michelin deserved was to be advised well in advance of what could possibly happen to their jobs; but, of course, typical of the entire attitude of Michelin they were the last people to know"** [Northern Ireland Assembly, Official Report of Debates, December 22, 1982].

He said, therefore, that he welcomed the "Vredeling Proposal", as it would enforce consultation with employees.

11.34. The Company's View

On September 14, 1984, a copy of the standard letter, which the author submitted to all companies, was sent to Mr. P. Croiselle, Head of UK. Factories. In his reply, dated September 25, 1984, he wrote:

> **"I have given careful consideration to your request for help in carrying out research into the processes involved in the decision to close our Belfast factory, but I regret that I am not able to give my agreement. The basis on which our decision was made were discussed fully and openly with the organisations and authorities concerned; the legal obligations were fully complied with including those concerning redundancy; and our moral obligations were fulfilled to an extent which went far beyond basic entitlements.**
>
> **We consider that the decision we made was indeed ... the most difficult, it was also the most painful. Unfortunately, in view of the severe shrinkage of our markets, it was unavoidable. We are satisfied that in making it, communicating it and carrying it out we have acted in the best spirit of the various national and European guidelines and codes of conduct. Some evidence to support this is that not a single hour was lost by industrial action during the whole period"** [letter dated September 25, 1984, to author from Mr. P. Croiselle, Head of UK Factories].

11.35.: Conclusions

Two of the three plants studied in the last chapter had a long life-span, the oldest closed not long before it would have celebrated its centenary. In marked contrast, the tyre industry's problems were unexpected and modern factories opened in the 1960s were closed less than two decades later. Apart from Firestone's Brentford plant, the factories examined in this chapter had only been built from 1956 on.

Goodyear, Michelin, and Firestone confronted similar problems, but as this case study reveals the conduct of world's largest tyre manufacturer was far removed from its American and French rivals.

11.36.: Foreign Divestment Theory

11.36.1.: Condition-based Theory

Despite increasing oil prices since 1973, the number of motorists continues to grow. Average mileage per motorist continues to decrease however, and low petrol consumption has become a dominant consideratioln in choice of car. Fewer journies in lighter cars make for less demand in replacement tyres.

But the price of petroleum is perhaps not the main reason for the deflated tyre market. Tyre producers themselves have contributed, albeit inadvertently to the decline.

As a purely functional product, the tyre is replaced only when worn. Unlike the motor car it does not rely on new short-lived fashions to generate sales among image-conscious consumers. Consequently, product differentiation rests on technological advantage, and so developing a value-for-money, longer-lasting tyre is the one and only key to maintaining sales and market share.

Thus cross-plys have been superseded by radials which have themselves been subject to life-prolonging technological improvement. The constant battle to produce increasingly wear-resistant tyres has proved a double-edged sword, for while the sole route to survival, it created further excess capacity in an industry already victim of the 1960s' over-optimistic forecasts.

Adverse conditions in the late 1970s, were in marked contrast to those prevalent in the pre-energy crisis years when producers had brought large modern plants on stream. This hostile business environment partly explains the plant closures reviewed in this industry case study. The condition-based theory of foreign divestment appears a particularly sound model in explaining plant closures in the Tyre and Rubber industry.

11.36.2.: Motivation-based theory

The managerial literature stresses Parent Company losses as a major motivation for divestment, and both Michelin and Firestone had suffered major losses when they closed their UK operations. Goodyear remained profitable throughout the recession but its UK subsidiary was a drain on corporate resources, and poor subsidiary performance is a key divestment factor.

Goodyear and Michelin have rationalised their UK operations, but the US MNC has continued to commit further investment towards its British manufacturing plants. However, as the Drumchapel and Craigavon closures illustrate, strong motivating forces existed for the Akron-based firm to close these two plants.

The twenty-two year-old Scottish site had not only an appalling industrial relations record, but it catered for a rapidly dwindling market segment - cross-ply tyres. Despite its history, the Board Chairman's soft-spot for Drumchapel proved a powerful "barrier to exit" which impacted upon the Company's decision to conduct a publicity campaign of the plant's problems.

The Ulster plant's failure to record a single profitable year in its short fifteen year life-span suggests that the original decision to establish the unit was ill-founded. The political climate had changed drastically shortly after the plant opened and in August 1969 there was an eruption which has bedevilled the Province ever since. Employee relations however were good and there is no evidence to suggest that the plant was adversely affected by sectarianism.

Craigavon was closed simply because of insufficient demand; the factory was a liability. In addition to the condition and motivation based theoretical divestment models, the precipitating circumstance-based theory provides an important explanatory framework for the Craigavon closure. The decision to close was taken by the new Chairman of the Board only five months after his appointment.

Michelin's obsession with secrecy has rendered impossible the author's attempts to offer new insight on the causes for the Mallusk closure. Its UK Management even insisted that the author seek permission before "any of the information" contained in its closure announcement Press Release "is made public in any way" [letter to author, dated July 13, 1984 from T. Forster, Chief Personnel Officer].

The decision to reduce sharply UK manufacturing capacity was clearly a response to deteriorating market conditions. Mallusk was the second largest UK plant, after the older Stoke site which doubled as Michelin's UK Headquarters. Greater strategic importance and longer managerial commitment no doubt favoured the plant in the Potteries district. At the time of the closure announcement, Michelin was at pains to stress that Mallusk's location did not influence the divestment decision, but the permanent threat of civil unrest could hardly have endeared the Ulster plant to subsidiary and parent company management.

Divestment of UK operations was just part of a major rationalisation programme in which employment levels were slashed at Firestone, - once rumoured to be withdrawing completely from tyre production (see Table 11.8.).

Table 11.8.: Firestone, Goodyear, and Michelin: Worldwide Employment

Year	Firestone	Goodyear	Michelin
1985	54,700	134,115	NA
1984	59,900	133,271	120,000
1983	60,200	128,760	131,000
1982	65,500	131,665	115,000
1981	72,900	138,487	128,000
1980	83,000	144,860	125,000
1979	107,500	154,373	120,000
1978	112,000	154,291	120,000
1977	115,000	153,033	115,000

Source: Corporate accounts: Fortune

Built before the Second World War, Firestone's Brentford operation, like Goodyear's Drumchapel plant, produced cross-ply tyres whose popularity had slumped during the 1970s. Not surprisingly, Brentford with its outdated product range was mainly responsible for the firm's heavy losses in the UK. The group's other plant at Wrexham was blighted by a different problem - one which had also dogged Goodyear's Scottish factory. The modern Welsh plant had a history of industrial disputes and the report from the Advisory, Conciliation and Arbitration Service report, commissioned less than two years before closure, reflected a dismal picture of managerial incompetence and employee militancy. These factors no doubt contributed to Firestone's decision to dispose of its UK subsidiary and transfer production to the Iberian peninsula.

The five plants examined in this case study were opened in 1921, 1957, 1965, 1967, and 1968. By the late 1970s and early 1980s when they closed, the business environment had drastically changed from the halcyon days of the 1960s. Faced with excess capacity, manufacturers were compelled to rationalise. The motivations for closing these plants can be found in one or more of the following divestment factors which rendered them unviable: outdated production facilities, low productivity, labour problems, and poor pre-investment analysis, and most importantly low demand.

11.36.3.: Precipitating-circumstance based theory

The role of the "new man" is evident in the Goodyear Craigavon, and Firestone Wrexham cases, the divestment decision being taken four and nine months respectively after the appointment of a new Chairman/Chief Executive Officer. The close relationship between a change in personnel and the difficult divestment decision is particularly noticeable in the other Firestone case. Brentford's closure announcement was issued the day after Mr. Nevin's elevation to position of President.

Divestment theory puts forward the proposition that the decision to reshuffle senior management increases the likelihood that another quite diiferent decision will be reached, namely to sell or close down certain operations. But is this really an accurate interpretation of previous divestment situations. It would be foolish to suggest that within twenty-four hours of taking office, Mr. Nevin had conducted a review of operations, concluded that Brentford should close, and then implemented that decision. It is more realistic to view both events - Mr. Nevin's promotion and Brentford's closure - as symptoms of an ailing company, its self-diagnosis, and prescription being major change, essential in restoring the parent company's fortunes.

If this is the case, the value of precipitating circumstance-based divestment theory becomes questionable,as it appears nothing more than a self-fulfilling prophesy. However, this hypothesis is of predictive value in that stakeholders with an interest in anticipating divestment have an additional pointer upon which to base their expectations.

11.37.: Employee Disclosure and Consultation

The Goodyear Drumchapel closure is unique in that employees were repeatedly warned by the Company that the plant would be closed unless they accepted in full the Survival Plan. Whereas employees normally complain of being hampered by lack of information, the Drumchapel workforce decided its own fate and rejected Goodyear's programme. By providing employees with all the facts, and correctly predicting their rash reaction, the US MNC was able to withdraw from Scotland, its reputation intact, while the workforce was lambasted by virtually all sections of the Scottish media. In this respect it was a perfectly executed divestment strategy - success founded upon total frankness with employees, their representatives, and the local community.

Local plant management was also totally involved in employee communication. Indeed, the Plant Manager provided an invaluable service to management at Goodyear's Wolverhampton Headquarters. He kept a close monitor on the mood in the plant and forewarned UK management of the labour force's most likely response to the Company's proposals. Consequently, Management was constantly one step ahead of the workforce which raced head-long like lemmings to disaster.

The closure of the Scottish operation had been therefore sadly predictable. It was closed 89 days after the closure announcement, 90 days including the day of the announcement, but the Department of Employment states categorically that this day should not be included in calculating redundancy notice. the fact that they received the Minimum legal notice is hardly surprising in view of the employees apparent lack of interest in safeguarding their own jobs, and one can hardly blame Goodyear for getting out as quickly as possible.

Closure at Craigavon was also anticipated, but there similarities with Drumchapel end. Goodyear handled the divestment process quite differently, but equally effectively. Instead of directly informing the workforce, the Company resorted to a tactic not unfamiliar to at least one former British Trade and Industry Secretary - the carefully placed leak.

The decision to close the Ulster plant was made in May 1983 by Goodyear's newly appointed Chairman of the Board, senior UK subsidiary management being notified shortly after. The Wolverhampton based executives embarked upon meticulous preparation for implementing the divestment decision. They had to ensure that employees had been notified by August 2, 1983, and they formally decided to keep local Ulster management in the dark for as long as possible.

Management at Craigavon was fed selected snippets of information by senior UK subsidiary management in the knowledge that it would be passed to the local newspaper, The Lurgan Mail. Perhaps, discovery of the Craigavon mole and fear of premature publicity, explains Wolverhampton's reluctance to inform plant management.

Nevertheless, Goodyear's judicial leak policy braced the workforce for closure. This was announced on July 25, 1983, some two months after the divestment decision had been made in the US by Goodyear's top man. The news could hardly be described as a bombshell. If anything the surprise was that closure had not been implemented sooner. Craigavon was closed 96 days later on October 28, 1983. Goodyear thus exceeded by six days the UK's absolute minimum legal notification requirement

In marked contrast to Goodyear, Michelin, the French MNC, gave employees almost two years notice. News of the divestment decision was greeted with condemnation by all local politicians, - no mean achievment in sectarian Belfast. Their views and bitter denunciation of the firm are recorded in this case study. Michelin incurred the wrath of the workforce and politicians alike because, unlike Goodyear, it had given no indication whatsoever of its intention to close Mallusk before it presented its "fait accompli" in December 1982.

At the time of the closure announcement, more than 20% of Ulster's labour force was unemployed. The Province was probably Europe's worst economic and social black-spot. Attracting prospective employers to the six counties had proved a major challenge to Westminster, and in desperation the UK Government had rashly invested millions of pounds of tax-payers money in highly suspect projects, notably the De Lorean car and Lear Fan jet.

Tempers were fuelled by Michelin's apparent insensitivity. Firstly, it had notified the public authorities of the impending

2,000 job losses only four days before notifying the workforce. Ulster politicians were enraged that such short notice before the public closure announcement denied them the opportunity to hold discussions with the Company. This was in contrast to Goodyear, the US MNC which intimated its intentions to the public authorities a full month before informing employees.

Secondly, Michelin chose to make the announcement just before Christmas when it would have had nothing to lose by delaying the news until after the festive season, - especially as it was planning a gradual run-down over twelve months. By contrast, seven months later when Goodyear decided to close Craigavon, it decided to break the news to the workforce after their summer break, rather than before, so as to avoid ruining employees' holidays with such a depressing announcement.

Given Michelin's conduct, the statement below rings hollow:

> **"The directors recognise the importance of good communications and relations with employees. An integral part of such policy is the maintenance and development of two-way communications and encouragement to the employees to identify themselves with the Company"** [Michelin PLC, 1984 Annual Report]

Prior to the UK closure, British Trades Unions had been warned of Firestone's notoriously cavalier approach to closure in two other European countries, Sweden and Switzerland. The Brentford and Wrexham cases underscore the US MNCs reputation.

On November 14, 1979, the workforce at the London plant was given the shock news, and presented with a fait accompli. 93 days later, on February 15, 1980, Brentford closed. Nevertheless the Secretary of State for Employment confirmed in Parliament that Firestone's conduct was in accordance with UK legislation.

However, it is the Wrexham closure which highlights the difficulties faced by employees trying to extract information from subsidiary management of a foreign parent company. In the Goodyear Craigavon closure it was seen that the divestment decision was made in the US, and then passed on to subsidiary management who delayed telling plant management until the last minute.

It is difficult to believe that by early August 1980, Firestone's UK subsidiary management did not know that Wrexham was to be closed, but if it were genuinly unaware of the fact then the parent company deserves strong condemnation. If it knew of the divestment decision, the UK management was not only unforthcoming, but the principal perpetrators of an elaborate deception against employees and their representatives.

The sale in early August of the Company's retail outlets, convinced Union leaders that closure was looming, but on August 6, 1980 UK Management freely assured the workforce that the future of the Welsh plant was safe. The following day it confirmed that Akron had not yet reached a final decision, but rumours of closure were to prove well-founded. Closure was announced on August 20, and 90 days later, on November 18, Wrexham closed. Most redundancies were implemented by mid-October with employees receiving pay in lieu of notice, but Firestone had conformed with the basic minimum legal requirements of the 1975 Employment Protection Act.

The refusal of Firestone and Michelin to participate in this study precludes a report of their views on the OECD's Employment and Industrial Relations Guidelines and proposed EEC legislation, namely the controversial Vredeling Proposals. In its response to the author's invitation, however, Michelin stressed that "we have acted in the best spirit of the various national and European guidelines and codes of conduct".

Of the three MNCs examined in this case study, Goodyear alone ensured that employees were not taken by surprise at the closure decisions; indeed, the Drumchapel workforce itself effectively took the decision. The conduct of this US MNC therefore stands above that of the Firestone and the French MNC. Nevertheless, the Company's own standards, not the OECD's Guidelines, determined Goodyear's behaviour.

Assessing the impact of national culture on corporate behaviour is problematic in this case. Although they not only have the same nationality, but are based in the same city - Akron - Goodyear and Firestone behaved quite differently. An important explanatory variable may be that Firestone was clearing out altogether from the UK, and host country perception of the organisation counted for little. Goodyear, on the other hand, was merely rationalising operations, and had a vested interest in protecting its reputation. Previous research noted that firms engaged in total withdrawal from a country are inclined towards a speedy getaway, rather than the slower, publicity-consciouss divestment process preferred by firms intending to maintain a presence in that country.

According to Hofstede's four variable analysis of national culture, the US bears three of the four features amenable to disclosure, whereas France with only two, is characterised by the feature most closely associated with secrecy, High Uncertainty Avoidance. Michelin has developed a reputation for obsessive secrecy and its corporate behaviour certainly seems to reflect national culture. But despite these attributes, Michelin's behaviour was an improvement upon that of Firestone, a US MNC and a product of national culture which places a premium on disclosure.

A number of points emerge from this case. The actual divestment decision is always centralised. In one case it was found that while subsidiary management knew of closure plans, it chose to withold this information from local management who were the Unions' source of information. However, the response of Firestone's UK management to approaches from Union officials representing the Wrexham plant, suggests that Parent Company executives had witheld information from the UK executives or, that the latter had been less than open with employees' representatives.

As for employee disclosure and consultation by Firestone, the former was minimal and the latter non-existent. Michelin gave 18 months notice, but presented public authorities and workforce with an unexpected fait accompli. Goodyear, on the other hand, gave Ulster's civic leaders four weeks notice, and had indirectly indicated that Craigavon's future was in jeopardy. The Drumchapel case is unique among the closures examined in this thesis. Employees given the choice between employment and redundancy, voted for the latter. A subsequent change of heart served only to highlight the irresponsible nature of the workforce. Goodyear closed Drumchapel as soon as legally possible. It was rid of its worst plant in Europe.

There can be no greater indictment of current UK employment protection legislation than the sad fact of the UK Government's admission that Firestone fulfilled its legal obligations.

CHAPTER 12

FARM and CONSTRUCTION MACHINERY

12.1:. Introduction

Producers of agricultural and construction machinery, the three MNCs studied in this case, - Caterpillar International Harvester (known as Navister International with effect from January 1986) of the US, and Massey-Ferguson of Canada, - operate in highly unstable markets, subject to cyclical and seasonal fluctiations. In the late 1970s-early 1980s, all three firms achieved record profits.

However, within twelve months of their respective successes, the three North American MNCs found themselves facing heavy losses, as strongly unfavourable economic factors impacted on their major markets.

Massey-Ferguson, confronted with a recession on capital goods, particularly in the key markets of South America and Turkey, as well as market saturation in Europe embarked on a re-appraisal of European combine production. This industry case study begins with an examination the Canadian MNCs response to these conditions, and considers the review's implications for the Scottish plant, at Kilmarnock and the 1,500 strong workforce.

If corporate behaviour reflects home country national culture then one would expect the Canadian MNC - Massey-Ferguson - to conduct the divestment process in a manner dissimilar to that of US MNCs, since culturally Canada is more disposed to disclosure of information. This case study will compare the conduct of the Canadian and US MNCs and highlight what influence if any, is exerted by the culture of the home country on MNCs' behaviour.

12.2.: Massey-Ferguson's Origins and Fortunes

Massey-Ferguson, the Canadian MNC, was founded by Daniel Massey in 1830. Foreign sales grew rapidly following a successful promotion at the Paris Exhibition in 1867. A merger forged with A. Harris and Patterson-Wisner Co. in 1891, saw the new firm, Massey-Harris become the largest farm manufacturer in the British Empire.

Despite its size and concomitant economies of scale, it failed to make any impression on the bordering US market until 1944 when wartime shortages made it expedient for America to use Massey's self-propelled combine harvester. Tractor sales were disappointing, however, and to combat its poor performance, Massey, in 1953 acquired the Ferguson Co. which had achieved worldwide success in this market segment. Five years later, the name Massey-Ferguson was adopted [Stopford, 1982].

Between 1948 and 1977 Massey-Ferguson was controlled by Argus Corporation, a Canadian financial holding-company, and it in turn was controlled by another Canadian holding company, Ravelston.

In 1977, Massey reported a net profit of $3m on sales of $2,861m, but since then the Company has suffered dramatic losses. Table 12.1. reveals the extent of the decline. By 1980 its very survival was in question, and an international conclave "struggled to find a refinancing formula while receivers were being prepared to take over at any moment" [Rodger and Simon, May 20, 1985].

Eventually, Massey was bailed out by some 200 lenders, mostly banks. The final phases of refinancing involved the Governments of Canada, Ontario, and H.M. Government through the Export Credit Licensing Department. Mr. Conrad Black, Canadian tycoon and Massey's Chief Executive Officer, who had never been popular with Mr. Pierre Trudeau's Liberal Government, severed his and Argus

Corporation's connections with Massey when it became clear that Government aid was unlikely to be forthcoming whilst he was directly involved with the Company.

Unlike most American MNCs, the Canadian MNC's domestic market was of minor strategic importance compared to its foreign operations. In 1977, foreign sales (ie.sales outside North America) accounted for 70%, whilst sales in Canada accounted for only 7%. Massey could not fall back on a large domestic market in periods of recession. Further indication of the minor role of its home market was in the number employed by Massey in Canada; only one third the number employed in the UK.

Table 12.2 reveals that from the mid-1970s sales of tractors, combines, and industrial machinery, Massey's three main products, fell dramatically. This problem was compounded by the firm's own structural weakness. This structural weakness did not go unnoticed and at the end of 1977 Massey shares on the Toronto stock exchange fell from their 1976 all-time high level of $32 to the 1971 level of $13. Bumper harvests depressed grain prices and therefore farmers' incomes, so, firstly, they had less incentive to grow grain and, secondly, they had a shortage of funds at a time of high interest rates. Replacement buying therefore predominated over new purchasing among farmers.

Massey was in a vulnerable position as managerial and financial resources had been fully stretched when the Company pursued a vigorous growth policy financed by heavy borrowing from the banks. By mid-1978, Massey's borrowings had reached $1.3bn backed by shareholders' funds of $650m, and normal equity financing was no longer possible [Rodger and Simon, May 20, 1985].

In May 1978, Massey published its half-yearly results. These were unsatisfactory, and at several of its UK plants, redundancies were issued, including 87 at Kilmarnock. In the first quarter of the 1978 fiscal year, Massey's losses were running at $8m for the year, but by the end of the third quarter, in July 1978, they had risen to $145m.

The firm's problems were even more serious, however, than these losses suggest. Massey had a severe shortage of funds and a dangerously high debt ratio. Borrowings were almost double equities. The 1978 fiscal year ended on October 31, 1978, and a staggering loss of $268m was returned. The Company was under strong pressure from its financiers to prevent further deterioration.

Table 12.1.: Net Sales, Net Profit, and Number Employed 1977-1984 (US Dollars in millions)

Year Ended	Net Sales	Net Profit	Number Employed
Jan 31, 1984	$1,535	(68)	27,609
Nov 1 1982-Jan 31 1983	313	(94)	30,095
Oct 31, 1982	2,058	(429)	33,726
Oct 31, 1981	2,646	(240)	39,789
Oct 31, 1980	3,132	(225)	41,690
Oct 31, 1979	2,973	37	56,233
Oct 31, 1978	2,631	(268)	57,983
Oct 31, 1977	2,861	3	67,151

Source: Corporate accounts.

Table 12.2.: Worldwide Industry Unit Retail Sales: Base Year=1976

Year	Tractors	Combines	Industrial Machinery
1976	100	100	100
1977	99	86	107
1978	90	87	118
1979	90.5	87	114
1980	85	78	102
1981	81	77	77
1982	73	58	61
1983	70	49	63

Source: Massey-Ferguson, 1983 Annual Report.

Deterioration did occur, caused by a temporary downturn in Third World markets, and an ill-conceived decision by Massey's President since 1959, Mr. Thornborough, to acquire a German construction firm.

During Thornborough's Presidency, Massey had concentrated its growth policy in the Third World and European markets which were less competitive than the US market, dominated by two domestic firms, International Harvester and John Deere. This strategy proved successful for a number of years, and between 1974 and

1976, when these two US firms braved the worst recession in the US market since the thirties, Massey doubled net profits to a record $118m.

By 1978, the situation was reversed. The US market had recovered and was buoyant, and the Third World and European markets, which were of vital importance to Massey, were severely depressed. It appeared that dependence on overseas markets would be the death of Massey.

This depression in key markets was exacerbated by the effects of Thornborough's major decision to acquire, in 1974, the West German construction machinery firm, Rheinstahl Hanomag. The attempt to diversify was a complete disaster and the decision proved even more costly, than abandoning the world's largest single national market. The Construction Equipment Division remained a thorn in Massey's flesh. In the first nine months of 1978 it lost $39m. In 1979 the Construction Machinery Operations were divested at a huge loss.

12.3.: The New Men

It was against this background, that in August 1978 Black and members of his family gained overall control of the Ravelston Corporation, of Argus Corporation, and ultimately of Massey. Priority was given to restoring the confidence of Massey's bankers, and this demanded rationalisation of production facilities.

In September 1978, Mr. Thornborough, was promoted sideways to Deputy Chairman and Chief Executive Officer. A new President was appointed, British-born, Victor Rice who had a mandate to cut costs and dispose of the Teutonic millstone [Rodger and Simon, May 20, 1985].

Messrs. Black, and Mr. Rice meant business. Their programme for restoring profitability was a drastic one. In future, Rice said, Massey would concentrate on its core business, namely Tractors and Farm Machinery (including Combine Harvesters), Diesel

Engines, and Light Industrial Machinery. The "Thornborough strategy" was to be abandoned, and the Company would devote more attention and resources to increasing its home ground, the North American market [Hargreaves, October 6, 1980].

By July 1979, Rice had apparently achieved his twin aims: the Company was back in profit and thus the confidence of the financial community had been restored. Indeed the net income achieved in the first quarter ending January 1979 was $13m compared with a net loss of $39m for the period in 1978.

A few months later, however, everything went horribly wrong. In an attempt to control inflation, the US Federal Reserve drove up US interest rates to unprecedented peaks, and thus wrecked Massey's budget plans. American farmers' incomes, already undermined by low commodity prices and high interest rates, slumped even further in the confusion following the Russian grain embargo. US sales continued on a downward spiral, whilst the decline in Massey's traditional markets continued unabated. To make matters worse, sterling continued to appreciate against the dollar and other major currencies, therby pushing up the cost of machinery exported from Massey's main manufacturing base, the United Kingdom [Hargreaves, October 6, 1980].

Massey's dealers could not even sell their existing stock, never mind place further offers, and the firm was compelled to borrow heavily in order to meet interest payments on previous borrowing.

In order to appease the Company's financiers, - banks and stock exchanges,- Rice had to overcome two major problems: restoring the Company to profitability and reducing the debt ratio. A four-pronged strategy was launched. Short-time working was introduced in an attempt to reduce inventories; a number of operations were sold; the number employed was reduced by 14% by October 1978; and, a rationalisation programme of production facilities was initiated.

12.4.: The Implications for Kilmarnock

Massey had opened its Kilmarnock plant in 1949. Originally the factory was multi-product, manufacturing a full range of farm machinery. During the 1960s, however, the design department was transferred to Massey's Coventry plant, and Kilmarnock became dependent on a much narrower product range, medium-sized combine harvesters only.

By 1978, Kilmarnock was the sole producer of combines in the UK and exports accounted for 60% of its total output. It provided 1,600 jobs, (its peak period was in the 1960s when the number employed exceeded 2,000). There were seven manual and four staff unions at Kilmarnock, represented by the Co-Ordinating Committee which was formed in September 1978 when employees were first made aware that the plant's future was in jeopardy.

In February 1978, Management informed the unions' Negotiating Joint Committee (NJC) that the Company had decided that 1978 would be a year of "substantial adjustment" and that "actions to improve profitability and deployment of assets had already begun and would continue to be given the highest priority".

In the ensuing summer months, short-time working was introduced, and anxious Union officials met with Labour Government Ministers to discuss the slump in Kilmarnock's traditional markets.

After meeting with Mr. Hebden, (Massey's UK Managing Director), Mr. A. Williams, Minister of State at the Department of Industry, wrote to Union officials saying he was satisfied that the Company "have no plans to reduce the output of their UK operations permanently", and in August the Company gave them the following assurance:

> **"the redundancy programme in the UK...is virtually complete"** [Trade Union Research Unit, TURU, unpublished paper].

Less than a month later, however, shock news was delivered to the Kilmarnock employees.

September 9, 1978: Massey announced that it would be conducting a "Feasibility Study" into the rationalisation of combine harvester production between its two European plants, Kilmarnock and Marquette, in France. The study's "Terms of Reference" were as follows:

"(1) To evaluate the two single sourcing alternatives available to Massey-Ferguson.

(2) To evaluate the possible alternative uses of the Kilmarnock factory in the event that Marquette is chosen as the single source

(3) To evaluate the potential expansion of other production currently performed at Marquette in the event that Kilmarnock is chosen as the single source".

The shop stewards at Kilmarnock believed that the study was being conducted to rationalize the decision already taken to close Kilmarnock. Their suspicion grew when they were denied any participation in the exercise. Completion of the report within just five weeks heightened their suspicions.

October 27, 1978: The "Feasibility Study" was published.

November 7, 1978: the Recommendations of the European Combine Study Group were disclosed for discussion and consultation with unions.

The study showed that Massey had excess combine manufacturing capacity in Europe, relative to all foreseeable levels of demand, and that concentration of production in a single viable plant was essential if Massey was to maintain a viable combine manufacturing operation. It inferred that production of combine harvesters at Kilmarnock in Ayrshire should cease, and that Marquette should be the single source for European combine production.

Former employees have alleged that the Scottish plant had been starved of capital investment, but even as late as 1977, Kilmarnock was in the middle of an investment programme of more than £2m. It would appear, therefore, that the sudden and sharp downturn for Farm Machinery really did catch the Canadian MNC off-guard, forcing a re-consideration of its investments.

Unlike the Scottish plant, Marquette was a multi-product operation and therefore "the overheads of combine manufacture could be offset into the general overhead at the plant to a considerable extent. Whereas if combine production had been centred at Kilmarnock you would still have had overheads at <u>both</u> plants still" [letter dated April 11, 1985, to author from Mr. Dawe, Director of Communications Europe]. As a part fabrication plant supplying other Massey factories (especially the tractor plant at Beauvais, Paris), Marquette was a closely integrated unit, and accordingly of greater strategic value than the independent Ayrshire plant.

The Scottish plant was not to close, however. It was to be saved by transferring baler production from Marquette to Kilmarnock, but 1,000 jobs would be lost, leaving a depleted work-force of 500.According to Massey, it would have been cheaper to close the Scottish plant, but, the decision to introduce baler production was prompted by Massey's "social responsibility to the area" [Massey-Ferguson, Press Statement, November 7, 1978].

November 30, 1978: on Saint Andrew's day, local politicians met the Company's Director of UK operations, Mr. Henry Hebden, who assured them that the Company's proposals were not the first step in the total closure of the Kilmarnock plant. He told them that the factory would become the sole baler-manufacturing centre in Europe.

On the same day, 320 employees at the Kilmarnock plant travelled by special train to London to lobby MPs and attend a meeting held in the Grand Committee Room at Westminster Hall. The eight members of the Co-Ordinating Committee afterwards attended a meeting with the then Minister for Industry, Allan Williams, and the Under Secretary of State for Employment, John Golding, and the MP for Kilmarnock, John Lambie.

February 2, 1979: the unions presented their criticisms of the

"Feasibility Study". They questioned the basis and value of the study arguing that it was "the means designed to justify the ends".

May 16, 1979: Three months had passed before Management finally met the Unions to defend the Study's conclusions, and to pass on information requested at the February meeting. Due attention had been given to questions and arguments presented by the Unions at a previous meeting. Massey confirmed "that at this point in time the Study Group did not consider it would be justified in changing its original recommendation".

Further details were also provided about the timetable being recommended by the Study Group. Combine production would cease on April 30, 1980 and full baler production would start on September 1, 1980:

Massey announced that the decision, anxiously anticipated by employees, on the Study Group's proposals, would be made during the week of July 25.

> **"If these deadlines were to be met, Kilmarnock would need to begin preparatory work on the baler not later than mid August 1979. Consequently the company was proposing to make a firm decision on the Study Group recommendation during week beginning 25th July, 1979. This required the consultative process to be complete by the end of June 1979".**

The Company also stated it was prepared to agree to the Unions' request for a representative group to meet the President prior to his making the final decision [Press Statement issued by Massey, May 16, 1979]

June 6, 1979: the Massey Combined Union Co-Ordinating Committee wrote to the Prime Minister, Mrs Thatcher, asking for her assistance "in our fight to save one thousand jobs at this, the only Combine manufacturing plant in the UK".

June 14, 1979: a four man delegation from the Joint Co-Ordinating Committee met Sir Keith Joseph, (then Secretary of State for Industry), at the headquarters of the Scottish Office in Glasgow.

It was hoped to convince the Minister of the newly-elected Conservative Government that he should do everything possible to persuade Massey to reach a decision favourable to the Kilmarnock plant.

Mid-June 1979 A Conference organised by the Unions represented at Massey's European plants was held in Rome. Each national delegation described the situation at Massey's plants in their country, and it was agreed that the group should "furnish each other every two months with information concerning our respective factories" [Minutes of Conference].

July 4, 1979: A meeting took place in London between national union officials, (including the then President of the AUEW, Mr. Terry Duffy), and Mr. Rice who assured them that he had not yet come to a final decision. The Chief Executive also met representatives from the Scottish Trades Union Congress and members of Kilmarnock and Louden District Council. The Managing Director of UK operations held discussions with the Secretary of State for Scottish Industry, Mr. Alex Fletcher, and the Secretary of State for Industry, Sir Keith Joseph.

July 17, 1979: it was announced that the "Feasibility Study" was to be re-opened and that the deadline for announcing the final decision was therefore being extended. The Company said that considerable consideration has been given to all the representations made at the meeting of July 4, and, added that,

> **"although none has brought out new factors, the President felt it essential to update the study in the light of representations made. Indications of further downtrends in the markets for combines and, more especially, balers and from changed economic circumstances arising from the world oil prices also made this necessary"** [Massey Withdrawal From Kilmarnock Factory: Timetable Of Events].

July 23, 1979: Massey announced that it would be updating the study which it was conducting into the utilisation of its combine harvester manufacturing resources in Europe, before any decision on the future of its Kilmarnock factory could be made.

The Company prepared a document providing Management with

"Recommended Answers" for anticipated questions. Some of these are reproduced below:

Q1 "Does this announcement mean that M.F. has abandoned or is likely to abandon its plan to transfer combine production to France?

It would be wrong to make any assumptions. The study is being updated to ensure that the final decision is based on the most up-to-date assessment possible of all the factors which have to be considered. These include the representations made to the President, changing market forecasts arising from factors such as the effect of the oil situation. The objectives of the study remain the same, how best to deal with the problems which face the Company and at the same time protect the maximum number of jobs at Kilmarnock factory.

Q2. Is Massey now backing down on its proposal to manufacture balers at Kilmarnock?

(As Answer 1 above)

Q4. If the market is trending downwards, does this throw the future of baler manufacture at Kilmarnock and the future of the whole workforce at the plant into doubt?

A4. To assume that would be to pre-judge the outcome of the updating of the study. Conditions have not become any easier but the need to protect jobs at the Kilmarnock plant to the maximum extent possible remains a matter of the greatest importance.

Q7. Originally, Massey stated that a decisions on Kilmarnock would have to be made by week commencing 23 July if your proposals were to be carried through. Now you have abandoned this date and have not given another, when do you now expect to make a decision? How can you accomodate the delay?

A7. We do not have a firm date at present. The date that was originally mentioned was put forward as an integral part of the study group's original proposals. As the whole study was itself subject to review and final decision the original date was not absolute.

Q8. Overall, is the news of the re-opening of the study grounds for hope/optimism at Kilmarnock?

A8. It is grounds for assurance that every way to save the maximum possible number of jobs at Kilmarnock is being studied to the fullest".

October 9, 1979: the Factory Director at Kilmarnock, Mr. Thomas, informed the Co-Ordinating Committee that short-time working would be introduced in the week beginning October 22, and that 950 employees would be on a four day week. It was also decided that the nightshift manning level should be cut by 20%.

> **"the completion of market surveys throughout the world and their consolidation into a manufacturing programme is likely to take another five to six weeks. It has already become clear, however, that the market cannot support five-day production of Combines at the current rate of build. ..... It is not possible at this stage in time to indicate how long four-day working will last but the situation should clarify itself once the market analysis is completed"** [Statement Made To All Bargaining Units at Kilmarnock, October 9, 1979].

October 16, 1979: Employees were informed that the decision on short time working would be suspended until Mr. Rice, the President, decided Kilmarnock's future [Company Statement].

Late October, 1979: A Massey official in the Company's UK Headquarters (Coventry) announced that a statement would be issued on November 9, "but we can give no indication of what this may be". He said that it would communicate Mr. Rice's decision on Kilmarnock's future [Clark, October 31, 1979].

12.5. The Closure Announcement

On November 9, 1979, two days before the plant was due to celebrate the thirtieth anniversary of its official opening, Mr. Henry Hebden, Managing Director of UK operations, announced that the latest study, initiated in July, revealed that the transfer of baler manufacture to Kilmarnock was no longer viable because of the slump in European sales. The Company therefore withdrew its offer of baler production and announced the total closure of the Kilmarnock plant. He revealed that the firm would continue to undertake the search for other employers, and that Inbucon, a firm of Management Consultants, was conducting inquiries on the firm's behalf:

> **"'MASSEY-FERGUSON CEASE OPERATIONS AT KILMARNOCK'**
>
> Massey-Ferguson has today informed employees at the

> company's Kilmarnock combine harvester plant that the renewed study of the utilisation of its European harvesting manufacturing resources has been completed. The re-opened study was ordered by Massey's president in July, before making the final decision on the future of the plant.
>
> It has confirmed that the market for combines will continue at levels too low to maintain two combine manufacturing operations in Europe and that the most viable single manufacturing source is the company's plant at Marquette, France.
>
> Additonally, the new study has shown that the downward trend in the European baler market which first became evident earlier this year will be prolonged and is so severe that the proposed transfer of baler manufacture to Kilmarnock from the Massey plant at Marquette, France, can no longer be considered. The projected volumes are not sufficient to enable any plant to be viable with the baler as its sole product. The company is totally committed to continued manufacture of balers in Europe and, to this end, is now in the process of deciding which of its other European locations would best support viable manufacture of balers.
>
> In view of these factors and because no other sources of work have been identified within Massey-Ferguson, the company regrets that it now has no option but to concentrate all its European combine harvester manufacture at the Marquette plant and to cease operations at the Kilmarnock plant completely. All MF production at the plant, which has 1500 employees, will end on February 15, 1980.
>
> The closedown of MF operations at the Kilmarnock plant is one of a series of actions which Massey-Ferguson is taking in a number of countries in the wake of difficult world trading conditions and which have as their objective the better utilisation of manufacturing resources and the return of the company to profitability [Massey-Ferguson, November 9, 1979].

In subsequent negotiations, the Company made a number of major concessions to unions' demands. On January 17, 1980 it announced it had established a small firm on the Kilmarnock site which would provide 54 jobs:

> "An important step in the search for alternative work for employees at the Massey-Ferguson combine harvester plant at Moorfield Estate, Kilmarnock, has been taken with the establishment of Moorfield Manufacturing Company (Kilmarnock) Limited.
>
> Formed initially as a wholly owned Massey-Ferguson subsidiary with a Board of Management who are Massey-Ferguson directors, the new company will function as an independent concern and it is planned that Massey-Ferguson will become a minority shareholder in due course. The

> company is assured of continued technical support from Massey-Ferguson while it is becoming established [Massey-Ferguson January 17, 1980].

Closure finally took place on February 15, 1980.

12.6.: The Union's View

Plant Convener, Mr. Sam Kay, deflected the author's inquiries and recommended that he contact former Shop Steward, Mr. Willie Woods, currently a final year Honours undergraduate in Industrial Relations and Law, at Strathclyde University. Mr. Woods was highly critical of Massey.

He believes that a final decision to cease all production had been taken at least as far back as September 1978. All discussions held after that were, he claims, a complete waste of time from the Union's viewpoint. On the other hand, they met the Company's objective which was to keep hopes alive and at the same time kill off any posibility of organised resistance.

This alleged strategy was brilliantly executed, he argues, and it achieved Massey's dual objectives: a smooth run-down (not one day's production was lost due to industrial action), and the enhancement, or at least the protection, of Massey's reputation.

He beleves that the proposed transfer of baler production <u>from</u> Marquette <u>to</u> Kilmarnock, plus the recruitment of Inbucon were key instruments in the Machiavellian plot carefully designed by Massey.

In order to appreciate his argument, an examination of the age structure of the 1,500 labour force is necessary. The workforce was composed of three age groups, all roughly equal in size: the over-55s, those between 30 and 55, and those under 30.

Massey's proposal to cease combine production but retain a workforce of 500 for baler production, was for the purpose, Mr. Woods alleges, of splitting the workforce and precluding effective industrial action. This proposal was very attractive, he explained, to all employees except one group, the under-30s.

The over-55s were offered very generous redundancy terms whilst the middle group were content because they were safe in the knowledge that compulsory redundancies would be based on a last-in-first-out-policy. It was therefore only the under-30 group which stood to lose, for given the brevity of their employment, their severance payments would amount to little, and finding alternative employment in Ayrshire in 1979 was no mean feat.

The recruitment of Inbucon should be seen, he argues, as part of a carefully orchestrated strategy to emasculate the power of labour. As long as employees believed that a buyer might be found for the plant they were unwilling to support the more militant stewards who were calling for industrial action.

According to Mr. Woods, Massey's handling of the run-down of Kilmarnock was a classic case of divide and conquer.

Mr. Woods argues that employee disclosure and consultation practised by Massey should not be compared favourably with those firms which gave no advance warning that closure was an option being considered. He argues that the only difference is one of strategy. Other studies presented in this thesis reveal situations in which employees were absolutely stunned by a shock closure announcement and 90 days notice of redundancy, the legal minimum requirement.

Nor were Mr. Woods' criticisms restricted to Management. He recounted how disappointed he had been with the AUEW's leadership. The Co-ordinating Committee was apparently unwilling to keep other shop stewards abreast of developments at Company-Union meetings.

As to "Vredeling", Mr. Woods believes that while it would be an improvement on UK. legislation, it assumes that employees' representatives would pass on information to employees. However, some Shop Stewards, he alleges, "often withold information", and often workers are suspicious of their own stewards.

Mr. Woods has sent a questionnaire to a random 150 ex-employees at Kilmarnock. Of these, only one believed that the establishment of Moorfield could be explained as altruism or the Company's concept of social responsibility. This research technique normally offers respondents anonymity, but not in this instance, and some may argue, that the research methodology is therefore flawed.

When Massey Ferguson revealed its intentions to conduct a Feasibility Study on European combine production, the Co-ordinating Committee at Kilmarnock enlisted the help of several academics, who, since the closure, have presented or published several papers, all highly critical of the Canadian MNC. Based at Strathclyde University's Industrial Relations Department, they argue that the feasibility study was "a post hoc justification of a decision taken for financial (and chiefly cosmetic) reasons. It was primarily a propaganda exercise to undermine damaging labour and government resistance" [Baldry et al.].

12.7: The Company's View

On December 12, 1984, Mr. Tony Dawe, Director Communications Europe, and Mr. John Thomas, former Kilmarnock Plant Manager, were interviewed. The latter described Mr. Woods' allegations as "ridiculous". Firstly, he said, had Massey been concerned only with its public image, a firm less expensive and less professional than Inbucon would have been engaged. Inbucon's services cost Massey £100,000.

Secondly, the Company's decision to introduce unpopular measures to eliminate abuses by employees of the piece-work system, resulted in a nine-week dispute which was not in the interests of the Corporation. It was exceptionally difficult to remedy the situation because supervisory staff had a vested interest in allowing these abuses to go unchecked, and so they turned a blind eye to irregular practice.

Thirdly, Massey did not require a lengthy run-down of the plant, because the machinery was not needed elsewhere; indeed, Massey were prepared to "give away" capital equipment to any potential buyer. Mr. Thomas refutes, therefore, the suggestion that the decision to close had been taken away back in 1977 when the review of European Combine production was announced. He believes that the majority of former employees at Kilmarnock recognised the Company's efforts to minimise the adverse effects on employees as genuine.

12.7.1.: The Divestment Decision.

Mr. Dawe refutes the notion presented by previous researchers (eg, Boddewyn, 1976; Torneden, 1975) that "someone 'decides' in isolation and then 'hands down' the decision". Subsidiary Management was heavily involved, he says, in producing the data on which the final decision was based. The decision to close Kilmarock was taken only after Subsidiary and Parent Company Management had carefully considered the past results and potential of both sites.

According to Mr. Thomas, Marquette was retained because it had three major advantages over the Scottish factory:

1. It had a foundry on site.
2. It was located nearer the market.
3. It was virtually a non-union plant.

Mr. Dawe described why Kilmarnock was closed:

> **"The company was losing money in general and on combines in particular. All our competitors in Europe operated from one plant, we had two."**

12.7.2.: Employee Disclosure and Consultation

Once it was realised that the European market could not sustain two facilities Mr. Dawe (based at Massey's UK headquarters) and his colleagues were determined "to handle this matter as well as possible". He was well aware that certain groups in the UK jump at the opportunity to castigate MNCs. This was just one reason, he stressed, that Massey was particularly eager to avoid tarnishing its own reputation, and that of multinationals in general.

Mr. Dawe furnished the author with many statements which Massey issued to employees informing them of the latest developments affecting Kilmarnock. He believes that the information contained therein "shows when employees were first informed that the future of the plant was under study and that there was then a period of several months in which there were numerous exchanges with the unions before a final decision was made" [letter from Mr. Dawe to the author, dated November 2, 1984].

Mr. Dawe explained that Massey aims to, "be a good citizen wherever it operates ..., comply with the law and good practice, and work well within the law". Accordingly, once the decision to close Kilmarnock was taken, employees were told as soon as the necessary minimum work on presenting the news had been completed. Once the employees were informed, consultations were held.

Mr. Dawe, calling upon his own experience, described the divestment process, and revealed at what stage he believes employees should be informed of the firm's plans to close an operation:

> **"One starts with the imperative of having to save money. If one does not do that one will cease to exist.**
>
> **Various options are identified and researched. At this stage it would be clearly wrong to tell the work force - which is tantamount to a public statement. It may never happen, in depth research may show that the option is not, after all, valid. One may be having exploratory discussions with government or other firms which must be in confidence.**
>
> **Equally, it would be foolish indeed to shake dealer confidence with a half-baked leak which would soon be misconstrued as an intention to abandon the product range.**
>
> **However, as in depth research proceeds, there comes a time when so many people have to be consulted that one has no option but to make some kind of employee and public statement"** [letter from Mr. Dawe to the author, dated November 2, 1984].

12.7.3.: Codes of Conduct for MNCs

Mr. Thomas was not aware of the OECD Guidelines at the time of the Kilmarnock closure. Mr. Dawe admits that if employee disclosure and consultation procedure during the run-down of the plant was in accordance with the Guidelines then it was by good fortune, not design. Apparent adherence to the Guidelines was, as he admits, purely coincidental. He stresses, however, that,

> **"the standards of good management which we ourselves have and need to have for our good name are actually more demanding than the letter of the guidelines"** [Memo to author].

Although Massey ostensibly complied with the various Codes of Conduct for MNCs, and the OECD Guidelines in particular, it can be concluded that the OECD Guidelines do not receive any attention in the UK subsidiary, or at European level.

Mr. Dawe criticised both Guidelies and Draft Directive, for failing to appreciate that in the plant closure situation "most companies find themselves squeezed by imperatives which determine the course of action". He was at pains to stress that firms do not in reality enjoy the absolute freedom which the Guidelines and Vredeling presume.

Mr. Dawe offered his explanation of the term "reasonable notice" of plant closure, as contained in paragraph 6 of the Employment and Industrial Relations chapter of the OECD's Guidelines:

> **"..I think the term implies "in view of all the circumstances". The circumstances of closing a plant are so serious that it is unthinkable that any company should act capriciously and, in practise, what is reasonable tends to define itself".**

Should "Vredeling/Richard" become Community legislation, Massey's policy will remain the same: it will continue to strive to operate "well within the law". The Company has kept a low profile on the Draft Directive, on which it does not have a firm policy.

12.8.: Postscript

In its 1983 Annual Report, Massey Ferguson, announced that it had "essentially completed" the first phase of its long-term strategic plan. The Company, it proudly proclaimed, had been "resized and restructured" to meet the challenges of the 1980's.

Since 1978 Massey has closed 18 plants, including two in the U.S. The rationalisation programme has taken its toll on the worldwide employment level of the Canadian MNC. Almost 50,000 jobs have disappeared, leaving a labour force of only 20,000 compared to 68,000 in 1978. The Company's excess capacity problem is confirmed by the decline in tractor sales. In 1976 Massey's tractor output was 168,000 units, but by 1984 it had slumped to only 106,000. A leaner and fitter Massey-Ferguson eventually returned to the black in 1984, with a modest profit of $7.2m.

In August 1985, Massey-Ferguson ended the year-long uncertainty surrounding its Marquette plant. The company confirmed that the factory would close with 1150 workers made redundant. Just two years earlier the French plant employed over 2,000 workers, but the plant had been a serious financial drain running up losses of about $20m (£16m) a year.

In May 1986, Mr. Rice announced that Massey-Ferguson would change its name to Varity Corporation. The move was seen as "part of efforts to distance itself from its recent image as a financially-troubled company dependent on the farm equipment market" [Financial Times, May 16, 1986].

12.9.: Introduction

International Harvester (IH), the US-based MNC, has its origins in McCormick's mechanical reaper. In 1902, the Company was formed by the merging of "McCormick Harvester Company" and four other US farm equipment manufacturers - "Deering Harvester", "Milwaukee Harvester", "Plano Manufacturing Company", and "Warder, Bushnell and Glessner".

Its first foreign plants were established before World War 1. The agricultural depression in America during the 1920s led the firm to diversify into trucks and machinery for the construction industry. Two decades later, in 1943, the Company introduced divisionalisation to manage its growing product range.

During the 1980s IH has undergone considerable restructuring which compelled major organizational changes. Until 1982 it was organised into three operating groups, Trucks, and Agricultural, and Construction Equipment with each group responsible for worldwide operations. In November 1982, the Construction Equipment division was divested in November 1982, and sold to Dallas-based Dresser Industries which outbid German firm IBH Holding which itself went bankrupt in 1984. A further major divestment programme was initiated in late 1984.

Despite its major 1982 disposal, IH's worldwide operations had a severe excess capacity problem, and the Company's structural weaknesses became apparent:

> **"The country's (ie. America's) leading manufacturer of heavy- and medium- duty trucks and the No. 2 maker of agricultural equipment had gone the way of many other old-line industrial corporations: Its plants were outdated, markets and sales were shriveling, and debt stood at $4 billion"** [Business Week, August 15, 1983].

IH, which had reported record profits in 1979, was fighting for its very survival, and many observers believed that only a Massey-Ferguson-style government bail-out could save IH from bankruptcy. The cover of Harvester's 1981 Annual Report proclaimed the Company's problems and response:

> **"1981 was one of the most difficult years in IH history. To cope with record interest rates and severely depressed, we streamlined our organisation ..trimmed personnel...froze salaries..pruned product lines..and reduced operations"** [International Harvester, IH Facts].

By 1982, rationalisation of production facilities was in full swing, and in the UK attention was focussed on the Bradford plant and on the two other plants, both at Doncaster.

Bradford was closed with the loss of 510 jobs, then in May 1983 it was announced that Carr Hill, Doncaster, would close with the loss of 104 jobs, production being transferred to the larger Doncaster plant at Wheatley Road which served as the headquarters of IH's UK subsidiary.

The Bradford closure will be reviewed in this case-study.

12.10.: The Rise and Fall of the Parent Company

Company sales first reached $1 billion in 1951 and $2 billion in 1964. Between 1964 and 1979, sales grew steadily, and only in two years did sales fail to exceed the previous year's performance levels. In 1979, the Company reported all-time record sales of $7.0 billion.

Despite this trend, profits were erratic. In 1965, IH reported a profit of $109.7m, but in 1975, ten years later, and after the very high inflation levels caused by the oil-crisis, it returned profits of $80.1m. An IH publication attributed its inconsistency to,

> **"an excessive cost structure prevented the Company from generating enough cash to cover overhead expenses, dividends, and, at the same time, reinvest adequately in plant and equipment"** [International Harvester, IH Facts].

Nevertheless, in 1979, the same year that IH enjoyed record sales, it announced record profits of $427m (see Table 12.3). According to IH, this success was due to "strong market demand, improved market shares, and cost controls". The Company noted with concern however, that net income as a percentage of net sales was 5.1%, while its major rivals achieved almost double that profit ratio.

The Company gave the following reason for this disparity:

> **"IH was handicapped, from a cost standpoint, by contract provisions which were more liberal than those of principal competitors"** [International Harvester, IH Facts].

It wanted, therefore, to revise the contract and this led to a strike by United Auto Workers (UAW) at its North American plants which lasted from November 1979 to April 1980. The Company estimated in May 1980 that the strike cost the Company $225m, and according to one commentator, in 1982 the Company had "never recovered" from the strike [Business Week, December 13, 1982]. On the other hand, IH estimated that the new contract could reduce IH's capital needs by up to $500m over the next ten years "by allowing more effective use of capital equipment".

Table 12.3.: International Harvester, Selected Financial Data (Millions of dollars)

Years ended Oct.31	Sales	Net Income (Loss)	Worldwide Employment
1985	$3,751	(364)	16,836
1984	4,802	(55)	31,104
1983	3,601	(485)	32,445
1982	4,292	(1,738)	43,290
1981	6,298	(351)	65,640
1980	5,208	(297)	87,162
1979	7,035	427	97,660
1978	6,664	187	95,450
1977	5,975	203	96,890

Source: Corporate Accounts, Fortune.

The return to work at the North American plants did not solve the Company's problems, however. In April 1980, US interest rates stood at 20%, much higher than predicted by any financial institution or econometric model, and Harvester suffered a loss of $297m. Interest rates would not drop below 15% until 15%.

At the same time, demand for all three of IH's principal products

- trucks, agricultural equipment, and construction machinery - were depressed throughout the world. By June 1981, the world tractor market was at its lowest level since the Second World War and "very little improvement" was expected for 1982. Consequently, the industry was running at only half its capacity, causing intense pressure on production costs.

The third major problem was the lowering of IH's credit ratings. As a result, the Company was excluded from a traditional source of low cost working capital - the commercial paper market - and instead it had to rely on high-cost bank loans. Total Company borrowings almost doubled within a year. On October 31, 1979, at the beginning of the strike, they amounted to $1.4 billion. On the same date the folowing year, they had risen to $2.2 billion.In order to reduce costs and raise cash a series of measures were initiated.

In the course of 1981, the Solar Turbines International Division was sold to Caterpillar for $505m in cash, and Harvester divested itself of its lawn and garden tractor line, plus its ball-bearing business. During 1981 IH's losses were only fractionally lower than in 1980, and the Company's world-wide operations bore a loss of $(394m).

At the end of the 1983 fiscal year, ie. October 31, 1983, IH had 27 manufacturing plants operating worldwide, including 15 in the US, compared with 41 worldwide, including 21 in the US, at the end of the 1982 fiscal year. Further divestments have occurred since 1983, and as the company shrank so too did its labour force. The number employed worldwide has been savagely reduced from virtually 100,000 at the end of the 1979 fiscal year, to just over 16,000 six years later.

Given the Company's external and internal difficulties, foreign divestment was very likely according to the literature on the subject. The same literature suggests that divestment becomes even more likely when there is a change of senior management at the Parent Company's Headquarters.

12.11.: The New Men

Mr Archie R. McCardell joined IH in September, 1977, as President and Chief Operating Officer. Four months later, in January, 1978, he was elected Chief Executive Officer, replacing Mr Warren J. Hayford who was retained as President and Chief Operating Officer. A massive plant-modernisation programme was initiated to improve efficiency and capital expenditure increased significantly.

In 1978, McCardell asked Mr. Don Lennox to join Harvester, and in 1979, Lennox reported once again to his former boss whom he had served under first at Ford and then at Xerox. But the triumvirate of Hayford, McCardell, and Lennox proved an ineffective team:

> **"Because of the mishmash of expertise at the top, important decisions were delayed or, worse, sometimes not made at all"** [Business Week, August 15, 1983].

During 1982, a number of major staff changes occurred. Hayford resigned in March 1982, and McCardell "was bumped as Chairman" [Business Week, August 15, 1983]. A special meeting of the Board of Directors had been convened for May 2, 1982, and Louis W. Menk, former Chairman and Chief Executive Officer (CEO) of Burlington Northern Inc., was elected Chairman and Chief Executive Officer of IH. Donald D. Lennox, IH Executive Vice-President, was elected President and Chief Operating Officer (COO).

Menk and Lennox were determined to divest non-performing assets. Previous management had known this was necessary, but had failed to overcome the "barriers to exit". Lennox's first move was divesting the construction equipment unit.

On December 1, 1982, Mr. Lennox was elected Chief Executive Officer while continuing as President. Mr. Menk continued as Chairman of the Board until September 1, 1983, when he was succeeded by Mr. Lennox. Jack D. Rutherford was elected President and Chief Operating Officer and a Director.

12.12.: The Implications for Bradford

The Bradford factory had been acquired from Jowett cars in October 1954. It produced tractors as well as a range of components for IH tractors manufactured at Doncaster, Turkey, and India.

By 1962, the factory employed 2,250 and it exported over 60% of its production. In early 1978, Bradford still employed 1,700 but by May the number had been reduced to 1,400, in response to falling exports, especially to Turkey which had grave economic problems. By 1980 the world market for tractors had been drastically reduced and this demanded a serious analysis of the entire Company.

On May 15, 1980, the Board of the US Parent Company met at 2 pm. (US time), 8 pm. (UK.time) to review the performance of IH's worldwide operations. The results were conveyed to the UK subsidiary, and on the following day, May 16, 1980, Management informed the Union delegation that Corporate losses for the first half of the financial year were in excess of $500m [Notes of SCJNC Meeting Held at Bradford on 16th May, 1980].

In response to deteriorating conditions, it was decided to cut back on tractor production at Doncaster and Bradford by 2,000 units and 400 umits respectively. As a direct result short-time working was introduced at both plants. After the Spring Bank Holiday, Bradford went on a four-and-a-half-day working week and 96 jobs were lost [Notes of SCJNC Meeting Held at Bradford on 16th May, 1980].

Throughout the pay negotiations, IH informed employees of the "tremendous problems" facing the Company. Management informed union officials of the severely depressed market conditions afflicting the industry, presented them with detailed information covering the Company's share of world markets, profits, and objectives.

In 1979, IH had returned a profit of $427m, but in 1980 it sufferred a loss of $(297m). Similarly, the UK subsidiary, which had returned a modest profit in 1979, plunged into the black in 1980 - the Agriculture Group alone reported a pre-tax loss of £9.8m (see Table 12.4.). In the four years from 1977 to 1980 the UK subsidiary as a whole had gone from an £8m profit to a pre-tax loss of £(20.2m).

Table 12.4.: International Harvester Co. of Great Britain Ltd. (£m) Year ended October 31.

	1979	1980	1981	1982	1983
Sales	176	168	119	106	99
Profit (Loss) Before Tax	2.4	(20.2)	(18)	(14)	(6)
Profit (Loss) After Tax	3.3	(12.3)	(18.9)	(14.2)	(6)
Av. Number of employees	6,653	6,162	4,629	3,259	2,365

Source: Extel Statistical Services

Throughout 1981, tractor production was cut back at Doncaster, and, therefore, at Bradford which supplied the former with components. Eventually Bradford ceased manufacturing tractors completely, and merely produced components for assembly operation in Turkey and India [Telegraph and Argus, October 18, 1982].

On June 25, 1981, Management countermanded increasing speculation over the future of IH(GB). Employees were given the following assurance:

> **"Faced with these many serious problems it is understandable that there has been much speculation and rumour concerning the future of the British Company. Recent rumours suggested that there would no longer be a manufacturing operation in the UK Such rumour is without foundation ... "** [Notes of Joint CJNC, SCJNC, M2-M6 Meeting Held on 25th June 1981].

12.13.: Disclosure and Consultation

July 1980: Employees at Doncaster and Bradford were told that the workforce of the two plants would be reduced by 740, with Bradford accounting for about 100 of the total job losses.

Mr. Jon Young, Employee-Relations Director, blamed low demand, compounded by high interst rates, inflation, and the strength of Sterling. He also added that the Company's delivery dates were disrupted by the national engineering dispute during the infamous 1979 "winter of discontent", and customers had taken their business elsewhere. However, sources outwith the Company attributed the blame for these redundancies to the Parent Company's recent decision to withdraw from industrial wheel tractors in the US [Telegraph and Argus, July 30, 1980].

August 1st 1980: It was reported that local management was trying to convince the US Board that Bradford should receive further investment and new products. However, as the Industrial Relations Manager of the plant, Mr. Roland Long explained, Bradford was in direct competition for limited funds with other International Harvester plants throughout the world:

> **"There are a number of new products and opportunities for new investment for which we are now doing costing exercises and which we hope to attract to Bradford.**
>
> **We believe that this plant compares equally with any other in the group......there is no doubt that, if we are succesful in our bid for this new work, it will considerably strengthen the long-term future of this plant"** [quoted in Telegraph and Argus, July 30, 1980].

November 5, 1980: Union representatives met management, led by the Managing Director of International Harvester (Great Britain) (IH(GB)), Mr. Thompson, an American.

The subject for discussion was "Job Security". The meeting was convened at IH's UK headquarters in Doncaster in response to "a number of requests from the Union side for information, and an opportunity to discuss the general investment strategy of IH(GB)". The proceedings began with management explaining that the meeting was "an attempt to communicate as fully and frankly as possible"; it was not to be seen as an opportunity for entering into negotiations.

Mr. Thompson told union representatives that since January 1980 he had held discussions with management at Bradford and he had informed Management that the future of the plant would be settled before the New Year. He explained that "this was not now possible" and that a Task Force headed by Mr. W. Elwiss had been formed to investigate the viability of the 384 Tractor "and to review the strategy for Bradford".

This particular model was no longer suitable, he said, for the mature markets in North America, France, Germany, and Great Britain. Its marketing had consequently been geared for the developing countries. This had proved particularly successful in Turkey, but now came unstuck as the country's recent economic crisis precluded importing of expensive machinery.

The union delegations were concerned also about the Company's decision to establish a manufacturing base at Vigo, in Spain. They had read in the press that this decision could only be detrimental to the future of IH(GB). Indeed, this news caused Mrs Husarz, an APEX shop steward, to suspect that Bradford would close. Mr. Thompson, however, dismissed this as ill-founded speculation. He explained that IH had invested in Spain simply because the Spanish market was not only larger than the UK market, it was the fifth or sixth largest market in the world. It was therefore important that the Company maximise its penetration of such an important market and it was impossible to achieve this due to Spain's import controls and the Company must therefore produce within the market itself.

He assured Trades Union representatives that the Spanish factory would not export to those markets served by IH(GB). This factory had originally produced lorries, but following recent discussions at Chicago Headquarters, US Management had decided to commence manufacture of Vineyard and Orchard tractors. Mr. Thompson and his eight colleagues assured the 23 strong Trades Union delegation that "they (ie. Management) had always given the Unions information they believed to be 100% true at that time, but over the period of negotiation things had changed".

Mr. Thompson explained that the UK subsidiary's poor results were partly due to rising costs. In 1977 manufacturing costs were 83% of sales revenue, but by 1980, the former actually <u>exceeded</u> the latter! [IH, Notes of Extended SCJNC and M2-M6 Held on 5th November, 1980 at Doncaster].

Union representatives were also told that short-time working was expected to end in early 1981, and that no further significant redundancies were foreseen.

According to Mr. Ray Andrews, Convening Officer for the Joint Negotiating Committee for manual workers, Mr. Thompson's background was in Personnel Management and his appointment to the position of Managing Director broke with tradition in that the position had previously been occupied by someone with an engineering or financial background. His appointment was, Mr. Andrews comments, no doubt due to Head Office recognising this young executive's talents. Indeed, Mr. Andrews alleges that these talents were so self-evident that his relationship with shop-floor workers suffered. Given his professional background, it is understandable that Mr. Thompson attached considerable importance to communicating with employees. Information was often presented on video, and it was always done with "slick professionalism". This very characteristic , Mr. Andrews alleges, alienated many employees [interview with author].

December 2, 1980: Management and Unions held salary negotiations for the forthcoming year. The Unions demanded that there should be no compulsory redundancies in 1981. Management replied that,

> **"the Unions must be aware that with the state of British Industry and IH in particular, everyone is having to cope with an unprecedented situation of uncertainty. Management cannot, therefore, give the assurance and regretfully declined to give that commitment"** [Notes of SCJNC Meeting Held at Bradford on December 2, 1980].

It explained that there had been a rapid change in market conditions since the last meeting, and that had Mr. Thompson been present "he would not be expressing himself in quite the same terms as before". It claimed that under the terms of the Employment Protection Act, "there is a well defined procedure that has to be gone through by employers, and there are very specific rights conferred upon employees entitling them to substantial written information. That obviously falls short of the kind of guarantee the Unions are asking to be written into the Agreement, and the level of protection cannot be improved upon".

February 27, 1981: Management presented Shop Stewards with a detailed review of the world market for the agricultural equipment industry and its impact on IH, with particular referance to IH(GB). It was disclosed that the tractor market was at its lowest since 1945, and consequently, further redundancies were necessary at the Doncaster plants

March 11, 1981: The two sides met again this time to discuss the "Company Situation and Manpower Reductions". It was disclosed that the manufacture of Construction Equipment would cease in Doncaster by the end of the 1981 fiscal year, as mixing Construction Equipment and Agriculture operations in one plant "has not been, and is not economically viable and there is a need for focussed manufacturing organisation".

Bradford had been considered as an alternative manufacturing base for Construction Equipment, but the size of the plant made it impractical:

> **"However, as a strategy the Company was committed to keeping Bradford viable as part of the Component Manufacturing operation",**

providing that the Unions accept that the plant would be a capital intensive, continuous operation [IH, Notes of Extended SCJNC Meeting Held On March 11, 1981].

At this meeting, the Company was informed by the union officials that their members, its employees, were concerned about the future of IH(GB), and that an assurance was, therefore, being sought that the British Company would remain in existence. The Company was also asked to clarify whether its strategy for Bradford represented a "firm commitment or just a possibility". The Minutes of the meeting record the information sought by the workforce:

"In general, the Trade Unions requested Management to give a firm assurance regarding the future, and that there was no intention of a run-down of the Doncaster and Bradford plants" [IH, Notes of Extended SCJNC Meeting Held On March 11, 1981].

Mr. Thompson replied that the Company had no intention of withdrawing from the UK, and that it was not in the process of formulating a strategy for running-down UK operations, leading to total withdrawal. However, 635 redundancies at Doncaster were announced.

Details of the Company's strategy were presented to all employees in a video presenation entitled "Shaping the Future". One shop steward told the author he remembered seeing the video but claimed that it was a very technical presentation and therefore it was meaningless to a lay person .

Early January 1982: 141 redundancies were announced at, what the local newspaper described as, the "struggling" Bradford plant [Telegraph and Argus, January 9, 1982].

February 1982: Unknown to the Bradford workforce, the decision to close the Yorkshire plant had already been taken and UK subsidiary management were busy preparing for closure. But the workforce was not informed until July, five months later!

Meanwhile, Mr. Ray Shepherd, who had succeeded Mr. Thompson, resigned after only fourteen weeks as the Managing Director of UK operations, following a row over future policy with US executives at IH's Chicago headquarters. He was replaced by Mr. Robert Calder.

The position of Managing Director had traditionally been occupied by an American, and employees at Bradford regarded the departure of the blunt-speaking Yorkshireman as an ill-omen for the factory's future. At the time, Mr. Ray Andrews, explained to the local newspaper that during his brief spell with the firm, Mr. Shepherd "had managed to win the confidence of most of the shop floor because of his commitment to IH operations in the UK and his determination to make them succeed" [quoted in Telegraph and Argus, February 24, 1982].

Mr. Andrews said that Mr. Shepherd had been appointed Managing Director because of his expertise in dealing with the financial institutions of Third World countries. It was hoped that under Mr. Shepherd's guidance, Bradford would win major export orders in Iran, Nigeria, Turkey, and Pakistan, but these countries had severe economic difficulties and this led to export credit guarantee problems. The salvation of Bradford was therefore not to be found in these markets [interview with author].

Mr. Shepherd's personality and frankness had made him highly popular with employees. For example, if Mr. Shepherd had decided not to provide information requested by the Unions, he was very forthright and gave a satisfactory reason for his stance, rather than "feeble exscuses" which they sometimes received from Management [interview with author].

As regards Mr. Shepherd's departure, Mr. Andrews said that it was under "suspicious circumstances" and that the Unions did not know whether he had jumped or been pushed. Mr. Andrews also told me that it was believed that Mr. Shepherd was unhappy with the restrictions placed on his authority by the Parent Company.They were certain, however, that his departure was not in the interests of the survival of IH's three UK plants:

> "The unions then realised it was the end of the road" [interview with author].

Mr. Coultard, the Convener for all manual unions at IH's three plants believes that Mr. Shepherd resigned because the US Executives restricted his authority, and that "they continued to hold the reins" [interview with author].

Senior management of IH(GB) admitted that Mr. Shepherd's appointment "didn't quite work out for a variety of reasons". Mr. Page, Director for Industrial Relations, said that Mr. Shepherd had resigned because he disagreed with the parent company's decision to concentrate Research and Development (R&D) at the Hinsdale plant, near IH's Chicago headquarters [interview with author].

The Company had previously conducted R&D at several plants, including Doncaster. In its fight for survival, IH was cutting costs wherever possible, and it was believed that concentrating R&D in one location was in everyone's best interests. Mr. Shepherd did not agree and argued that R&D should continue at the English plant. His views were not well received by the US Board and so Mr. Shepherd tendered his notice. As Mr. Page says, the issue at stake in Mr. Shepherd's resignation was "a complete policy issue" [interview with author].

However, the author would suggest that the Yorkshireman's resignation was not unrelated to the closure of Bradford. As Exhibit A proves, Mr. Shepherd's resignation must virtually have coincided with the US Board's informing UK subsidiary Management of its decision to close Bradford, and instructing that it formulate a divestment strategy.

Seen in this light, it seems reasonable to deduce that either Mr. Shepherd resigned in protest against the divestment decison - an example of local management's goals conflicting with the parent company's - or, alternatively, Headquarters in Chicago engineered the R&D issue with the explicit intention of provoking Shepherd's departure, and replacing him with its own man, Mr. Calder, an

American, who would have no qualms about closing plants in England - thereby, overcoming a serios "barrier to exit". Throughout industry the term "hatchet man" is overused, but in the circumstances it does not seem inappropriate to describe Mr. Calder thus.

March 11, 1982: It was reported in the local newspaper that Bradford would close "unless other work can be found which fits in with the Company's worldwide rationalisation plans" [quoted in Telegraph and Argus, March 11,1982]. The following day, Mr. Long, Industrial Relations Manager, slammed the story:

> **"... the Company has never taken the view that the only alternative to gear and shaft manufacture was the closure of the Bradford plant.**
>
> **We have been actively pursuing any number of opportunities to secure a future for the Bradford works. We are a long way from the position where the closure of the Bradford plant is one of the alternatives being considered.**
>
> **We certainly do not foresee further redundancies in Bradford"** [quoted in Telegraph and Argus, March 12, 1982].

June 7, 1982: Bradford's local newspaper revealed that "after the traumatic cuts in staff and scaling down of operations, the factory is now doing everything to attract business to boost workers' hours", and that full-time work would be resumed shortly. Mr. Long explained that the improved situation was due to winning an order from France and he predicted that it would provide work for about three months. He added:

> **"Hopefully we will be able to win more orders which will enable us to continue full-time production in the longer term, though the market is still very difficult"** [quoted in Telegraph and Argus, July 8, 1982].

July 13, 1982: Full- time working was resumed for the first time in two years at the Bradford plant.

12.14.: Closure Announcement

International Harvester's most senior UK Management were by February 1982 at the latest, actively involved in preparing Bradford's closure. An internal Company document entitled, "Plan for Orderly Closure of Bradford Works", which was prepared by the UK management, reveals that Management had planned to announce Bradford's closure, not on July 23, but some twelve weeks earlier:

> **"Planned date of announcement May 1st, 1982, assuming approval of appropriation and non-participation in Pakistan tractor deal"** [IH, Plan for Orderly Closure of Bradford Works].

July 22: The local MPs were told in strictest confidence that Bradford was to close.

Friday, July 23, 1982: At 7.30 am. in the Victoria Hotel, Bradford, Mr. Long informed local Councillors and Community organisations. These people were told so that they would be on hand to help the 510 employees who were given the news one hour later.

The Company's statement explained that the industry in general was depressed and that IH itself had "severe financial problems". As part of its programme to return to profitability, it had been decided that,

> **"the Company's manufacturing strategy should be based upon the fullest attainable utilisation of capacity and facilities. We thus have to end production at those facilities in excess of our requirements".**
> [IH, Statement to CJNC, July 23,1982].

Thus Bradford, which was operating at only 22% of its capacity, would be closed and all UK manufacturing would be consolidated at Doncaster [IH, Press Release, July 23, 1982].

Employees were told how the decision would effect them in a statement issued by Mr. Calder, Managing Director of IH(GB):

"Today...is the formal notification of the redundancy which marks the commencement of the statutory 90 day period of consultation. Detailed discussion of the implementation of the closure will continue at plant level.

The majority of the 510 people currently emloyed at Bradford will be leaving at the end of the 90 day period and beyond that date only a small run down team will be retained".
[IH, <u>Statement to CJNC</u>, July 23,1982].

Mr. Calder added,

"I am in no doubt that we will apply ourselves to the closure, sad as it is for all of us, with the same care and attention that we have always shown. .. I can assure you that the Company really has done everything humanly possible to save Bradford and we should reflect on how much sooner they would have taken this decision, had it not been for their genuine regard for the plant" [IH, <u>Statement to CJNC</u>, July 23,1982].

Once employees were told, they were sent home to inform their families. The Company went to great pains to ensure that those emotionally involved with the Bradford factory did not receive the news from the media.

Bradford's closure was part of IH's global strategy formulated in response to adverse market conditions. The UK tractor market had fallen from 36,000 units in 1977 to 22,000 in 1980, and in Europe as a whole, the industry had a manufacturing capacity of 600,000 tractors a year, whilst the forecast for sales was half that many! The Company's policy, therefore, was to rationalise its operations by concentrating manufacture into fewer plants and divesting itself of unprofitable assets.

Bradford was effectively closed on October 22, 1982.

12.15.: The UK Management's View

On September 11, 1984, the author held a collective interview with senior UK Management, namely, Mr. Stewart MacDonald, Director of Finance, Mr. Ian Page, Director of Industrial Relations, and Mr. Roland Long, currently Communications Manager and previously Industrial Relations Manager at the Bradford plant. The interview lasted for the best part of an afternoon.

12.15.1.: The Disinvestment Decision

Mr. MacDonald said he believed that in IH, the CEO and the President make any divestment decisons. In order to facilitate decision-making of this magnitude, Management of subsidiaries prepares a report outlining past performance and forecasting future trends pertaining to their subsidiary.

The first indication received by Mr. Long that the future of Bradford was uncertain came from the then newly appointed President and Chief Operating Officer, Mr. Warren Hayford. This was during the latter's visit to the Bradford factory in late 1979/early 1980. Mr. Long was taken aback, and not too impressed by the new CEO's first question:

"What's the cheapest way of closing Bradford?"

Mr. Long replied that there was no cheap way to close the plant. Indeed, this large Yorkshireman told the American that he was asking the wrong question. He told the author that at the time he believed that if IH couldn't make a profit at Bradford, then where the hell could they? After all, the workforce had been very flexible, and their Unions, in recognition of the corporations difficulties, had promised to make more concessions.

Shortly after Hayford's visit, Mr. Long was told by Mr. Sadler, Vice President of the Agriculture Equipment Group, that gear production in the US was to be phased out, and that Bradford had been chosen to be the Company's sole gear production centre. This proposition did not seem feasible to Mr. Long, as he could not foresee the United Auto Workers trades union allowing any further "export" of jobs. Such a proposal was, he believed, a recipe for severe industrial unrest at Harvester's US plants, and the Company was still recovering from the costly 1979-1980 dispute.

According to Mr. MacDonald, Bradford was closed because of the depressed market conditions facing all firms in the agriculture equipment industry. The industry's manufacturing capacity was far in excess of demand, and it was no longer possible to retain more than one plant in the UK The largest plant was Wheatley Road, Doncaster, and so whilst it was physically possible to consolidate at this plant, Bradford was too small to allow the reverse. The closure of Bradford was not a reflection on the plant's record. Indeed, by every imaginable yardstick, as Mr. Page explained, the plant's performance was considered "very good".

Mr. MacDonald explained that Bradford was a cost centre, and as such it had to win major orders from Third World countries to cover its costs. Only then could it offer competitive prices to customers from industrialised countries. If Bradford did not win large orders from the Third World, it lost the advantage of economies of scale, cost prices increased, and so the plant had to quote higher prices which obviously attracted less business. It was a vicious circle. "It was make or break in the Third World".

He also said that it was easier to close a plant in Britain than in any other European country. Asked whether this influenced the initial <u>investment</u> decision, he thought not, as firms do not open a plant with the intention of closing it.

Mr. MacDonald said that he would not describe the closure of Bradford as a "crisis" divestment, and indeed he argued that plant closures can never fall into that category. It would have cost less in the short term to keep Bradford open, and he says no firm would close a plant in order to get out of a crisis. Plant closures are very expensive. At the time Bradford closed, IH was fighting for survival.

He agreed that it is possible to describe the <u>sale</u> of a subsidiary as a crisis divestment, as a sale raises cash and avoids providing compensation to redundant employees.

Mr. Long told me that because Bradford was held in such high regard there was "longer than justified agonising over the decision".

12.15.2.: Employee Disclosure and Consultation

Mr. Page recounted how, until the early 1970s, IH had had a very "autocratic" approach to employee involvement, but that the Company, after involvement with the Commission on Industrial Relations (CIR), had developed a "very open approach" wherby employees were informed early of decisions. The CIR was a vehicle for change and IH established formalised procedures for consulting employees representatives.

Mr. Page told me that the Parent Company Executives decided to close Bradford in February/March 1982, and that they informed Senior Management of the UK subsidiary in late April, who in turn communicated the decision, within a day or two, to Plant Management at the three UK factories.

Mr. Page implicitly indicated that IH disclosed its decision to Bradford employees only after detailed plans and procedures to ensure an orderly closure had been laid down. UK management received financial appropriation for closure in May/June and it was only then that UK management were empowered to inform employees.

The Company were very concerned that the closure of Bradford could provoke industrial action at its other plants in the UK, and it was anxious to avoid any such action being taken. For example, had the employees taken industrial action, production at Doncaster would have ground to a halt with grave consequences for IH.

12.15.3.: Codes of Conduct for MNCs

Mr Page said that IH would endeavour not to break the Guidelines and he was highly critical of Caterpillar's handling of the Birtley closure. He explained that because of the existence of various formal procedures at IH it would have been impossible for a source, other than the Company, to inform the Bradford workforce.

The UK Management of IH were unaware of CIME's definition of what constitutes "reasonable notice" of plant closure. When informed of it, they had some criticisms to make. It did not, they argued, appreciate that "there is no neat decision making" framework within MNCs.

Mr. MacDonald told me that one should not expect subsidiary management to have total knowledge of what senior Parent Company Executives think. He also explained that if employees were informed of every option considered by management they would probably be plagued with insomnia.

He recalled the conversation he had in 1982 with the then Vice-President of the Agricultural Equipment Division of IH worldwide, when he broke the news that he had decided to return to the UK to take up the position of Director of Finance. Instead of offering congratulations, the Vice-President told Mr. MacDonald he would be working for a subsidiary that would probably be divested in a few years time. The Scotsman was undeterred, and did not attach significance to the remark, and quoted the story to substantiate his view that employees cannot be informed of all alternatives being considered by Parent Company management. Since then a new President has been appointed, and the UK subsidiary's future is considered secure. Mr. MacDonald used this example to highlight the strategic flexibility of MNCs, and the impact of one individual in the upper echelons of management on corporate decision making.

They also had grave doubts as to whether it was in their employees interests to be told their place of work may close. First of all, the "good people" will move on to what they consider a more secure job, thereby weakening the plant and so early disclosure of information would only increase the likelihood of closure. They also believed that as companies face many alternatives and circumstances, management often changes its mind, and to tell employees at various plants under review that the Company was considering closure of a particular plant would only build up false hopes for the workers at the factory eventually chosen for closure.

Mr. MacDonald emphasised that IH could not afford to meet the expense of employing people who were not producing, so once the decision to close Bradford had been taken it was in the interests of the Company's other 30,000 employees to terminate employment at Bradford as soon as possible.

As regards "Vredeling", IH has, as Mr. Page says, kept a low profile. He believes that Employers' organisations have over-reacted, and that the implementation of these Proposals would not prove as detrimental as some envisage.

Mr. Page believes that it is wrong to withold information until the very last minute. IH's UK Management stressed that once a plant and its employees are surplus to requirements, prolonging closure and redundancy only endangers the future of other plants and employees. It is therefore in the interest of a Company's remaining employees, the majority, that plants should be closed as soon as possible after the final decision has been taken.

12.16.: The Unions' View

On August 31,1984, Mr. Jefferey, District Secretary of the AUEW in Bradford, was interviewed. According to him, the workforce was divided and relations were tense between staff and manual workers' unions, indeed acrimonious. Attempts therefore to unite the two unions (i.e. AUEW and APEX) to form a Joint Committee to fight for the future of IH(GB's) operations were unsuccessful.

He believed that local management were "messenger boys" devoid of decision-making powers and that decisions, even those of minor importance, were made at Company Headquarters in Chicago.

Mr. Walter Coultard was the Chairman of the Joint Negotiating Committee for IH's three plants in the UK He confirmed that Mr. Thompson, who completed his stint as Managing Director in November 1981, had given assurance that the future of the Bradford plant was secure . Mr. Coultard thought there had been very little inter-plant union involvement, and that whilst the decision to close Bradford took him by surprise, it may not have been such a shock to employee representatives at Bradford.

He believed that the decision to close the Bradford factory had been made long before employees heard of the Company's proposals. He explained that local management had lost its credibility in the eyes of the stewards. He said that he did not believe the statements issued by management, and he eventually suggested to the UK Director of Industrial Relations, Mr. Page, that he was being deliberately misinformed by US management.

Mr. Coultard said Mr. Page explained that the Company operated in an ever-changing market and that strategy and decisions were flexible, and that this factor accounted for any inconsistencies in Company statements. He denied that management consciously misled shop stewards. Mr. Coultard still believes, however, that the management of the UK subsidiary receives very fragmentary information from Company Headquarters in Chicago, USA.

Mr. Coultard worked at the Carr Hill plant which closed shortly after Bradford, and he claims that he was told by Mr. Thompson in 1980/1 "this plant will still be open in five years time".

Between 1980 and the closure in 1982, there were three Managing Directors of IH(GB). According to Mr. Coultard, Mr. Shepherd said that statements which had been issued by Mr. Thompson should be disregarded as he took no responsibility for them. The same stance was adopted by Mr. Shepherd's successor, Mr. Calder. The union was highly critical of this lack of continuity, and believed that since the Managing Director was acting on behalf of IH(GB), the Company itself was duty bound to honour his word.

Mrs. Husarz, Chairmen of APEX at Bradford, believes that:

> **"Although we were <u>reasonably</u> well informed at <u>most</u> stages there was a great deal of room for improvement, and I feel that the Company as a whole could not have cared less about the future lives of its employees and the effect of a closure as long as it got a troublefree closure"** [letter to author from Mrs. Husarz, July 1984].

On September 10, 1984, the author interviewed Mr.. Ray Andrews, a full-time official of the AUEW at the Leeds office. He was the Convening Officer for the Joint Negotiating Committee (JNC) for manual workers. When asked for his views on IH's employee involvement policy, he explained that he was "not very happy" with it prior to the closure announcement, but, after the decision had been announced, he commented that "we had as much consultation as possible given the circumstances".

Mr. Andrews also said that it was important to differentiate between the managers at the three UK factories and the senior management of the UK subsidiary. The union relationship between the former was, he said, "very good", and local management "went out of their way to be as helpful as possible. They were as distressed and disgusted as we were with the decision to close Bradford".

Mr. Andrews said that the Bradford plant was the most efficient within the entire Group and that it was evaluated on a cost basis rather than profit. It was closed, he believes, because it did not have a product of its own, and merely supplied parts for other IH plants at home and abroad. But the author would suggest that this surely begs the question: did it lack its own product <u>because</u> it had already been ordained that the plant would close ?

It would appear that plant closure, like the death of the terminally ill, always comes as a shock, even though events have indicated that it is inevitable. Mr. Andrews explained that the closure of Bradford proved a shock to him, because, he explained, "you always hope against hope, but we knew in our heart-of-hearts that one of the three UK plants would be closed".

12.17.: Postscript

In 1984, Britain produced more tractors than any other country in the western world, and was second in the world only to the Soviet Union. Although the US market leader, Deere, sources from its West German plant, Britain is the principal source of medium-sized tractors for the US market. She is the world's leading exporter of farm tractors, with sales in 1984 to 170 countries worth a record £800m.

Paradoxically, Britain's recent recovery in the farm equipment industry arises mainly from the persistant slump in world demand. Depressed market conditions have prompted North American MNCs to rationalise worldwide operations. Huge plants in the US have been closed, and the firms have chosen the UK to consolidate production.

In November 1984, J. I. Case, a subsidiary of Tenneco, the US energy and manufacturing conglomerate, acquired the Agricultuaral Equipment Group of International Harvester in a bold $430m takeover [Rodger, August 13, 1985, p.16]. Prior to the acqiusition Harvester was the third largest supplier of tractors in Europe with an 11% share, while Case with 3% was an "also ran". The new union of Case International, as it is called, ties for second place with Massey, behind Fiat of Italy [Rodger, August 13, 1985, p.16]

When the acquisition was announced, many pundits predicted that Case would consolidate UK tractor production in its large Huddersfield plant, and close Harvester's Wheatley Rd., Doncaster plant. But rather than rationalise UK operations, new owner Case expanded its UK base, at the expense of US facilities.

For example, Case closed Harvester's Davenport, Iowa, tractor factory, (and thus in a single stroke wiping out a third of its US capacity) and in October 1985 it announced that it will transfer production from other US sites to its lower cost UK plants [Rodger, July 16, 1985 and August 13, 1985, p.16].

Apart from Case, Ford Motor Company, and Massey-Ferguson have concentrated production of this line in the UK [Rodger, November 19, 1985, p.7].

Case's £90m investment programme, which is expected to generate 2,000 jobs, is one of the largest inward investment projects

Britain has ever attracted. Even before this injection, Case was already one of the largest tractor producers in the UK, with a 1984 output level of 23,300 units, but it lagged behind Massey with 56,300 units, and Ford with 35,900 [Rodger, October 29, 1985].

The good news for Doncaster is that not only does the Wheatley Rd. factory appear to have a secure future, but Carr Hill which Harvester closed in 1983 will re-open [Rodger, October 29, 1985].

Even International Harvester appears strenthened by its lengthy convalescence, and in January 1986 the Chicago-based firm changed its name to Navistar International. Chairman Don Lennox was phlegmatic about his Company's past traumas:

> **"Harvester has taken its share of hard knocks over the past few years. This is the first day of our new lives"** [Financial Times, January 8, 1986].

12.18.: Introduction

This case examines the closure of Caterpillar's plant at Birtley, near Newcastle, which had been acquired by the US MNC in 1956. News of the closure and loss of 960 jobs dealt a severe body-blow to Tyneside where unemployment was already exceptionally high. Foreign divestment in a region ravaged by the depression was bound to provoke a hostile reaction from the local community, and any firm contemplating such a move would have a vested interest in handling the divestment process with some sensitivity.

The people of County Durham, a mining area and a Labour stronghold, were outraged by Caterpillar's handling of the closure announcemet, and local councillors, along with Members of Parliament at Westminster and Strasbourg were quick to denounce the firm and pledge support to Birtley's employees.

The handling of the closure announcement aroused considerable interest in the European Parliament and European Commission, particularly since Caterpillar had been one of the most vociferous opponents of the "Vredeling Proposals" on employee disclosure and consultation.

At the time when the "Vredeling Proposals" were being debated in the European Parliament the Company wrote to several MEPs urging that they vote against them. Dr. Gordon Adam, Labour MEP for Northumbria, received a letter from the Company asking him to oppose "Vredeling":-

> **"We believe that companies should inform and involve employees in matters of concern to them. We make a substantial effort to do so, both within our plants and on a total company basis.**

There have been instances in which some multinational companies have failed to communicate adequately on matters of concern to employees, but the vast majority of multinational companies should not be judged or penalised for the short comings of a few." [letter dated December 4, 1981 from Mr.D.H. Gilliver, Director of Administration of Caterpillar Tractor Co., to Dr. G. Adam, MEP]

Following such pious utterences, the TUC was appalled at Caterpillar's audacious handling of the Birtley closure. It resented what it perceived as blatant hypocrysy, and decided to make an example of the Illinois-based MNC.

Shortly after the closure announcement, the TUC grabbed the headlines with an announcement of its own. It revealed that it was demanding an investigation into Caterpillar's apparent breaches of the OECD's Guidelines for multinationals. The Assistant General Secretary of the TUC, Mr. David Lea (defeated by Mr. Norman Willis in the 1984 leadership contest following Len Murray's resignation) later stressed that:

"Given the current debate on workers' rights in the context of the Vredeling proposals we must continue to ensure that this is a test case concerning the limits to voluntary guidelines". [letter from Mr. Lea, dated January 12, 1984, to Mr. Arthur Scott, District Secretary for Tyne and Wear of the Confederation of Shipbuilders and Engineering Unions]

As the <u>only</u> foreign-owned firm which the TUC has referred to the OECD for failing to adhere to its Guidelines during the divestment process, Caterpillar is unique. One should not jump to any conclusions, however, and assume that this firm's behaviour was much worse than that of all other foreign-owned firms which have closed a UK operation,. The TUC's decision to refer Caterpillar to the UK National Contact Point may well have been prompted by other factors. Once we have compared this case with others presented in this thesis we shall be in a better position to assess Caterpillar's conduct.

This case study proceeds by tracing the origins and growth of Caterpillar, before considering the economic background to the Birtley closure decision. A timetable of events documenting employee disclosure and consultation before and after the closure announcement is presented, and this allows one to balance the claims of both Company and Trades Unions.

12.19.: The Rise and Fall of Caterpillar

Caterpillar Tractor Company is an American MNC and its main product line is farm and industrial machinery. It was founded in 1925, when the C.L. Best Tractor Co. merged with The Holt Manufacturing Company Tractor Company. Caterpillar (as it is often known) chose Peoria, Illinois, for its headquarters, and business thrived under its first Chairman, C.L. Best. But the "Great Depression" was particularly severe in the primary sector, and in 1932 Caterpillar suffered its first loss [Caterpillar, May 1984].

The Company's fortunes soon picked up, however, and after the war the backlog of orders was the biggest in company history and a major expansion took place at the East Peoria Plant. The firm still could not cope with demand, and so work began on a new plant at Joliet, Illinois which commenced production two years later [Caterpillar, May 1984]..

One reason for the high demand, was a significant increase in foreign orders which historically, had averaged 20% of sales. Foreign sales could have been even greater, but imports from the US had to be purchased in dollars, and in the post-war era there were shortages of dollars so foreign demand was frustrated. The problem was particularly acute in the UK which had largely exhausted its currency reserves to support the war effort. UK manufacturers exploited the situation, and made inroads into Caterpillar's market share [Caterpillar, May 1984].

Realising that potential for sales in the UK and Commonwealth countries was immense, on August 4, 1950, the US MNC announced the formation of its first foreign subsidiary, Caterpillar Tractor Company Ltd., whose mission was to inspect and distribute parts to dealers. It was another six years before Caterpillar began producing in the UK In 1956, it purchased former Caterpillar licensee manufacturer, The Birtley Company Ltd., and acquired a plant in the small town of Birtley. The same year saw the start of construction on a large new plant at Uddingston, near Glasgow which came into operation in 1958 [Caterpillar, May 1984].

During the decade 1960-1970, Caterpillar's profile changed considerably. The Company expanded and became more international. The number of employees increased by nearly 50% and the manufacturing space doubled. Foreign sales increased too, from 37% in the early 1960's to more than 52% in 1970 [Caterpillar, May 1984].

At the same time, however, Caterpillar, like other US MNCs with a mature product, was facing increasingly severe competition. At the start of the 1960's 18% of the "free world's" construction equipment was produced outside the US By 1968 the figure had increased to 27%, an increase of 50% [Caterpillar, May 1984].

In various industries, many Japanese firms had established an excellent reputation for producing good quality, low-cost products. In 1970, Caterpillar's President, William Franklin, pin-pointed Komatsu, the Japanese firm, as Caterpillar's major rival and warned that "such a formidable competitor should give us (Caterpillar) cause for concern. Komatsu's real strength is a very low price for a reasonably good machine. I am convinced that Caterpillar's management has the know-how and the resources to combat this challenge" [Caterpillar, May 1984, p.52].

Caterpillar was also finding that some countries wanted greater control over inward F.D.I., and were demanding that local interests have a share in ownership of plants and subsidiaries. Caterpillar was therefore obliged to form some joint-venture operations, one in Japan, and another in India [Caterpillar, May 1984].

Despite this increasingly hostile environment, Caterpillar remained king of the construction equipment castle. Its success was due to superior management, a long-standing reputation for quality and a strong dealer network [Wall St. Journal, December 12, 1983]. Sales and profits increased sharply - despite occasional hic-cups because of the Company's cyclical business. Both peaked in 1981, and Caterpillar's global strategy was considered a key factor in this "phenomenal success" [Hout, et al, 1982. p.100].

Table 12.6.: Caterpillar Tractor Co. (Consolidated)
(Dollar amounts in millions)

Year	Sales	Profit (Loss)	Average Number of Employees
1985	$6,769	$198	53,616
1984	6,576	(428)	61,189
1983	5,424	(345)	58,402
1982	6,469	(180)	73,249
1981	9,154	579	83,455
1980	8,598	565	86,350
1979	7,613	492	89,266
1978	7,219	566	84,004
1977	5,849	445	78,565
1976	5,042	383	77,717
1975	4,964	399	79,393
1974	4,082	229	76,993
1973	3,182	247	71,028
1972	2,602	206	62,134
1971	2,175	128	62,528
1970	2,128	144	66,062.

Source: Company Annual Reports; Fortune magazine.

This accolade seemed somewhat inappropriate when in the following year the Company's fortunes slumped. Caterpillar was confronted with a host of problems which surfaced simultaneously: worldwide recession, decline in large construction projects, record-high interest rates, stronger international competition, political exclusion from large markets, currency imbalances, a stronger US dollar, crisis-level debt in developing countries, and a seven month labour strike by the United Auto Workers Union at the company's major US plants. The dispute is the longest ever waged by the UAW, surpassing the union's bitter battle against International Harvester in 1979-80. The Company which had survived two World Wars, "the Great Depression", and the "oil crisis", later commented:

> **"So many difficulties at one time was unprecedented"** [Caterpillar, May 1984, p.58].

These factors took their toll on the Company. In 1980, Caterpillar announced its first redundancies in two decades. More lay offs followed in 1981,-82, and -83. The number employed fell from a peak of 90,000 in 1979, to 58,000 at the end of 1983. Capital expenditures were slashed from a high of $836m in 1981 to $534m in 1982 and $324m in 1983.

High costs and severe surplus capacity plagued the Company. In 1982 total Company sales in Europe were 7% down on the 1981 figure, while sales to Africa and the Middle East dropped by a massive 44% during the same period. For the first nine months of 1983, the Company's sales outside the US were only 60% of the volume for the comparable period in 1982, which had also been a period of depressed sales.

In 1982, a loss was reported for the first time in fifty years, and Caterpillar did not wait long to report its next unprofitable year. In 1983, losses amounted to $345m, almost double those of 1982, as sales fell from a 1981 high of $9.2 billion to $6.5 billion in 1982 and $5.4 billion in 1983. The situation had reached the critical stage, and a 22% cost reduction programme was given top priority throughout the organisation.

Komatsu, on the other hand, saw its sales in 1982 increase by 15% to $3.4 billion, and profits slipped 2% to $139m, and its President, Mr. Ryoich Kawai warned that, "We will not remain satisfied to be in second place to Caterpillar forever" [Loomis, 1983]

Caterpillar impressed upon its employees that its Japanese rival represented a real, and immediate threat. It could no longer afford the luxury of excess capacity and cost-cutting was to be stepped up, and plant closures loomed.

As of January 1983, Caterpillar's manufacturing activities were conducted in 24 plants in North America, 6 in Europe, 2 in Brazil, and one each in Australia, Indonesia and Japan. The Company's excess capacity problem was particularly acute at its six European plants, and in retrospect, it is not surprising that the UK subsidiary did not escape rationalization. We will examine the restructuring of UK operations in the following section.

As world demand fell, competition became even more intense as firms fought for orders to take up the slack in their manufacturing facilities. A price war broke out, particularly in Europe. Despite transport costs, Komatsu's machines were 30% cheaper in Europe than in Japan where they were produced.

Eventually in 1985, Caterpillar and other producers referred Komatsu to the European Commission, accusing it of "dumping" in EEC member countries. A tariff of almost 30% was placed on Komatsu's earth moving equipment, but Caterpillar had already restructured its UK operations. The fierce, and apparently unfair, competition for shrinking markets had proved too much for even the world's number one, and Caterpillar felt compelled to close its Birtley operation with the loss of almost 1,000 jobs.

12.20.: The Implications for Caterpillar's UK Subsidiary

During the 1970s, Caterpillar had sought to maintain the high level of growth which it had enjoyed during the 1950s and 1960s. No one foresaw the dramatic decline in demand for construction equipment products. As a result, the Company was faced with 70% excess capacity by 1982/3 and no indication of a sudden increase in demand for its products [Caterpillar, August 15-17, 1983].

Clearly, the Company had to at least consider divestment as a solution, especially in Europe. Caterpillar, as was noted earlier, had six plants in Europe: three in the UK (Birtley, Leicester, and Uddingston), two in France (Grenoble and Vernon), and one in Belgium (Gosselies) which produced excavators, the market for which was still bouyant.

By 1982 rationalisation of UK operations seemed highly likely. Leicester produced fork-lift trucks and its future was not in question. The same could not be said for the other two plants which catered for the construction industry. Birtley was a fabrication plant, while Uddingston was an assembley operation.

The Glasgow and Newcastle plants catered mainly for the European, African and Middle East markets. These had witnessed a serious downturn for political as well as economic reasons. President Reagan had imposed an embargo on the export of certain capital goods to the USSR in response to the invasion of Afghanistan by Soviet troops in December 1979. Caterpillar had just secured a huge export order from Russia, but it could not afford to violate the embargo.

The Soviet Union was constructing the Siberian gas pipe-line. It needed 1,000 large tractors. Komatsu won an order for 500, Caterpillar had won an order for 300-350 DC8s and other firms picked up the rest. This was a large order, even for Caterpillar. The UK plants were not directly affected by the embargo, but clearly the loss of such a major order when the world market was so depressed represented a severe setback to the parent company.

The situation was made worse when sales to the Middle East, one of the firm's largest markets, were drastically reduced due to the revolution in Iran, and the Iran-Iraq war.

The UK subsidiary's domestic and European sales had remained fairly stable, but foreign sales to other geographic areas fell considerably. Exports fell from £124m in 1980 to £53m in 1983. Sales to Africa plummetted from £14m in 1982 to £3m in 1983 (see Table 12.7). Nonetheless, although profits had fallen, however, from £11m in 1981 to £6m in 1982, Caterpillar's UK subsidiary had not contributed to the parent Company's heavy losses in 1982 and 1983, (see Table 12.8).

Table 12.7.: Analysis of Caterpillar Tractor Co. Ltd.'s Turnover (£000)

Year	Domestic	Export
1978	59,228	90,041
1979	53,568	122,043
1980	42,373	124,354
1981	45,148	74,232
1982	44,240	61,467
1983	46,279	53,174

Source: Extel Statistical Services

Table 12.8.: Caterpillar Tractor Company Ltd. (£000)
(Year end September 30)

Year	Sales	Profit before Tax	Profit after Tax	Average Number of employees
1979	183,258	5,021	11,685	5,288
1980	208,978	(508)	94	5,307
1981	190,029	3,914	11,871	5,015
1982	146,833	5,493	6,181	3,703
1983	114,226	2,865	3,791	2,608
1984	115,190	821	2,476	2,248

Source: Extel Statistical Services

From 1979, the Glasgow and Newcastle plants had had their production capacity run down. By January 1983 the number employed at both plants had been halved and the performance of the UK subsidiary had been somewhat erratic (see Table 12.8.). This situation clearly perturbed both local communities, but UK Management had assured them that there was no plan to close either operation. Nonetheless, rumours were rife in August 1983 that the Uddingston plant was to close with the loss of more than 2,000 jobs. The Scottish factory learned of a reprieve however, when, on August 31 the Glasgow Herald and Newcastle's morning 'paper, The Journal broke the news that employees at Birtley would that day be informed of Caterpillar's decision to close that plant. The section below documents the employee disclosure and consultation process before and after Caterpillar's closure announcement.

12.21.: Employee Disclosure and Consultation

In 1979/1980, Birtley had operated close to its capacity, and it employed approximately 2,100, but by August 1983 it was severely underutilised and the workforce had been more than halved. The first real anxiety about the plant's future had been expressed in 1979 when Birtley Plant Manager, Mr. Bob Burrough announced that Head Office had decided to cease production of components for the new D8 machine at Birtley, and that production would be concentrated in the US. This news sparked off rumours of closure in the plant, but after talking to Mr Burrough the Joint Negotiating Committee believed that these "now seem to be false" [Joint Negotiating Committee Minute Book].

In retrospect, the UK subsidiary's problems began to surface early in 1980. On February 18, 1980, Mr. Burrough informed stewards that a reduced working week would be introduced on March 18. It was necessary due to the significant drop in demand from Birtley's major markets, Africa and the Middle East, and it affected 1,300 employees. According to the Secretary of the Shop Stewards' Committee, Mr John Jordan, it was introduced only after consultation with the Unions and they had accepted it [The Journal, March 28, 1980; Gateshead Post, April 3, 1980, p.15].

Mr. Jordan was quoted as saying:

> **"There are no jobs being lost and this is only a temporary arrangement"** [Gateshead Post, April 3, 1980, p.15]

Local newspapers ran headlines telling readers that production was being cut to avoid redundancies -"Workers go on short time to save jobs" [Gateshead Post, April 3, 1980], and "Work cut to avert lay-offs" [The Journal, March 28, 1980]. Caterpillar said nothing to dispel this interpretation of events. Indeed, local management issued reassuring statements to anxious employees who feared that they too would be made redundant.

April 2, 1980: The Industrial Relations Manager at Birtley, Mr.Ted Green, denied that short time working had become necessery only because of the Parent Company's decision to discontinue production at Glasgow of the D8 Tractor for which Birtley had supplied components [Gateshead Post, April 3, 1980]

May 12, 1980: The employees' representatives were told that short-time working would continue until September, at least. Mr Burrough assured the stewards that although the market would remain depressed in the short term due to "the political situation in Africa and the Middle East", the long term prospects for Birtley were "good" [Joint Negotiating Committee Minute Book].

July 12,1980: Mr. Green, Industrial Relations Manager, told employees that short time working would end on September 12. He urged the work force to continue giving the same co-operation which the Company had received in recent months. "The object is survival but there are no thoughts of redundancies this year and hopefully not next year" [Joint Negotiating Committee Minute Book].

August 20, 1980: Mr. Burrough declared that short time working of 10% would continue until the end of the first quarter of 1982, but on **October 14**, he announced that the figure would have to be increased to 15-20%. He called for co-operation to "work out our problems", and promised that there were no planned redundancies or lay-offs. Indeed short time working had been introduced to avoid recourse to these very measures [Joint Negotiating Committee Minute Book].

December 22, 1980: Mr. Green explained that Caterpillar wanted a three year wage agreement in order to facilitate long term planning and to provide security [Joint Negotiating Committee Minute Book].

January 6, 1981: an External Conference between Union and Management took place. Mr Selkirk, UK Director of Industrial Relations refused to attend the meeting and this clearly upset the Unions' representatives who appreciated that Plant management was a poor substitute and, it had to rely on direction from above in negotiations. The Unions clearly believed that they had been denied access to the real decision-makers.

January 26, 1981: Mr. Green told the Unions that short-time working would continue until the second quarter. By June the situation had apparently deteriorated, and Burrough announced that the factory's current labour force was surplus to requirements, and that it could be reduced by 35-40% without affecting production. He said that he would be visiting Head Office in a few days and that he "will know by the end of August which way he is going". This suggests that the real decision-makers were the executives in Peoria [Joint Negotiating Committee Minute Book].

November 6, 1981: Mr. Gavin Laird, then Assistant General Secretary of the AUEW, chaired a meeting of national Union delegates which had been convened because of the growing concern surroundung Caterpillar's UK operations. It was concluded that only US management was in a position to provide the relevant information. Mr Laird said that a meeting would be sought with US management in order to determine the Company's investment plans, and to measure the rate of decline of the UK operations since 1979.

January 19, 1982: Mr. Burough announced that a further 280 jobs would have to be shed by April. Only in October 1981, 500 had volunteered for redundancy. Production was by then less than half the level attained immediately prior to the introduction of short time working which had been introduced in March 1980 [Amos and Borrell, 1982].

February 1982: National and local Union officials were very disturbed at these developments and a meeting was held in Newcastle to discuss the future of Caterpillar's UK operations.

June 16, 1982: Compulsory redundancies were announced at Glasgow. The Stewards at the Scottish plant had contacted their Newcastle counterparts, complaining that it was impossible to obtain a "true picture" of the Company's intentions [Joint Negotiating Committee Minute Book].

June 23, 1982: Mr Green scotched rumours that the Birtley plant would be closed. He was reported as saying that there was no concern whatsoever that the Birtley plant would be closed. He reassured the workforce that their future was secure:

> **"As we see things now, there'll be no further redundancies, but these days, it is impossible to be categoric"** [Gateshead Post, June 24, 1982, p.25].

September 1, 1982 further redundancies were announced at Birtley.

October 11, 1982: The Company presented its three year plan. According to Mr. Green, the Chief Execitive Officer at Peoria, Mr. Morgan, had called for a 15-20% reduction in costs [Joint Negotiating Committee Minute Book].

December 1, 1982: Mr. Giles Radice, Labour MP for North Durham and Opposition Employment Spokesman, wrote to European Director, Mr P.C. Guerindon, asking for a meeting to discuss the Company's plans for its Birtley plant.

January 1, 1983: A three-day week was introduced at Birtley where the workforce had been almost halved in 18 months from 2,100 to 1,100.

January 4, 1983: Another External Conference was called. The Unions found the Company "totally inflexible" on the three year agreement. The CSEU recorded its contempt of conducting these negotiations, which it considered "farcical" since "once again decisions had been taken elsewhere" [Joint Negotiating Committee Minute Book].

January 17, 1983: Workers rejected the Company's three-year wage agreement which would have ruled out any pay increase during that time [Joint Negotiating Committee Minute Book].

January 24, 1983: Mr. Radice, having not yet received a reply from Europe sent another letter bearing a similar request. Mr. Radice eventually received a reply from European Director, Mr

P.C. Guerindon dated January 5, 1983. Mr Radice claimed:

> **"not only that he was reluctant to meet me earlier this year to discuss the firms prospects but was also not prepared to give me any assurance about the future of the Birtley plant"** [Statement issued by Mr. Radice on September 15, 1983].

Mr. Guerindon had urged Radice to speak to Burrough:

> **"he can give you as much information as I can concerning the prevailing circumstances and until some positive indication of a revival in business emerges, neither of us can be very helpful on the subject of future plans".** [letter dated January 5, 1983 from Mr. Guerindon, Caterpillar's European Director, to Mr. Radice, MP]

February 3, 1983: Mr. Alex Selkirk, Caterpillar's UK Director of Industrial Relations, wrote to AUEW official, Mr Dougan, in connection with a national recall meeting which had been arranged for February 18 between the Company and the Unions in Newcastle. He wrote:

> **"...at a meeting of the Caterpillar Tractor Co. Ltd. Directors on January 25,.....it became obvious that there was a strong feeling that our meeting could be counter-productive from both a company and union point of view, as the current business position in the company is still poor, with no immediate pick up in sight. Further, the Parent Company in the United States is now approaching the twentieth week of the strike; this is another factor which contributes to delaying any decisions within the company on the rearrangement of work schedules. Therefore we as a company have nothing positive to say at the meeting scheduled for February 18. This, in our view, could aggravate an already low morale atmosphere in our plants.**
>
> **I do realise that a delay of this nature could create an unwarranted suspician in your own and your own union colleagues' minds of the company's motive in proposing a further postponement. In an effort to dispel any of these concerns, could I suggest that in the meantime, we would be happy to arrange that appropriate national level officials, responsible for the area in which our plants are located, visit with the individual plant managements there during February/March to generally view the plant and have some local information discussions".** [letter dated February 3, 1983, from Mr. Selkirk, UK Director of Industrial Relations to Mr. Dougan, full-time official of the AUEW]

February 7, 1983: Mr Dougan replied to Mr Selkirk stating:

> **"It is my opinion that the Company are abrogating their**

responsibilities regarding the accredited Trade Union affiliated organisations who are recognised by Caterpillar Tractor Company Ltd..

Further to this, it is also my opinion that a further delay by management will not inspire confidence by the workforce on this subject as undoubtedly the question will be raised regarding management's lack of awareness or autonomy regarding the United Kingdom operations". [letter dated February 7, 1983, from Mr. Dougan, full-time official of the AUEW], to Mr. Selkirk, UK Director of Industrial Relations].

February 21, 1983: Caterpillar cancelled the national meeting, in which Union officials at all three UK plants were to meet management, because it had "no business to discuss" [Joint Negotiating Committee Minute Book].

May 1983: Shop stewards were told by management that there were indications that the market had picked up, and accordingly full-time working would be resumed. The labour force had been reduced, they were told, to a level at which full-production was economically sound. Unions accepted the three year wage deal which they had rejected in January [Joint Negotiating Committee Minute Book].

Late June/Early July 1983: Full production resumed. Optimism increased with speculation that Birtley "could be in line for a slice of Caterpillar's share of a £215m contract to construct the new Falkland Islands airport" [Unwin, August 31, 1983].

August 15-17, 1983: Caterpillar officials met in San Francisco, Chicago, and New York with "a number of interested parties from the financial community". At these meetings the Company's overall situation and outlook was discussed, and a review was undertaken of the steps being taken "to ensure that Caterpillar retains both its financial strength and industry leadership" [Caterpillar, August 15-17, 1983, p.1].

Executive Vice President, Mr Schegel, painted a depressing picture, but he indicated some signs for optimism. For example, although sales outside the US remained "weak", domestic sales were improving. He did however indicate the adverse market conditions facing the Company. These included high interst rates, an overvalued dollar, and the massive debts of many lesser developed countries (LDCs) [Caterpillar, August 15-17, 1983, p.2].

It was unlikely therefore that the Company would see a return to profitability by the year end , especially when Caterpillar would have a non-recurring charge to operations of about $50 million associated with the closing of its Mentor Plant in the US. Despite these difficulties, the firm had managed to reduce its debt from a peak of $2.7 billion in 1982 to $2.5 billion by the end of the 1983 second quarter [Caterpillar, August 15-17, 1983, p.2].

Chief Operating Officer, Mr Gilmore, announced that the Company "was actively pursuing programs to reduce costs and improve employee/union relationships". The former exercise, he said, "would affect ....size and number of facilities" [Caterpillar, August 15-17, 1983, p.2].

Mr Morgan, CEO, described how some LDCs were now stipulating that firms must serve their domestic market by internal production, or else face expulsion from the market as they prohibited the importation of certain goods:

> **"A prime example: Indonesia. We either had to go into Indonesia with an assembly plant or give up the Indonesian market".** [Caterpillar, August 15-17, 1983, p.3].

This political pressure was bound to have serious consequences for the Company. Caterpillar's major manufacturing facilities had been in the OECD countries, and these plants, especially those in Europe, had served the burgeoning markets of the LDCs. As the firm was "compelled" to open more and more plants whilst world-wide demand was stable, it was inevitable that the company would create an excess capacity problem, and that the plants most likely to be affected would be those in Europe.

August 30, 1983: Brian Unwin, Industrial Editor of The Journal, had discovered that on the following day Caterpillar would be announcing the closure of Birtley. As he prepared his scoop, he telephoned the Chairman of the Shop Steward's Committee, Mr Bill Manning, at approximately 9pm. He asked him to comment on

Caterpillar's decision to close Birtley. Mr Manning was astonished at Mr. Unwin's revelation, as Caterpillar had not even hinted to him or any of the other Shop Stewards that Birtley was to close. All Manning could say was:

> **"I cannot comment until I have been told this officially, but if what The Journal says is true it will be an absolute tragedy".** [Unwin, August 31, 1981]

Indeed, Mr. Unwin had not been the only journalist to learn of Caterpillar's plans before the Newcastle workforce.

August 31, 1983: In Scotland, readers of The Glasgow Herald were informed by Mr. John McKinlay, Scottish Industrial Correspondent, that Uddingston was safe, but that Newcastle would close. According to The Glasgow Herald,

> **"The rationalisation plans were drawn up at company headquarters in Peoria, Illinois".** [McKinlay, August 31, 1983, p.1]

In Newcastle too, the local morning newspaper was first to break the news that Birtley was to close with the loss of 960 jobs. Meanwhile, Caterpillar had yet to officially inform its own employees that they were losing their jobs.

Later in the day, the Company notified Union representatives and employees of its plan, but its failure to ensure that it notified its employees of its divestment decision has proved a costly mistake in terms of damage to Caterpillar's reputation.

12.22.: List of Union/Company Meetings After the Closure Announcement

September 8, 1983: Domestic representatives of all trade unions at Birtley plant met with the plant manager and other senior managers from the plant to discuss the closure. No agreement was reached [Caterpillar's Submission to UK Contact Point].

September 14, 1983: An external conference, which was the next stage in the procedure took place at the offices of the North-East Employers' Association under the chairmanship of the

Director of the Association. Unions were represented by the local committee of the Confederation of Shipbuilding and Engineering Unions, and local plant management represented the Company [Caterpillar's Submission to UK Contact Point, 1983, p.4].

The meeting ended with a "failure to agree" on the plant closure, and the unions asked for a further meeting with senior management who were responsible for the closure decision. The Company agreed to such a meeting [Caterpillar's Submission to UK Contact Point, 1983, p.5].

September 30, 1983: The entire Board of Caterpillar Tractor Co. Ltd. UK attended the meeting, together with Birtley plant senior management. Board Chairman and Managing Director, D.F. Dominick, headed the Company team (Mr. Dominick is also a Corporate Vice President in charge of all European operations). After a long recess, the Unions, indicating that while they were not at the stage of accepting the plant closure, they wanted a further meeting to discuss terms, i.e. redundancy pay, etc. [Caterpillar's Submission to UK Contact Point, 1983, p.5].

According to union sources, Caterpillar declared that its decision was "irreversible".

October 14, 1983: At this meeting, which was again held in the offices of the North-East Engineeing Employers' Association, the Union delegation requested that the Company consider:

> **"a) delaying the initial date of redundancies from 6 January to May 1984;**
>
> **b) significantly improving its proposed terms of redundancy in the event of plant closure"** [Caterpillar's Submission to UK Contact Point, 1983, p.5].

The Company agreed to delay implementing initial redundancies until March 30, 1984, and to improve the existing level of redundancy payments by 25%, in return for employees' co-operation in the smooth shutdown of the plant by August 31, 1984. The Unions took these Company-proposed imptovements to a mass meeting of all Birtley Plant employees on 18 October, 1983 [Caterpillar's

Submission to UK Contact Point, 1983, p.5].

October 18, 1983 : The Unions held a mass meeting to inform members of the results of the two previous Company-Union meetings. Employees voted to continue to oppose the plant closure [Caterpillar's Submission to UK Contact Point, 1983, p.5].

October 24, 1983: Mr. Burrough met with the Birtley plant's Shop Stewards to clarify the mass meeting decision to continue to oppose the plant closure, "as there seemed to be some confusion regarding the Company proposals made at the previous Company/Union meeting". He explained that the only two alternatives now were:

> **"a) A phased and orderly closure which would be in the best interests of all concerned, with employees guaranteed employment to the end of March 1984 and with many going through to August 1984, all with decent severance payments; or**
>
> **b) An earlier plant closure which would really be in no one's interests"** [Caterpillar's Submission to UK Contact Point, 1983, p.6].

Union leaders believed that the Company had presented these options in reponse to the bad publicity it had received, the closure announcement being the subject of an impending investigation by the European Community. This thinly veiled threat was Caterpillar's ace. The campaign at national, and international level (via the EEC and OECD), to save Birtley had been gaining momentum, but only as long as employees stood firm in opposing the closure decision. It would have been obvious to the TUC and to Caterpillar that as soon as the workforce voted to accept closure, momentum would be irreversibly lost and that the fight against closure was lost.

Given the choice between imminent redundancy, and the opportunity to work for a further 6-9 months, plus time to seek alternative employment, and make the necessary emotional and financial readjustment, it was predictable, and understandable, that employees would pick the option that forestalled redundancy. Caterpillar knew the stakes were too high for its Birtley employees. The workforce could not afford to gamble 6-9 months wages on testing the OECD's Guidelines impact on corporate decision making, which is just as well for only changing market conditions would have prompted Caterpillar to reverse its decision. Only one course of action was open to the Birtley workforce.

October 26, 1983: A further mass meeting, convened by Birtley Shop Stewards, was held and its outcome was a formality. Employees agreed to reverse their decision of only the previous week and accept a phased shutdown of the plant by August 31, 1984. However, they gave a mandate to the shop stewards to approach management once again for additional increases in severance pay [Caterpillar's Submission to UK Contact Point, 1983, p.6].

November 1, 1983: Mr. Burrough met Birtley's Shop Stewards and indicated that "as a final gesture the Company would add the equivalent of four weeks pay per employee to the redundancy package previously proposed by the Company on 14 October 1983. The shop stewards requested that this be distributed in the form of a flat payment of just over £530 per employee. The shop stewards agreed to recommend at a further mass meeting, that employees accept these closure terms" [Caterpillar's Submission to UK Contact Point, 1983, p.6].

November 3, 1983: A mass meeting was held to establish the workforce's view of Caterpillar's redundancy package. Employees voted by "a substantial majority to accept the phased shutdown of the plant by 31 August 1984, and the total severence package as now proposed by the Company" [Caterpillar's Submission to UK Contact Point, 1983, p.6].

It had taken six weeks for Caterpillar to break down opposition to closure, and a further two weeks to reach a settlement on redundancy payments. Therein lies the major problem facing Union officials in the divestment situation - their membership, for sound reasons, lack confidence in the ability of labour organisations to reverse a major corporate decision, and are likely to pressurise officials into early haggling over redundancy payments, so as to secure a good deal as early as possible after the closure announcement.

12.23.: Referral to the OECD's UK National Contact Point

The news of closure had been greeted with anger among Trade Unionists, but it seemed most unlikely that their hostility could be translated into constructive action to save the factory. Poorly attended demonstrations through Birtley by demoralised employees were not going to persuade top executives in distant Illinois to reverse their decision. Such futile gestures were never likely to attract more than transitory attention in the local newspaper, let alone send shock-waves through America's sixth largest exporter. To the plant's 960 employees the situation seemed desperate.

Hopes were suddenly revived on September 30, 1983, when the Assistant General Secretary of the British TUC, Mr. David Lea, revealed at the Bowater Conference that the TUC had decided to demand an investigation "under the OECD procedure" of the Birtley, Caterpillar case. He accused Caterpillar of the "most flagrant disregard for both the letter and spirit of the voluntary codes". He launched a bitter attack against the UK Government for refusing to support labour's efforts to secure accountability from their employees. Caterpillar's conduct, he concluded, underlined the necessity for some of the key elements highlighted by the "Vredeling" debates, for example, the need for legal enforceability, and the need for information and consultation prior to decision making.

Lea's speech was picked up by all the "quality" national newspapers. Once again Caterpillar was national news, and the US MNCs reputation reached a new depth. This PR victory was followed up by another. On September 12, 1983, Dr. Gordon Adam, MEP, put forward a motion in the European Parliament in which he accused Caterpillar of not adhering to Article 4 of the amended "Vredeling Proposals" which the European Parliament had approved and submitted to the Council of Ministers whose unanimous support was required before the revised Directive could become Community legisaltion.

12.23.1.: The TUC's View

The TUC and Labour politicians allege that Caterpillar conformed to neither its own code of conduct, the OECD Guidelines, nor the amended Vredeling/Richards Proposals.

In 1974, Caterpillar issued "A Code of Worldwide Business Conduct and Operating Principles". In it the Company declared that

> **"...we intend to treat people as individual human beings - to be considered one at a time, not as a "commodity" simply to be employed.**
>
> **We aspire to a high standard of human relationships. Specifically we intend........**
>
> **To provide employees with timely information concerning company operations and results, as well as other work-related matters in which they logically have an interest".**

In his letter of October 7, 1983, to Mr.C. Batten at the UK Contact Point, Mr. Len Murray, General Secretary of the TUC, said that the TUC "is firmly of the view that the actions of Caterpillar "constitute a breach of the Guidelines".

Mr. Murray's account of the case is presented below:

> **"The company's management informed union representatives on August 31 that the plant in Birtley, Tyne and Wear, was to close with the loss of 960 jobs. Not only did the company fail to carry out any prior consultation on this major decision, but in fact the news of the closure decision was revealed in local newspaper reports before the meeting of August 31.**
>
> **This behaviour is clearly at odds with paragraph 6 of the Employment and Industrial Relations Section of the Guidelines. It also contrasts sharply with the company's previous statements concerning the conduct of industrial relations. Whilst lobbying members of the European Assembly against the proposed European Community directive on procedures for informing and consulting with employees [ie "Vredeling"], for example, the company stated that 'we believe that companies should inform and involve employees**

in matters of concern to them'. ... It went on to argue against the proposed EEC directive on the basis that it 'would create havoc with our established procedures for communications and consultation with employees' and claimed that 'instead of decisions being discussed and taken close to those who will be affected more and more decisions would be made at comapany headquarters far removed from the local scene'.

In fact on this last point there are indications that the decision to close Birtley was taken on grounds connected with a restructuring of the Company's global activities rather than on the basis of local considerations. In August 13 a meeting was held in New York involving top management of the US parent company to discuss the comapny's overall situation and outlook. The ..statement arising from that meeting clearly envisages both measures to reduce the size and number of operating units and a general re-orientating of the company's activities towards developing countries, and in particular towards the Asian area. This aspect of the background clearly raises the issue of Paragraph 9 of the Employment and Industrial Relations section of the Guidelines in relation to union representatives' lack of access to the real decision makers - who in this case appear to be in the US

A further aspect of the background is also relevant to the guidelines. The company has received some £1.6 million since 1972 in Regional Development Grants for the Birtley plant. The closure decision is clearly at odds with the regional development objectives that underlie the grants system and calls into question the company's adherence to paragraphs 1-4 of the General Policies section. These call for weight to be given to industrial and regional development priorities and cooperation with local community interests".

Mr. Murray accordingly asked the Contact Point to draw the attention of Caterpillar to its breach of the Guidelines. He also asked the UK Contact Point to liase with the US Contact Point, in order to verify that the closure of Birtley was part of the Company's international restructuring programme.

12.23.2.: Caterpillar's View

By November 9, 1983, Caterpillar's UK management had prepared its own submission to the UK Contact Point, entitled "Summary of Events Concerning the Closure of the Caterpillar Birtley (Newcastle) Plant". This document rebuked the TUC's charges. It concentrated on "three areas of particular interest: Economic Background ; Steps taken to Inform and Consult with Birtley Plant employees and their Union representatives ; and, Relevant provision of British Law, the OECD and ILO Guidelines, and the Vredeling Proposal".

The first section explained the difficulties facing the Company. In addition to what was seen earlier, Caterpillar justified their decision by referring to cases of divestment by some of their rivals, including Hyster, Clark, International Harvester, and the collapse of IBH Holdings, a West German firm.

According to Caterpillar,

> **"Employees and trade unions were kept fully informed of these trends [ie the recession and low demand]. With their co-operation, short work weeks were introduced. Subsequently, voluntary redundancy/early retirement and mandatory redundancies took place at all three plants. Glasgow and Birtley Plants were hardest hit, coming down to employment levels of approximately 1,100 at Glasgow, and just under 1,000 at Birtley by 1983.**
>
> **By mid-1983, Caterpillar Tractor Co. Ltd. [ie the UK subsidiary] - like the rest of Caterpillar - was operating at only about 30 percent of capapcity. It became obvious this could not continue, and some consolidation of operations had to take place. The Board of Directors of Caterpillar Tractor Co. Ltd. in the UK had to consider very seriously the future of the three UK Plants - particularly since there was no prospect that the manufacturing capacity of all three plants would be required in the foreseeable future.**
>
> **By mid-August 1983, the UK Board had concluded that one plant in the UK Company would have to be closed because of the serious overcapacity situation here. Even if demand increased significantly over the foreseeable future, the spare capacity in two plants could accoomodate such demand at lower overhead costs.**
>
> **Since Leicester Plant is a relatively new and modern facility, with a lift truck assembly building built in 1975-76 and demand for lift trucks holding reasonably well, an early conclusion was reached at this point that this plant should continue operating.**
>
> **Therefore it fell between Glasgow and Birtley Plants as to which should be considered for closing. Because Glasgow was already an assembly plant and a more modern facility,**

against the older and purely component manufacturing Birtley Plant, the conclusion was that Birtley should be closed. The intention to close Birtley was then ratified at a Caterpillar Tractor Co. Ltd. UK Board Meeting on 29 August 1983" [Caterpillar's Submission to the UK Contact Point, 1983, p.3].

Previous studies have found that the decision to divest is usually taken nine to eleven months before it is publicised. Caterpillar claim, however, that the decision to close Birtley was made by the UK Board just a few weeks before the public announcement. Caterpillar's submission to the OECD, and UK Director of Industrial Relations, Mr Selkirk, confirm that the closure announcement date was brought forward because of increased speculation in late August:

> **"Timing of the closure was also an important consideration. While the plant could have been closed almost immediately from a manufacturing perspective, it was determined that as much advance warning as possible should be given to employees and their representative trade unions. In regard to timing, careful consideration was also given to our own Company procedures as explained in our Code of Worldwide Business Conduct and Operating Principles, the OECD Guidelines, and UK Statutory Communication and Consultation Requirements.**
>
> **Thus the general phased shutdown of the plant during 1984 - and how that would affect employees - would be a matter for Birtley Plant management and local Trade Union Officials to agree upon.**
>
> **The Company was aware that because of the recession, short work-weeks, three voluntary redundancy programmes, and the readily apparent excess capacity, in both Glasgow and Birtley Plants, there had already been a great deal of speculation and rumour among employees that one of these plants would have to be closed. In the last few days of August, the speculation increased that the Birtley Plant would close. It was, therefore, determined that we should communicate to employees as quickly as possible and Wednesday, 31 August, was the earliest possible date.**
>
> **Communications were timed to begin at 9.30 a.m. on the 31st, with the Plant Manager at Birtley advising all shop stewards in the plant, followed by communication to employees by their appropriate supervisors. In addition individual letters were sent out on Wednesday, 31 August, to the homes of all Birtley plant employees. Employees at the other UK Plants were also to be advised of the situation and how it affected their particular plant.**
>
> **Unfortunately, some members of the press learned of the planned announcement. To our regret, some portions of the**

media - although aware of the Company's intention to inform employees before making a public announcement - nevertheless published the news on the morning of 31 August. Therefore, our employees learned the news from that source before our planned communication. Placing, as we normally do, a great deal of importance on the quality of our communications to our employees, we were greatly concerned about this state of affairs in so important a matter for them. We can only express our regret that those involved in publishing the news apparently took no account of the effect on our employees' feelings or the damage their actions could have had on Company/Trade Union relationships.

Thankfully, those relationships eventually withstood this unfortunate incident, and since then a considerable number of Company/Union meetings have taken place" [Caterpillar's Submission to the UK Contact Point, 1983, p.3].

Caterpillar concludes its submission to the UK Contact Point with an examination of "Laws and Guidelines on Plant Closure". It states, correctly, that the Employment Protection Act of 1975, as ammended, requires employers to consult with unions at least 90 days before implementing redundancy of 100 or more employees. Caterpillar, in fact, informed employees and Union representatives of its intention to close the Birtley plant on August 31, 1983, although the first compulsory redundancies would not be until after March 30, 1984:

"Thus the period between initial consultation and implementation of redundancies will be 7 months - or more than twice the period specified in the Employment Protection Act" [Caterpillar's Submission to the UK Contact Point, 1983, p.9].

However, Caterpillar in its own Code of Operating Principles states that:

"The law is a floor. Ethical business conduct should normally exist at a level well above the minimum required by law".

As regards the OECD's Guidelines, Caterpillar itself agreed that paragraphs 6 and 9 of the Employment and Industrial Relations section "apply most directly to the Birtley situation". The Company believes its conduct was beyond reproach:

"In our view, we have complied entirely with the proposals of Clause 6. We communicated with employees and their union representatives well in advance of the proposed closure date, thereby providing more than adequate opportunity for

discussions with union representatives and governmental authorities on how the closure would be handled and on how adverse effects on employees would be mitigated. As stated earlier, the Company/Union agreement provides that compulsory redundancies will not begin before March 30, 1984 - or 7 months after notification. Final provisions are well in excess of those provided under British law.

Regarding Clause 9, the Union Committee asked for a meeting with senior management responsible for the closure decision. The Company agreed to this request, and .. a meeting took place on 30 September 1983 between the Caterpillar Tractor Co. Ltd. UK Board of Directors and Regional Officials to all unions concerned. At that meeting, careful consideration was given to Union representatives that the plant should remain open. In response, Company representatives explained that they had already considered many alternatives, but the problem of long-term excess manufacturing capacity in the United Kingdom could not be solved other than by plant closure. In our view, the Company has clearly complied with all relative provisions of the OECD Guidelines.." [Caterpillar's Submission to the UK Contact Point, 1983, p.7-8].

Caterpillar also commented that paragraphs 1-4 of the General Policy section of the OECD Guidelines "could also be said to have an indirect bearing on the Birtley situation". The Company claimed it faced,

"a Hobson's choice in that it had either to close the UK Plant or risk putting the future security of all three British plants in jeopardy. The General Policies section of the OECD Guidelines do not provide any guidelines in such a situation, and the UK Board exercised its best judgement how to secure the future of the overall British company" [Caterpillar's Submission to the UK Contact Point, 1983, p.8].

In its submission to the UK Contact Point, Caterpillar once again underlined its opposition to the "Vredeling Proposals":

"In common with the overwhelming majority of employers in the EC, Caterpillar believes that the mandatory and restrictive provisions of the proposed Directive are unnecessary, and will serve only to discourage investment and job creation in EC member countries.

In our specific case, the existence of such a Directive would not have changed the factors with which we must contend. The economic situation would still have required the Company to take action to reduce excess manufacturing capacity. Were we unable to take these steps because of barriers created by such a Directive, or were necessary actions seriously delayed, the result would be to jeopardise the job security of all employees of Caterpillar Tractor Co.

Ltd."[Caterpillar's Submission to the UK Contact Point, 1983, p.8-9].

This last point was stressed by Mr. Selkirk, UK Director of Industrial Relations, when interviewd by the author. He explained that the decision to close Birtley had not been taken lightly, and that retaining the plant would only have endangered the employment prospects of all UK employees. Indeed, the closure of Birtley, improved employment prospects at the Glasgow factory.

In its detailed submission to the UK Contact Point, Caterpillar stated that "employees and trade union were kept fully aware" of the difficulties facing the Parent Company and its UK subsidiary [Caterpillar's Submission to the UK Contact Point, 1983, p.3]. This was the case, but as was seen earlier, employees were constantly assured that the run-down of operations was to safeguard Birtley's future. Prior to the announcement of August 31, there had been no indication that either UK subsidiary or Parent Company management was contemplating closure.

In its presentation of Company/Union meetings, Caterpillar provided a time-table and summary of those which occurred only after closure had been announced. It did not provide dates of consultative meetings prior to August 31, 1983, when closure was announced.

Nevertheless Caterpillar summarised its case as follows:

> **"We have already described in this report the extensive communications and consultations with employees and union representatives over the past three years. It has been a period of discouraging economic developments, requiring adjustments at Birtley Plant such as short work-weeks and three voluntary redundancy plans.**
>
> **Since the 31 August announcement of the intended plant closure, we have - as also describe earlier in this report - held several meetings with unions representing Birtley Plant employees. We have also reached agreement on the 'Closure Plan' in repect of our employees. No redundancies will begin before 30 March 1984. These circumstances are considerably in excess of the thirty days mentioned in the Vredeling Proposal.**
>
> **The Company takes no pride in the fact that it is necessary to close Birtley Plant, which is located in an area already**

suffering high unemployment. Employees and their representative Trade Unions at the Birtley Plant have accepted the plant closure, and negotiations have been concluded on the separation terms. Our attention is now directed, therefore, toward the orderly shutdown of the plant with the co-operation of our employees

We have, however, endeavoured to communicate and consult with employees in honest and timely fashion during the period of business downturn preceding and leading up to the decision to close Birtley plant" [Caterpillar's Submission to the UK Contact Point, 1983, p.9].

Contrary to the claims of UK Management, Mr. Steve Newhouse, a Caterpillar spokesman at Company headquarters in Illinois, admitted to The Journal that employees had not been consulted before the final decision was made. He explained that,

"..it is very hard for the decision-making process if you open it up on a large scale. It makes it that much harder to reach a conclusion" [Unwin, September 1, 1983].

12.23.3.: The Response of the UK Contact Point

It was seen in Chapter 6 that National Contact Points are expressly forbidden to comment on the conduct of an individual enterprise. Their function is to clarify, on request, sections of the Guidelines. Should a case arise in which a Contact Point is uncertain of the meaning of a particular section, the case is referred to CIME.

In his letter of October 7, 1983, to the UK National Contact Point, Mr. Murray had stated that the main areas of complaint concerned paragraphs 6 and 9 of the Employment and Industrial Realtions section and paragraph 8 of the Introduction. He believed that,

"taken together these can be seen as calling for:-

timely consultations with union representatives before the announcement of such major changes as plant closures or other decisions with major effects on workers' livelihoods;

opportunities for unions to negotiate on the issues with the management which has taken the decision;

attempts to mitigate to the maximum extent practicable adverse effects from such decisions, again involving managements with authority to take the necessary decisions".

[letter from Mr. Murray, dated October 7, 1983, to Mr. C. Batten]

On December 7, 1983, the Contact Point, based at the Department of Trade and Industry, replied to Mr. Murray's letter. It disagreed with Mr. Murray's interpretation of the aforementioned sections of the Guidelines:

> While I can understand your desire to summarise the outcome in the [above] three points ...we - and I think the same goes for the CIME as a whole - would not agree with your summary in all respects.
>
> In particular, ...we would not accept that the Guidelines themselves provide for "negotiation" on closure or transfer of undertakings. The clarification of paragraph 9 which was published in the Mid-Term Report goes into this at some length. I would only quote one sentence: 'Paragraph 9 does not institute a claim for opening consultations or negotiations in the absence of other relevant provisions'. The significance of this last phrase is that the Guidelines are, of course, set firmly within the framework of national law and practise.
>
> On the point you raise about the involvemnt of management representatives authorised to take decisions, the new clarification of paragraph 6 is relevant. As you will see this states that management participating in the process of "co-operation" dealt with in paragraph 6 should have sufficient authority to co-operate in good faith and to take the decisions that might be called for in the circumstances. (Of course, the process of mitigation may involve decisions that are outside the responsibility of the company altogether). This, in turn, is put in the context of paragraph 8 of the Introduction. Here the Committee was particularly thinking of the passage indicating that 'the Guidelines are addressed to the various entities within the MNE .... on the understanding that they will co-operate and provide assistance to one another as necessary to facilitate observance of the Guidelines'.
>
> It may be helpful if I summarise our view of the most salient elements of paragraph 6 of the Industrial Relations chapter and paragraph 8 of the Introduction:
>
> (i) timely notice, if possible prior to the final decision being taken, of major changes in the operations of an enterprise (including the transfer of undertakings).
>
> (ii) co-operation by management with employee representatives so as to mitigate to the maximum extent practicable the adverse effects of such major changes
>
> (iii) the involvement in such "co-operation" of management with sufficient authority to co-operate in good faith and to take any decisions, related to the mitigation of adverse

effects, that might be required". [letter from Mr. W.L. Stow, UK National Contact Point, dated December 7, 1983, to Mr. Murray]

The UK Contact Point then proceeded to summarise the document which Caterpillar had submitted. This summary is at odds, however, with the copy of the document which the author received from the Company's Director of Industrial Relations, in that the Contact Point's summary, unlike the original document, stresses in detail Caterpillar's contribution to the British economy.

The letter to Mr. Murray concluded with a reminder that the OECD has no judicial function:

> **"Finally, you also asked us to submit supplementary reports to the OECD as a contribution to the 1984 Review procedures. The OECD, of course, does not get involved in individual cases unless issues of clarification are involved. However, at the meeting of the CIME Working Group last week, I mentioned the two cases [Caterpillar and Dunlop] in general terms to update the UK response to the questionnaire on the Guidelines and, in the context of the 1984 Review, to illustrate the working of the National Contact Point system in the UK".** [letter from Mr. W.L. Stow, UK National Contact Point, dated December 7, 1983, to Mr. Murray]

12.24.: The Unions' View

12.24.1.: The View of the Secretary of the Shop Steward's Committee.

When intervived by the author in May 1984, Mr. Jordan, Secretary of the Shop Steward's Committee, recalled that while employees had been informed regularly by Caterpillar that the Company was experiencing difficulties, they were never told that the closure of Birtley was under review.

The Company claim that employees expected closure, but the fact of the matter was that employees and their representatives were constantly being reminded by Management that short-time working, and redundancies, had been introduced in order to avoid closure. It was not, they were assured, the first steps towards total closure. As far as the Unions were concerned, these measures were a "quid pro quo".

Employees were never told that these measures represented indications of impending closure, but now Caterpillar claims in effect, that at one end of the spectrum is investment and at the other is divestment and that as one approaches the latter one finds short-time working, and voluntary and compulsory redundancies.

Mr. Jordan admited that he had been concerned for some time about Birtley's future. His suspicions that Birtley's future was in question were first raised when, in 1980, Caterpillar embarked on cutting production at the plant. These were confirmed, he remembers, by a 1981 Company publication which carried the following statement from Caterpillar President, Mr Bob Gilmore:

> **"By the end of 1979 we'd committed a great deal of time and manpower to two important planning exercises that produced well-defined product and parts strategies for the decade ahead. So we had our product and facilities plans pretty clearly in view".**

Prior to the closure announcement Mr. Jordan had never heard of the OECD's Guidelines or of "Vredeling". He learned of their existence from Euro-MP, Joyce Quin, member for Tyne and Wear Constituency, who approached the work-force offering her support in the campaign to reverse the closure decision.

12.24.2.: The View of Regional Officials

As the Divisional Organiser for TASS, Mr. Arthur Scott was heavily involved in this case and attended all the external Union/ Company meetings after the closure announcement.

Mr. Scott recalled how he first heard of Caterpillar's plans to close Birtley. On the evening of August 30, he met a neighbour who asked him if he had heard the rumour that Caterpillar would be announcing its decision to close Birtley the following day. The following morning he received confirmation through the media, and later that day, he received a hand delivered letter from the Company, informing him of the closure.

Mr. Scott believes that the parent company decided in April 1982 to close the Birtley plant. He also believes, that local management were not informed of this decision until shortly before it was revealed to the workers. He thinks that local management really did believe that the cut-backs were introduced in order to safeguard the future of Birtley.

Mr. Scott argues that the only reason compulsory redundancies were postponed until the end of March 1984 was because it was in Caterpillar's interests to have a gradual rundown.

According to Mr. Scott, it was clear that Caterpillar had had problems since 1981. These difficulties led the Company to asking the workforce to accept short-time working and even redundancies, and also a 3 year wage deal. These measures were accepted because Caterpillar said they were needed to ensure the future of the plant. The Union officials believed this.

The Birtley factory was closed, not due to poor performance, but due to falling worldwide demand for Caterpillar's products. The firm had excess capacity and therefore decided to rationalise, with Birley's production being transferred to Caterpillar's other UK Plants and to those in Belgium and France.

Mr. Scott could not provide copies of Company Statements regarding the future of the plant because, he said, there were none.

As regards the OECD Guidelines, Mr. Scott said that "to suggest we were au fait with them would be kidding". He had heard of them, but was not aware of their contents. He states that the Guidelines never acted as a term of reference for employees, but then again, neither did the Employment Protection Act, 1975. The unions' terms of reference were the agreements reached with the Engineering Employer's Federation; which were binding on Caterpillar as a member.

The OECD's Guidelines were, and still are, never used in day-to-day negotiations. Mr. Scott believes that the only value of the

Guidelines, lies in the area of propoganda - "The Guidelines are less than useless but from a propaganda point of view they are great".

Mr. Scott had never heard of the "Vredeling Proposals" until Joyce Quin, MEP, and Dr. Gordon Adam, MEP, approached the workforce shortly after Caterpillar had announced its intention to cease production at the Birtley Plant. He now believes that Strasbourg offers employees much more protection than Westminster and this observation has tempered his view on Britain's membership of the European Community. If "Vredeling" were implemented however, he believes that Companies would find loopholes and thereby avoid adhering to the principles and spirit of the Directive. He concluded though that, "At least, legislation is more authoritative than guidelines."

According to the Regional Secretary of the Northern TUC, Mr Bob Howard,

> **"The TUC Northern Regional Council, following representations from the convenor and shop stewards at the factory, unanimously condemned the behaviour and practises of .. Caterpillar .. in contravention of the "Vredeling Proposals" and the OECD Guidelines at a meeting held on 1 October 1983.**
>
> **.. the workforce were convinced that the management's decision was irreversible and accordingly recognised that they were faced with a fait accompli. However it should be stated, to place the problem in its true context, that there had been a considerable run down and demoralisation of the workforce prior to the official announcement which had softened up any effective resistence"** [letter dated May 22, 1984, from Mr. Howard to the author].

Former employees and shop stewards interviewed by the author were all very critical of Caterpillar's handling of the announcement. The reduction in numbers employed, coupled with lack of orders, did arouse concern, but the Company had said the retrenchment was necessary to safeguard the factory's future, and the unions accepted this. There was no resistence to trimming down the Birtley plant as they believed it was in their best interests - a necessary evil. According to union representatives there was no consultation, nor did Caterpillar indicate that it was considering closure.

It must also be stressed that none of the union officials involved at plant, or regional, level had a sound knowledge of the Guidelines prior to the closure announcement. One leading official believed that the Guidelines emanated from the European Parliament. When asked why the British TUC apparently made so little use of them, he explained that Unions could not support and refer to them because this could be interpreted as condoning British membership of the EEC, from which the British Labour Party was committed to withdrawal.

In retrospect, the Unions may appear to onlookers as rather naive, but at the time, the Company's arguement that it was necessary to temporarily trim down the factory until there was an upturn in the market, must have sounded plausible. Industrial action was always a possibility but Unions are now very wary of resorting to it, because in the past, it has been used by Company's as a justification for closure, blaming the militant work-force.

The Economic and Social Committee of the TUC in a "Private and Confidential" document reveals its lack of understanding of the OECD's Guidelines. The Committee was dissatisfied that the Contact Point had not passed judgement on Caterpillar's conduct, and intended writing to request that "the Contact Point should now assess the validity of the Company's claims, against the Contact Point's own interpretation of the Guidelines". It appears that the TUC still does not realize that Contact Points, and CIME are **forbidden** to pass judgement on the conduct of an individual enterprise.

The UK National Contact Point's reply led the TUC's Economic Committee to the following conclusion:

> **"Overall...it confirms the established view of the Committee about the inadequacy of voluntary codes of conduct, and the need for statutory rights to information and consultation such as those in the draft "Vredeling" proposals....".**

12.25.: Postscript

Almost two years to the day that Caterpillar announced the closure of Birtley, Tyne and Wear County Council confirmed it was negotiating a purchase price with Caterpillar for Birtley. The US MNC's arch-rival Komatsu had decided to establish a manufacturing facility in north-east England, obviously having been impressed with the "Geordie" welcome extended to Nissan which had chosen to open a plant at Washington, Tyne and Wear.

Komatsu's European sales had been hit by the 26.6% tariff imposed in March 1985 by the EEC on Japanese hydraulic excavators, and the firm therefore has a clear incentive in quickly establishing a plant in the EEC. In September 1985 the Japanese firm met officials from the Department of Trade and Industry to discuss the Government aid package for the proposed plant [Gray and Rappaport, 1985; Gray, 1985]

Finally, on December 17, 1985, Komatsu confirmed that it had acquired the former Caterpillar plant at Birtley, only a week after the US MNC had sold the site to Tyne and Wear Enterprise Trust. The £12.3m manufacturing project, which is expected to create 300 jobs, will be Komatsu's first production unit in the EEC, and by far its largest foreign operation. The British Government's aid package amounted to only £2.3m, and so gaining prior approval from the European Commission was unnecessary [Townsend, December 17, 1985, p.1; Rodger, December 18, 1985, p.8].

1985 proved a watershed too in the great industrial battle between the world's top two construction companies. Only four years earlier, Komatsu's President had been making beligerent speeches, warning Caterpillar that its days as supremo were limited. The new President, Mr. Shoji Nogawa, has adopted a much more reconciliatory tone:

> **"We have no intention of taking on Caterpillar and fighting them like an enemy until one of us falls. What is important to both Caterpillar and Komatsu is our customers. It is not businesslike to put them aside, just to fight each other. The kind of thinking that says, 'If we do not get them, they will get us,' is what Japan used in the Second World War, and look what that produced"** [Rodger, December 4, 1985, p.12].

Nevertheless, Komatsu's 1985 decisions to manufacture within the EEC, at Birtley, and within the US, in Tennessee, is evidence that the the Japanese firm has finally overcome its reluctance to invest abroad. Ominously for Caterpillar, this new strategy has emerged partly in response to the recent revival in Caterpillar's fortunes. The world's largest construction machinery company must still guard against complacency - after all, the Japanese are coming.

12.26.: Conclusions

At their peak, the three plants examined in this chapter each employed more than 2,000 workers. By the time closure was announced the workforce at each had been significantly reduced, especially at Birtley and Bradford. All three MNCs received strong criticism from Trades Union officials, but this case reveals that it was not always deserved.

12.27.: Foreign Divestment Theory

Closure of the three plants examined here support Boddewyn's contention that an eclectic theory of foreign divestment seems much more appropriate than the mutually exclusive "Condition" "Motivation", and "Precipitating Circumstance-Based"theories. All three closures were initially triggered by the exceptionally dramatic downturn in the Construction and Farm Equipment Industry. This slump, along with record high interest rates, represented a significant change in market conditions from the post-war boom period during which all three plants had been opened.

By the late 1970s the Farm and Construction Machinery Industry was operating at well below full capacity and firms were unable to achieve satisfactory economies of scale. During 1979-80, in a bid to lower production costs, Harvester took on the United Auto Workers in a costly six month dispute to revise labour contracts. In 1982, Caterpillar adopted the same tough stance and production ground to a halt for seven months as the UAW fought to safeguard their members' contracts. The Harvester and Caterpillar strikes were, and remain, the longest ever staged by the UAW.

There can be no question that the slump was rapid and unexpected. In 1976 Massey Ferguson reported record profits, and in 1977 it launched a £2m investment programme at its Ayrhire plant. But just four years later, only a Chrysler-style bail-out saved the Canadian MNC from bankruptcy. Similarly, Harvester enjoyed record sales and profits of $427m in 1979, but by 1981 total tractor sales reached a post-war low, and it too tottered on the verge of bankruptcy. Caterpillar was also a victim of the sudden slump. The Peoria-based giant whose sales and profits peaked in 1981, reported the following year its first loss in fifty years.

Although they attained success, Massey and Harvester had been built on weak foundations and these were exposed by the recession. Caterpillar, on the other hand, was a highly efficient and well-managed firm, and these strengths prevented decline on the same scale, but, like the other two, Caterpillar was dogged by heavy losses and excess manufacturing capacity. Thus all three MNCs had strong motivation to rationalise global operations, particularly those in developed countries. The extent of retrenchment can be seen in the employment level of each firm since the late 1970s (see Table 12.9).

Table 12.9.: Worldwide Employment Level

Year	Caterpillar	International Harvester	Massey Ferguson
1985	53,616	16,836	20,262
1984	61,189	31,104	23,751
1983	58,402	32,445	27,609
1982	73,249	43,290	33,726
1981	83,455	65,640	39,789
1980	86,350	87,162	41,260
1979	89,266	97,660	56,233
1978	84,004	95,500	57,983
1977	78,565	96,900	67,151

Source: Corporate Accounts; Fortune magazine.

Unlike all its rivals which relied on just one unit manufacturing combine harvesters in Europe, Massey Ferguson in 1978 sourced from two such plants. An internal Feasibility Study recommended single sourcing and that from Marquette, rather than Kilmarnock. From a managerial perspective, the French operation enjoyed three crucial advantages over its Scottish counterpart: Its favourable location; it was non-unionised; and, it had a foundry on site.

Caterpillar and Harvester had excess capacity in Europe, but especially in the UK. It was decided to reduce the number of British plants. Caterpillar had three, but only the Glasgow and Newcastle plants were in danger of closing. Glasgow was already an assembly operation and had been built only in 1956, whereas

Birtley was an older factory which had been acquired from another firm 27 years earlier, in 1954.

Similarly, Harvester was forced to close two plants and concentrate production at its largest plant - Wheatley Road in Doncaster. In 1982 it closed Bradford, acquired 28 years earlier, and the following year the small Carr Hill unit at Doncaster.

Not one of the three plants was closed because it had performed badly, but because each firm was compelled to rationalise. The characteristics of other plants safeguarded their future at the expense of Birtley, Bradford, and Kilmarnock.

Both the Massey and the Harvester case testify to the importance of overcoming "barriers to exit" in the divestment process, and the precipitating circumstance-based theory. Massey was apparently willing, in order to save 500 jobs, to undertake the expensive option of transferring Baler production from Marquette rather than close Kilmarnock. Mr. Rice extended his decision-day deadline so that fuller consideration could be given to this matter.

Similarly, according to a UK spokesman, the closure of Bradford was postponed simply because the factory was held in such high regard within the corporation. However, local managers have often proved "barriers to exit" and representatives from the <u>home</u> country are often sent to oversee divestment in the <u>host</u> country. This was the case with Harvester.

In February 1982, Harvester's UK Chairman, Yorkshireman, Mr. Shepherd, resigned unexpectedly just fourteen weeks after his appointment. His resignation appears to have coincided with Chicago headquarters' decision to close Bradford, reaching senior UK subsidiary management. Significantly, Mr. Shepherd was replaced by American, Mr. Calder, whose loyalties were clearly to the parent company, rather than to the UK subsidiary.

Managerial literature stresses the likelihood of divestment following the arrival of new men who have no emotional attachment to any particular division or unit and therefore have no "barriers to exit" to overcome. The Black/Rice leadership was barely a month old when Massey announced its Feasibility Study on European Combine production. Similarly, between September 1977 and December 1, 1982, Harvester had no fewer than four Chief Executive Officers - Hayford, McCardell, Menk, and Lennox. Boardroom reshuffles were symptomatic of an ailing Company; loss-making operations were jettisoned.

12.28.:The Divestment Decision and Employee Disclosure and Consultation

12.28.1.: Massey-Ferguson

Massey Ferguson's UK management claim they were heavily involved in the divestment decision, but as was seen earlier, the final decision rested entirely with the President, British-born Mr. Victor Rice. Before reaching his final decision, he himself flew from Canada to Britain to meet National Officials of the Amalgamated Union of Engineering Workers. They were given an opportunity to argue the case for retaining Combine production at the Kilmarnock site. Union leaders were therefore given access to the real decision maker.

The decision made, employees were informed on November 9, 1979 as soon as minimum preparations for disclosing the fact had been completed. Kilmarnock was closed 98 days later on February 15, 1980. The Canadian MNC had however gone to great lengths to find a buyer for the plant, and on January 17, 1980, announced the establishment of Moorfield Manufacturing which would initially provide employment for 54 of the Kilmarnock employees.

12.28.2.: International Harvester

The decision to close Bradford, on the other hand, was made at International Harvester's US head office. The planned date for announcing Bradford's closure was originally May 1, 1982, however, the announcement was postponed until July 23. Virtually all employees were made redundant on October 22, 1982. They had received 90 days notice, the absolute legal minimum.

News of the divestment decision had been communicated to UK management by February 1982 at the latest and senior subsidiary management began preparing for closure, but for five months at least UK management witheld from employees the firm's intention to close Bradford. In other words, management witheld news of the closure for five months, while it gave the 550-strong workforce only three months redundancy notice.

It therefore seems reasonable to conclude that IH failed to consult Trades Union representatives "at the earliest possible opportunity", but as was seen in Chapter 5, the Department of Employment itself regards this term as being of "minor significance where the redundancy involves 10 or more employees". It can be concluded that while Harvester conformed to UK legislation - it did give 90 days notice - UK Management consciously misled the workforce in order to restrict organised resistance to closure.

Harvester's UK Management argued convincingly that one should not simply gauge a firm's conduct by the length of the redundancy notification period. They cited the Caterpillar case to substantiate their argument. Caterpillar employees first heard of the Company's decision to close the Birtley plant on the local radio, yet it was a year later that the factory closed. Harvester's senior UK executives believe that although they gave less notice of closure, they have a more positive attitude to employee disclosure and consultation; a claim which does not seem unwarranted.

It has to be remembered that at the time of the Bradford closure, International Harvester was in the throes of crisis, and, unlike Caterpillar, could not afford a gradual run down which would only imperil jobs at other plants. UK Management and Union officials held regular discussions and a considerable amount of information was disclosed to these employees' representatives, - indeed to the workforce itself. On the other hand, Union officials were denied access to the real decision-makers, - who alone were capable of reversing the divestment decision - the parent company executives.

It was seen in the Caterpillar case, that there were no official Minutes of Company-Union meetings; indeed, it would appear that no such meetings occurred **prior** to the closure announcement. In contrast, IH had established rigorous formal procedures for communicating with its employees. Nonetheless, Harvester's employees and Union officials believed that the Company's employee disclosure and consultation procedures left "room for improvement".

Harvester believes it kept its employees well informed and was always conscious of their welfare. Once employees were told, they were sent home to inform their families. The Company went to great pains to ensure that those emotionally involved with the Bradford factory did not receive the news from the media.

Employees paid glowing tribute to Plant Management, but were unimpressed by senior Subsidiary Managers, whom they dubbed "messenger boys". Confidence in them had been irrevocably lost; Shop Stewards were convinced that Managers were mere puppets in the hands of the US parent, and victims of cruel deception.

12.27.3.: Caterpillar

Caterpillar announced its closure plans on August 31, 1983. The first compulsory redundancies were not issued until March 30, 1984. Thus employees had received seven months notice, more than double that given by both Massey Ferguson and International Harvester and twice the minimum legal requirement.

However, from interviews with Union officials it was apparent that Caterpillar had aroused considerable resentment. Extending the notification period beyond the minimum requirement was considered irrelevant to the major issue at stake. Employees and Trades Unionists refused to believe that the decision had been taken only a couple of weeks before the closure announcement. In retrospect they felt they had been deceived and that the run down of Birtley was part of the divestment process, and not an attempt to save the plant as the Company had claimed.

Caterpillar claim that its UK Board ratified the decision to close Birtley just two weeks before the public announcement; employees were therefore informed as soon as possible; indeed, they were told earlier than planned because speculation was rife at the Glasgow and Newcastle factories. The author was unable to verify the Company's claims, but if true, the divestment process was carried out with surprising alacrity.

Caterpillar's reputation had been severely tarnished firstly by the media's pre-emptive announcement, and secondly by the alleged discrepancy between the Company's claims (made during its onslaught on Vredeling) and its actions.

Caterpillar's conduct does not compare favourably with Massey-Ferguson's. At the start of 1983, local MP., Mr. Giles Radice, was fobbed off by Mr. Guerindon, European Director, when he requested an assurance on the Birtley plant's future, and UK Management cancelled an important meeting with Union officials.

12.28.: The OECD's Employment and Industrial Relations Guidelines

All three firms in this case study conformed with UK legislation, and therefore the OECD's Guidelines for Multinational Enterprises. Ironically, although it gave twice the legal minimum notice, and more notice than Massey Ferguson and Harvester put together, Caterpillar received the most bitter criticism from the TUC, and local officials of the AUEW and GMBWU.

Of all the firms studied in this thesis, Caterpillar is unique in that its employees at Birtley learned of their plight from local media reports and not from the firm's scheduled public announcement. In view of the US MNC's vociferous denunciation of the Vredeling Proposals this seemed like hypocrysy and British Trade Union leaders determined to make an example of Caterpillar.

The TUC referred the US MNC to the OECD's UK National Contact

Point (NCP) for violation of the OECD's Guidelines. Had Caterpillar been less critical of "Vredeling", the TUC would possibly not have called upon the OECD's UK National Contact Point (NCP).

Caterpillar is the only foreign-owned firm formally accused by the TUC of violating the Guidelines during the divestment process. The case went no further than the UK National Contact Point. It appears that the TUC had failed to grasp that the OECD's Committe for International Investment and Multinational Enterprises lacks any judicial powers and is expressly forbidden to discuss the case of any individual company. The response to the TUC's complaint against Caterpillar confirms just how pointless it is for a Union to refer a firm to a NCP.

The Caterpillar and International Harvester examples confirm that the Employment and Industrial Relations Guidelines do nothing to inhibit those MNCs who regard minimum legal requirements as a ceiling; for those MNCs which aim to respect not just the letter, but the spirit of the law, the Guidelines are unnecessary. Massey Ferguson's UK Management admits that the Guidelines played no part in the handling of the divestment process. At the time of Kilmarnock's closure, the Plant Manager knew nothing of their existence. Yet Massey Ferguson's conduct was beyond reproach. Caterpillar, on the other hand, conformed with the Guidelines, yet failed to break the news of closure to its own workers.

The UK Management of all three MNCs argue that it is not in anyone's interests to inform employees of plans to close a plant **before** a final decision is made.

It is evident from the above case-histories that the Companies informed employees of their divestment decision, only when the decision was irreversible, or final.

The findings of this industry case study also lends some support to the hypothesis that employee disclosure practise reflects home country culture. As expected, the employee disclosure and consultation practise of Massey-Ferguson, the Canadian MNC, was significantly different from that of the two US MNCs.

Only the Canadian MNC can justly claim to have held meaningful consultation with Trades Union officials. Caterpillar and Harvester issued closure announcements without first consulting employees' representatives. Management of all three companies firmly believe that witholding information until a definite decision has been made, is in everyone's best interests, and that premature disclosure could precipitate the very contingency which employees hope to avert, - namely, closure.

Nevertheless, Massey Ferguson did inform employees and consulted with their representatives before announceing the closure of Kilmarnock. Yet academics and former employees have been highly critical of the firm and even its expensive attempts to locate a buyer have been interpreted cynically. The message seems to be that regardless of the reasons behind divestment decisions, or the endeavours to act with due regard to the interests of stakeholders, any MNC closing a plant is in a no-win situation and is regarded by the workforce as callous and greedy.

Such criticism and adverse publicity tends to serve only to dissuade firms from good conduct and increases the likelihood of their meeting only the minimum legal requiremnts, rather than seeking a more magnanimous solution.

CHAPTER 13

SUMMARY and CONCLUSIONS

13.1.: Introduction

The author hopes that this thesis has achieved its main objectives, namely, - to contribute to the theory of foreign divestment through a detailed analysis of the causes of UK plant closures by foreign-owned MNCs, - and to evaluate UK legislation on employee disclosure/consultation, with particular reference to its effect on foreign MNCs.

The Financial Times has recorded since 1978 the closure of 96 manufacturing operations majority-owned by foreign MNCs. This thesis analysed 13 of them as case studies involving the compulsory redundancy of 500 or more employees. They were drawn from four industries and the impact of home country culture was assessed.

13.2.: Foreign Divestment Theory

The studies reveal that plant closures by foreign MNCs were due to certain unfavourable changes in the business environment. The rising cost of oil, foreign competition, high interest rates, market saturation, and social and technological change emerge as the key explanatory divestment factors and their impact reinforced the need for restructuring, thus creating strong motives to divest. As these changes took their toll on the industries, new Chief Executives were appointed to mastermind recovery. It must be stressed, however, that the need for rationalisation was triggered by one or more of the variables listed above, and the arrival of a new man at a troubled firm should have been seen as a signal to divestment.

None of the firms closed a plant simply because of perceived opportunity to make larger profits elsewhere. The closures were necessary to safeguard and maintain market share threatened by intense competition. Table 13.1 illustrates the various adverse factors which led the eleven foreign MNCs to rationalise, or to withdraw from completely, their UK operations.

Table 13.1.: Condition-based theory: adverse changes in the Business Environment

	PLANTS												
ADVERSE CHANGES IN THE BUSINESS ENVIRONMENT	Antrim	Dundonald	Clydebank	Dunmurry	Perivale	Drumchapel	Craigavon	Brentford	Wrexham	Mallusk	Kilmarnock	Bradford	Birtley
Emergence or increase in competition from:													
- Japan and the East			x	x		x		x	x	x			x
- Western Europe					x	x		x	x	x			
- Eastern Europe					x	x		x	x	x			
- the US	x	x											
Recessionary conditions	x	x	x		x	x	x	x	x	x	x	x	x
Record high interest rates											x	x	x
Soaring raw material costs	x	x											
Social change			x			x		x	x	x			
Technological change increasing products' life-span, and leading to obsolescence of plant and equipment						x		x	x	x			

Many of the parent firms had gone from record profits to massive losses within the course of a year. The onset of recession was sometimes sudden, and in all industries competition emerged to challenge market leaders. The slump and fierce rivalry had caught strategic planners unawares. Plans for expansion came to a halt as sales fell. Resources, both capital and labour, were underutilised. Production costs increased. Margins were cut to win orders, and as revenue fell, so too did profits. Competitive edge was lost to Japanese and "Red" MNCs which increased market penetration.

All of the plant closures examined in this thesis were part of a broader corporate restructuring strategy:

- Monsanto has ceased all man-made fibre production in Europe;

- Akzo has performed major surgery on its man-made fibre group throughout Europe;

- Singer has closed all its sewing machine operations in the US and Europe (apart from the Italian factory at Monza) and has spun off its sewing machine business as an independent company;

- Grundig, unable to withstand the Japanese challenge has fallen into the hands of Dutch electronics giant, Philips;

- Hoover has been acquired by another US firm, Chicago Pacific, but only after its rationalisation programme throughout the group enabled it to make a significant recovery.

- Firestone has withdrawn completely from the UK, concentrating European tyre production in Spain. It was once rumoured to be contemplating a sell-out to Bridgestone of Japan.

- Goodyear has become one of the main proponents of "globalisation" and in 1985 it bought Toyo Giant Tyre, its first Japanese acquisition;

- Michelin too has closed plants on the Continent, in Belgium and Italy; many others have been rationalised, and automation introduced;

- International Harvester, now known as Navistar International, sold off its Agricultural Equipment division for $430m to US conglomerate, Tenneco, in December 1984;

- Massey-Ferguson has ceased combine harvester production in Europe, and in May 1986 it too announced that it was changing its name, to Varity Corporation.

- Massey and Harvester were each on the verge of bankruptcy in the early 1980s.

- Caterpillar has just completed a stringent cost-reduction programme, and in 1985 it reported a profit of $198m after three years of massive losses.

These MNCs have had to implement job-cuts throughout the world as Table 13.2. illustrates. Of the four non-US MNCs, the slump particularly affected Massey-Ferguson where the workforce in 1985 was only one third its 1975 level. Having cut back to ensure survival, the Canadian MNC plunged from 85th place among non-US MNCs in 1975, to the comparatively low position of 368 in 1985. The three European MNCs have also trimmed their workforce and have failed to maintain their status in the International 500.

Table 13.2.: Worldwide employment (in 000s) and Rank in Fortune US 500, and Fortune International 500.

Company	No. Empl.	Rank	No. Empl.	Rank
Fortune International 500				
	1975		1985	
Akzo	98	48	65	83
Grundig	36	252	23	485
Massey-Ferguson	65	85	20	368
Michelin	108	69	NA	91
Fortune US 500				
	1974		1985	
Caterpillar	80	36	54	52
Firestone	120	40	55	102
Goodyear	154	23	134	35
Hoover	27	334		n.a. (385 in 1984)
International Harvester	111	26	17	104
Monsanto	61	43	56	53
Singer	111	66	46	156

Source: Various editions of Fortune

The decade preceding 1986 was a period of major corporate surgery at a number of US MNCs too, notably Firestone, Harvester, and

Singer. These three firms alone accounted for worldwide job losses in excess of 200,000.

The adverse business climate is not sufficient, however, to explain some closures. In the Farm and Construction Equipment case study it was seen that each Company's starting point was the realisation that one plant closure was necessary. The next step was to compare the merits and demerits of each site in order to identify the divestment candidate. Thus Massey-Ferguson preferred to retain Marquette and close Kilmarnock because the French facility was nearer the market, had its own foundry, and weak Unions. Bradford's size militated against its being International Harvester's sole UK manufacturing base; it was closed and production transferred to the larger Doncaster plant. Caterpillar closed its older Birtley operation which manufactured components rather than its comparatively modern, assembly plant at Glasgow.

In 1981 rigorous competition demanded that Hoover rationalise its UK operations. Perivale in comparatively affluent London was closed rather than Cambuslang Glasgow, located in an area of particularly high unemployment - even for Scotland. The decision to maintain the Scottish factory was probably determined by the level of Government support grants available to employers in Cambuslang.

Rigorous competition and excess capacity have taken their toll on western tyre producers. In recent years, they have had to come to terms with a massive excess capacity problem, the causes of which are explored in Chapter 11. However, it was not Goodyear which in effect decided to close the Drumchapel plant; it was the workforce itself. Employees refused to agree to fifteen shifts per week as this would have involved re-introducing night shift on Friday night/Saturday morning. This closure in 1979 coincided with the onset of a troubled period for tyre producers battling for survival, but Drumchapel's closure is best explained by motivation-based theory: poor performance; low productivity; high absenteeism; and, appalling industrial relations. Four years later, in 1983, Goodyear closed Craigavon which manufactured rubber products. It had a good labour force, but the investment decision had always appeared unsound, and Craigavon closed within fifteen years of opening.

In retrospect, Firestone's decision to terminate production in the UK appears logical. The larger pre-war plant at Brentford had been equipped for cross-ply production, and Wrexham, although a modern manufacturing facility, had a history of unofficial stopages.

The French MNC, Michelin, like its US rivals, was forced to rationalise its UK operations and by 1982 was trying to effect cut-backs in productivity and jobs. Limited in options, its decision to close the Ulster plant may have been influenced by the political situation as well as the economic one.

13.2.: The Divestment Decision

Apart from the Goodyear Drumchapel closure in which employees decided their own fate, virtually all of the 13 plants examined in this thesis were closed on the basis of a centralised decision. The author was unable to ascertain whether the Michelin Mallusk closure was decided in the UK or at parent company level. Caterpillar claim its UK Board took the decision to close Birtley.

The handling of the divestment process, and the role of subsidiary and plant management, is best seen in the conduct of two US MNCs International Harvester and Goodyear, in the Bradford and Craigavon closures, respectively. Each illustrates the time-gap in relaying information down through the corporate hierarchy, and finally to the workforce. In both cases, employees were informed some months after the decision had been made at corporate headquarters across the Atlantic.

13.4.: Employee Disclosure and Consultation

The divestment process requires to be handled with sensitivity if hostility from the workforce and local community is to be avoided. Some firms fuelled the highly charged and emotive situation by the manner of their response to Trades Union Officials anxious about future employment, while some others appear to have been deeply conscious of their employees' welfare.

Prior to many of the formal closure announcements, Companies had cut back production, reduced the number employed and in some cases introduced short-time working. Not surprisingly employees and their representatives were concerned and their concern was recorded by the local media. Often rumours abounded that closure was imminent. Eventually, some firms, Akzo of the Netherlands, Massey-Ferguson of Canada, and two US MNCs, Hoover and Singer, warned that closure was a possibility.

Table 13.3.: Notification of Redundancy to Employees

Company	Plant	Home Country	Warning of Closure Given Before Formal Closure Announcement	Days/Months Redundancy Notice Given
Akzo	Antrim	Netherlands	yes	12-14 months
Monsanto	Dundonald	US	no	78 days
Singer	Clydebank	US	yes	8 months
Grundig	Dunmurry	Germany	no	101 days
Hoover	Perivale	US	yes	7 months
Goodyear	Drumchapel	US	yes	89 days
Goodyear	Craigavon	US	no	96 days
Firestone	Brentford	US	no	93 days
Firestone	Wrexham	US	no	90 days
Michelin	Mallusk	France	no	22 months
Massey-Ferguson	Kilmarnock	Canada	yes	96 days
Internat. Harvester	Bradford	US	no	90 days
Caterpillar	Birtley	US	no	8-9 months

The behaviour of the Dutch and Canadian MNC conformed with the cultural profiles documented in Chapter 5. Among other attributes their culture is characterised by openness rather than secrecy.

Significantly, management at Massey's UK Coventry Headquarters, and of Akzo's UK subsidiairy, British Enkalon Ltd., were particularly helpful to the author.

The behaviour of Akzo, and Massey-Ferguson was in marked contrast to some firms which, until the last minute, flatly denied that the firm was contemplating closure. Just two weeks before the closure announcement, employees at Firestone's Wrexham factory were assured by the UK Company Secretary that production would be maintained. International Harvester's Bradford employees received similar messages after UK subsidiary management had been informed that the Yorkshire factory was to close. Caterpillar told its employees that job cuts were necessary to save the plant, yet after the closure announcement suggested that the workforce should have expected closure precisely because of these job losses.

Yet another approach was to take employees totally by surprise. The Grundig, Dunmurry closure was particularly unexpected, and while in retrospect it is easy to appreciate the industrial logic of the Mallusk closure, Michelin's workforce could hardly have been expected to anticipate such drastic action. Once again corporate behaviour appears related to the home country's national culture. The German and French MNCs, in accordance with national cultural values, were secretive giving no prior signal to employees that the factories were about to be closed.

Home country culture appears to have had influence on the three European MNCs - Akzo of Holland, Grundig of Germany, and Michelin of France - and on the Canadian firm, Massey-Ferguson, but the behaviour of the seven US MNCs is so disparate that national culture appears to have had little impact; but, then again this very divergence may be indicative of the multi-racial "new world" and the efficacy of "the melting pot".

Considering the sheer size of the country, regional differences may have explained the discrepancy, but Firestone and Goodyear are based in the same city, and their behavioral patterns bear no similarity. Firestone's disclosure record ranks among the worst.

Brentford was closed without warning, and months later Wrexham was closed, despite management assurances that Firestone would be investing in, not closing down the factory. Goodyear, on the other hand, postponed closing Craigavon because it appreciated the grave social consequences to Ulster. By the time closure was announced, the local community could not claim to be surprised by the decision. The Goodyear Drumchapel closure was also sadly predictable, but for a quite different reason.

Proponents of greater information disclosure believe that employees would use the knowledge to save jobs, but in the two closures on Clydeside, the fully-informed workforces voted against proposals in the knowledge that rejection endangered their plants. The Company's "survival plan" was rejected by Goodyear's Drumchapel workforce. Once was enough for this US MNC and it in turn refused to give the workforce a second chance. Singer, was arguably more lenient, and gave the Clydebank workforce (which had ignored shop stewards' advice) a second opportunity to accept its conditions.

Assessing employee disclosure and consultation demands not just a comparison of behaviour, but an analysis of motives. The Company's interests can be well-served by disclosure. This was certainly true in the Hoover Perivale case. By revealing that it was undecided as to whether to close Perivale or Cambuslang, or both, Hoover management succeeded in splitting the Trades Union camp in two.

13.4.: UK Legislation

The Department of Employment has a very narrow interpretation of Part IV of the 1975 Employment Protection Act. It makes no attempt to ensure that firms consult "at the earliest opportunity", but is content that workers receive the statutory minimum notifciation of redundancy, or pay in lieu of notice. The Department transmits this policy to companies and they in turn conclude that they will receive universal approval by extending the notification period. Thus employees of the French MNC Michelin were given 22 months notice, and among US MNCs, Caterpillar gave 9 months, Singer 8, and Hoover 7 months notice. Trades Union officials were critical of all four firms, and it is important that one appreciates their grievances.

Despite having exceeded UK legal requirements, Michelin was denounced in the Northern Ireland Assembly, and Caterpillar was condemned in the European Parliament and reported to the OECD for breach of the Guidelines for Multinational Enterprises.

Hostile Reaction in Ulster to Michelin's decision appears to have been due to the feeling that job losses could, and should, have been spread among all the French MNC's UK plants. Angry Ulster politicians were convinced that the decision to close Mallusk had been determined by the plant's location, and not by its performance which was reputedly better than that at Stoke headquarters on the mainland. Had Michelin given the public authorities four weeks notice rather than four days it might have avoided the roasting it received from Ulster's politicians. Caterpillar made two related errors which provoked a Union backlash: it claimed to be a model employer in its campaign against the "Vredeling Proposals" and then it failed to be first to break the news of closure to its workers.

Surprisingly, the German MNC, Grundig, whose conduct compares unfavourably with even Michelin and Caterpillar, escaped the fierce criticism which rained down on the other two firms. Grundig's employees were presented with an unexpected "fait accompli" and very little notice, only 101 days. The almost placid acceptance may be explained by two factors. Firstly, the workforce was mainly female. Secondly, there was no question that Europe was an uncompetitive location for producing consumer electronics, and the decision to close Dunmurry was made on this basis and no other. Trades Union officials and employees are particularly bitter when they consider closure unnecessary, or their plant judged inferior, - this is seen as adding insult to injury. Hence, former employees at Caterpillar Birtley, Hoover Perivale, and Massey-Ferguson Kilmarnock, were all bitterly critical of their ex-employer's divestment decision.

Union officials, and politicians too, are unimpressed by firms which exceed the 90 days notice requirement. They argue that companies give extra notice only because they themselves need the time to implement a gradual shut down. Condemnation of Michelin was so resounding because the closure announcement was completely unexpected, and Caterpillar incurred the wrath of Unions for failing to ensure that the workforce first heard of closure from the firm and not from other sources.

It can safely be concluded that employees' representatives are not consulted "at the earliest opportunity", and are notified only when the parent has already taken the decision to divest. Full-time Union officials and Shop Stewards were clearly very bitter about plant closures in which they had been involved. The "Vredeling Proposals" implicit objective is to avoid such ill-feeling by giving employee representatives an opportunity to present their views to decision makers. Indeed, they explicitly request enterprises to hold consultations with employees representatives "with a view to attempting to reach agreement on the measures planned in respect of employees".

13.6.: The OECD's Guidelines for Multinational Enterprises : The Employment and Industrial Relations Chapter

Caterpillar remains the only foreign-owned firm which the British TUC has formally accused of breaching the OECD Guidelines during the divestment process. Chapter 12 reproduced the actual correspondence between the OECD's UK National Contact Point, the TUC, and Caterpillar itself. It was seen that the Contact Point did little more than relay the TUC's accusations to Caterpillar, and subsequently pass on the US MNC's defence to the TUC. This illustration of the OECD Guidelines "in action" reinforces the conclusions of Chapter 6, which judged the key Employment and Industrial Relations section of the Guidelines as of little value. These Guidelines have no impact on corporate behaviour, and are ineffective because they do not supplement national law.

Shop stewards at Hoover Perivale, and Singer Clydebank contemplated resorting to the OECD Guidelines, but they were correctly advised that this would prove a futile exercise. Virtually every Shop Steward interviewed by the author was either unaware of the Guidelines, or had heard of them but knew nothing of their content or function. Even full-time Union Officials had a very limited knowledge of them. One thought they emanated from the EEC, and as he was an anti-marketeer he decided not to familiarize himself with the Guidelines.

Some Companies insisted that their behaviour conformed with the Guidelines - and it did, - after all the key Employment and Industrial Relations chapter asks only that MNCs adhere tò the national legislation of each country in which they operate. However, the UK management of the Canadian MNC, Massey-Ferguson conceded that they had not referred to the Guidelines at all during the divestment process. These forthright managers explained that it was by coincidence, not deliberate design, that Massey's behaviour was in accordance with the OECD's Guidelines during the Kilmarnock divestment process. The author intervived an executive of British Enkalon, (the subsidiary of Dutch MNC, Akzo,) who said that all senior management of his company was very familiar with the OECD's Guidelines. He stressed that Akzo always aimed to exceed the Guidelines' recommendations.

13.7.: The "Vredeling Proposals"

It was seen in Chapter 7 that the original text has been diluted. Indeed, probably the most radical and relevant section, the "By-Pass" clause, has been withdrawn in the revised text. Thus employee representatives are not assured access to the real decision-makers who sometimes may be located abroad. The revised text lacks precision, but it is difficult to imagine that it could confer any significant benefits or advantages to labour. The EEC's Mass Dismissals Directive has been enacted by member governments. The UK, like other EEC countries, requires employers to consult employees' representatives when redundancies are proposed. The evidence in this thesis suggests that firms notify employees and hold consultations only when it has already been decided to have redundancies issued.

The Mass Dismissals Directive has proved unsuccessful in ensuring that workers receive maximum notification of redundancies, and every opportunity to present their views before a final decision is reached. It has fallen well short of these aims. It protects workers' interests by establishing the floor level of notice which employees must receive, but firms' decisions are unlikely to be influenced by the arguments of Trades Union officials. The latter are clearly dissatisifed with existing EEC legisaltion, but the solution is surely to fully enforce current legislation, rather than introduce another piece of legislation which no doubt will prove an even greater disappointment. Indeed, it seems strange that Union leaders throughout the EEC have ignored the Fifth Directive on employee participation which appears a more radical proposal, and one which may prove more appropriate to Union needs.

Prolonging plant closure does not serve any great purpose. Often employees are keen to collect their redundancy money and leave as soon as the closure announcement has been made. Indeed, some employees are attracted by redundancy payments, notably those near retiring age or those confident they will find work elsewhere, but there can be little doubt that many suffer socially, economically, and most of all psychologically. In a period of high unemployment, many are unable to find other work because of their age, lack of skills, or obsolete skills. Even workers from firms which exceed the minimum redundancy pay, may receive a paltry sum, which once spent leaves them dependent on Unemployment Benefit and/or Supplementary Benefit. In addition to a lower standard of living, the male unemployed must contend with role reversal if their wife works.

The "Vredeling Proposals" though well-meaning would be unlikely to provide what employees value most: financial security. "Vredeling" would only raise the minimum legal requirements and this may in fact endanger employment elsewhere if firms are compelled to maintain employment at a loss-making unit. As has been seen many firms already give notice well in excess of the UK legal minimum.

In a time of already record high unemployment in the UK, British Trades Unions already face a crisis in terms of falling membership and low morale among members. Trades Union officials have always condemned plant closures, especially when a foreign multinational is involved. Regardless of market conditions and the parent company's financial situation Union Officials will always castigate companies which close plants. It matters little whether they receive three months or three years notice, and whether or not their representatives meet the Chief Executive Officer of the parent company.

The enactment of the "Vredeling Proposals" would be seen by Trades Unions and observers as a notable victory for organised labour over intensive lobbying by employers' organisations. Sadly, this is all it would be, a win of some propaganda value, but of no practical use. "Vredeling" will not generate jobs nor enhance job security, and neither will it effect the level of state welfare benefits available to the unemployed.

The objective of national governments and the EEC must be to create an economic climate that encourages plant openings and further investment rather than divestment. Secondly, those whose age, or work experience is likely to preclude them from finding gainful employment should surely be entitled to additional compensation in their terms of redundancy. Indeed, the debate on the "Vredeling Proposals" has diverted attention away from the real issue: the penalties which national governments impose upon their own citizens who are unable to find work.

13.7.: Limitations of the Study and Suggestions for Future Research

The study has several limitations. Firstly, it examines plant closures in only one EEC country: Britain. An examination of the foreign divestment process in other EEC countries would allow interesting comparison of the causes of closure and employee disclosure and consultation in other EEC host countries which all tend to have more rigorous legislation. An examination of all foreign-owned plant closures in numerous countries would be the ideal test-bed of foreign divestment theory.

Secondly, it concentrated on industrial sectors which have witnessed a series of closures and found that a change in the business environment was the prime cause for the plant closures. An examination of the other major foreign-owned closures in unrelated sectors may have found other divestment factor(s) mainly responsible for the divestment decision. Some of the other major closures were certainly due to a deterioration in the business environment. For example, the Swiss MNC, Ciba-Geigy, closed its Brentwood and Basildon plants with the loss of 1,500 and 800 jobs respectively, because of the huge price increase of silver, the basic raw material for photographic film.

However, other causes of plant closure can be identified. Peugeot closed its Linwood car plant in 1981 with the loss of 3,000 jobs just five years after it had been acquired from the US MNC, Chrysler which had sold all its European manufacturing facilities to the French MNC in 1976. Similarly, Nabisco the world's largest biscuit manufacturer (which itself was acquired by R.J. Reynolds) closed its newly acquired Huyton plant with the loss of 800 jobs only months after Britain's Monopolies and Mergers Commission approved its takeover of Britain's second largest biscuit manufacturer, Huntley and Palmer.

Thus, post-acquisition restructuring can lead to reductions in overlapping production capacity and job losses. In view of the current wave of merger-mania, it is highly likely that major closures will occur, especially in cases of horizontal merger.

The verdict on the impact of home country culture on the behaviour of the Canadian and European MNCs is inconclusive because only one MNC was examined from each country. A wider study of foreign divestment by non-US MNCs is required.

A hopeful message emerges from this study. Britain has not lost its attraction for foreign investors. Some of the closures were partly due to technological development and rising living standards in Britain. Divestment will continue. Delays in restructuring may ultimately prove counter-productive. As the rate of technological change accelerates, the western world must come to grips with its fundamental economic and social problem, ie. a surplus of labour. Protracted debate and discussion on further legislation on employee disclosure and consultation has tended to divert attention from more pressing matters.

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