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What shapes industrial relations in foreign affiliates? Comparative case study results from Germany

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Abstract

Purpose – The purpose of this paper is to develop an analytical framework to categorize the quality of industrial relations in foreign affiliates. Using the case of foreign affiliates in Germany, this paper further explores what factors shape the quality of industrial relations in foreign affiliates.

Design/methodology/approach – Given the scarcity of research on industrial relations in foreign affiliates, this paper is based on conceptual work as well as on a comparative case investigation of 21 foreign affiliates in Germany, involving informants from both labor and management.

Findings – Industrial relations in foreign affiliates in Germany can take four different qualities, based on the following: social partnership; conflict partnership; latently adversarial; and adversarial relations. While previous literature focused on country-of-origin effects, the authors' case-based investigation further revealed that both affiliate effects and multinational corporation (MNC) effects have a strong impact on the quality of industrial relations in foreign affiliates in Germany.

Originality/value – This paper provides systematic evidence on the presumption that micro-organizational and MNC-specific factors are necessary to gain a deeper understanding of industrial relations in MNCs. Moreover, this paper contributes to the discussion on the quality of industrial relations in foreign affiliates in Germany, by placing results from both single-case studies and management surveys into perspective.

Keywords Germany, Multinational corporations, Industrial relations, Comparative case study, Foreign affiliates

Paper type Research paper

Introduction

Foreign affiliates (i.e. subsidiaries and establishments that are owned by foreign multinational corporations [MNCs]) play a significant role in host economies. A study by the OECD reveals that in 2014 (most recent data available), foreign affiliates accounted for 7% of the global workforce and 12% of global output ([Andrenelli et al., 2018](#)). Even higher

figures were reported for Germany. According to the German Federal Statistics Office, about 28,000 foreign affiliates were active in Germany in 2014 – these employed roughly 10% of all German employees (covered by social security) and accounted for 25% of the gross value added (GVA) of Germany (Destatis, 2017). In 2017 (most recent data available), the German Federal Statistics Office counted 36,000 foreign affiliates, employing roughly 12% of all German employees (covered by social security) and accounting for 27% of GVA of Germany (Destatis, 2019).

Previous research has stated that foreign affiliates are different from domestic firms. Foreign affiliates have been found to be larger and more capital intensive. They also exhibit a higher labor productivity and pay higher wages (OECD, 2007). While this research is revealing, the question of industrial relations in foreign affiliates remains unexplored. This is an important lacuna – the quality of industrial relations is of a particular interest when studying foreign affiliates in Germany, as there is a common understanding that good industrial relations (often called social partnership) is a cornerstone of the successful German economic model.

In recent decades, both German media and professional bodies have reported frequently on industrial relations problems in foreign affiliates in Germany. For example, US-American fast food firms have been a constant concern, especially when employees in their German affiliates attempt to organize in trade unions or establish a works council (Royle, 2000, 2010; Lücking, 2009). Some Asian firms have also triggered concerns, for example, when the German metal workers trade union “IG Metall” complained publicly about the torpedoing of information and codetermination rights at German sites of the South Korean car manufacturer Hyundai, (despite the existence of a works council) (IG Metall, 2015). More recently, labor practices at German-located Amazon sites came under trade union scrutiny and this led to serious industrial relations conflicts (Boewe and Schulten, 2017).

How widely such or similar problems are found in foreign affiliates in Germany, and whether the issues are connected to the foreign ownership structure have received little attention so far. Additionally, the few studies that are available are either outdated or subject to conceptual and data-related limitations. Hence, it is apparent that the current state of academic research neither reflects the contemporary activities of foreign affiliates in Germany, nor the frequency, form or gravity of observed issues in codetermination. With its more comprehensive and extensive sample compared to previous case study evidence and its greater depth compared to quantitative studies, this qualitative study allows for a detailed exploration of the heterogeneous nature of industrial relations systems in MNCs’ German affiliates and a better understanding of the major sources for such differences. Against this background, the aim of this paper is twofold as follows: first, it develops a taxonomy of typical qualities that industrial relations can take on in foreign affiliates in Germany; second, it explores, via a comparative case analysis, the factors that determine the quality of industrial relations in foreign affiliates in Germany. Issues of firm performance outcomes connected with different industrial relations qualities are not explicitly examined in this paper but are highlighted as an important avenue for future research.

The paper is structured in the following manner: to start with, we engage in a review of the extant literature on the subject matter and detail the objectives of the study. Some notes and remarks on methodology follow. Our conceptual discussion develops an analytical framework to record and categorize industrial relations in foreign affiliates in Germany: here we set out a climate/conflict matrix, which differentiates between four typical qualities of industrial relations (social partnership based, conflict partnership based, latently adversarial and adversarial industrial relations). Then our 21 case studies are categorized via application of the climate/conflict matrix, and emerging patterns of explanatory factors

for the quality of industrial relations are reported. The paper closes with a discussion of its contributions and the implications of these for further research.

Literature review and research objectives

Overall, academic engagement with questions related to industrial relations in foreign affiliates in Germany has been rather limited, despite the increasing and by now strong economic and social significance these enterprises have obtained in Germany. Existing studies frequently fail to account for variability among foreign affiliates in Germany. They further fail to address some relevant aspects of industrial relations. This will be demonstrated in more detail next with a few comments on the current state of quantitative and qualitative research on the issue. Following this, we will report the core messages from the literature before outlining the research gap that this paper will address.

Existing qualitative studies that deal with industrial relations in foreign affiliates in Germany focus mainly on Anglo-American subsidiaries (Müller, 1998; Almond and Ferner, 2006; Singe and Croucher, 2017). Only recently, subsidiaries from emerging markets have started to gain a degree of academic attention (Franz *et al.*, 2016; Bian and Emons, 2017; Jansen and Weingarten, 2017). Often however, qualitative studies relate to individual or just a few cases (Royle, 2004, 2010; Artus, 2008; Kaelberer, 2017). The few qualitative studies that cover a broader number of cases are either older (Müller, 1998; Wächter *et al.*, 2003) or take a highly specific view – an example here is Pulignano *et al.* (2018), which focuses on political game playing in German and Belgian subsidiaries of four MNCs. Overall, qualitative studies often refer to industries that exhibit problematic industrial relations, such as retail (Köhnen, 2000; Christopherson, 2007; Boewe and Schulten, 2017; Gebert, 2019), fast food (Royle, 2004; Artus, 2008) or road transport (Artus, 2008; Altenried, 2019).

Similarly, the body of quantitative research with respect to industrial relations in foreign affiliates in Germany is quite limited. Quantitative studies often focus unilaterally on the subsidiaries of US-American and British groups (Schmitt and Sadowski, 2003). Moreover, they tend to rely on small and nonrepresentative samples (Vitols, 2001; Dill and Jirjahn, 2017) or use statistical models that depend on unsophisticated and weakly informative variables (Schmitt and Sadowski, 2003). Moreover, all these studies are based on management information only. In large-scale surveys that address all enterprises active in Germany (e.g. the WSI Works Council Survey or the IAB Establishment Panel), information about foreign affiliates is scarce. This is even more the case for international comparative studies. Here information on foreign affiliates in Germany is often piecemeal (Pudelko and Harzing, 2007; Gooderham *et al.*, 1999, 2004) or the studies fail to include foreign affiliates in Germany at all (Edwards *et al.*, 2016, 2020; Gunnigle *et al.*, 2015).

Quantitative and qualitative studies tend to present rather different core messages regarding industrial relations in foreign affiliates in Germany. Quantitative studies basically maintain that foreign affiliates in Germany tend to adapt to German industrial relations systems (at least, the main aspects of the latter). While a study by Oberfichtner and Schnabel (2017) concludes that foreign affiliates are somewhat less likely to have both a collective agreement and a works council, a study by Dill and Jirjahn (2017) concludes (on the basis of a different data set) that foreign affiliates show a somewhat higher probability with respect to the existence of a works council. Overall, however, it is assumed that institutional cornerstones like works councils, membership of employer's associations and collective agreements will be in place. This is confirmed by selective findings on thematically related studies (Ellguth, 2006, 2009; Hauser-Ditz *et al.*, 2008 on the question of whether interest regulation operates via works councils or via management-driven participation practices). Vitols (2001), the only comprehensive quantitative study on

industrial relations in foreign affiliates in Germany so far, reasons that foreign investors in Germany deal very pragmatically rather than ideologically with the German model of industrial relations. However, the study only includes large foreign-owned subsidiaries. The picture painted by qualitative case-based research is quite different. Artus (2008) for instance shows that the establishment of collective interest representation strategies in foreign affiliates in so-called “problem industries” is equal to a “struggle for lunatics,” in which activists are heavily threatened with dismissal or systematically bought out of the company. Attempts to motivate works council members to shift away from their trade unions have been reported, as have been attempts to undermine collective interest representation through less effective management-driven participation and codetermination practices. Other studies show that the existence of a works council does not necessarily imply acceptance of the German model of codetermination (Köhnen, 2006). As for the German Codetermination Act, the establishment of a works council can often not be prevented by the management side; cooperation with the works council, however, leaves much to be desired. The same applies to the collective bargaining system. Case studies point out that certain exit options, which have negative effects on codetermination, are being practiced (Artus, 2007; Hucker, 2011; Schulzen, 2019). Examples are the restructuring of business units with the aim of abandoning collective agreements or switching to collective agreements with weaker trade unions. These critical results are supported by a number of studies re: the transfer of industrial relations practices in MNCs. These studies show a substantial conflict potential, especially in countries with firmly established codetermination policies like Germany (Ferner *et al.*, 2011a; Williams and Geppert, 2006, 2011; Iseke and Schneider, 2012; Dill and Jirjahn, 2017). The conflict potential is especially high when foreign investors export their home model of industrial relations to their foreign affiliates and, thus, create a misalignment between industrial relations systems (Müller, 1998; Edwards and Ferner, 2002; Artus, 2008; Tüselmann *et al.*, 2002, 2015; Iseke and Schneider, 2012; Singe and Croucher, 2017). However, whether and how this conflict potential is actually reflected in industrial relations in foreign affiliates in Germany has not yet been systematically researched.

To sum up, the typical qualities and nuances that industrial relations can exhibit in foreign affiliates in Germany remains an open question. Moreover, the question “what shapes the quality of industrial relations” here has to date been afforded only piecemeal consideration. It is these two questions that this paper sets out to explore.

Methodology [1]

Despite a number of quantitative and qualitative works, research on the subject matter remains piecemeal. To provide a more systematic understanding of what qualities labor relations in foreign affiliates in Germany can take on and why, the paper builds on a comparative case study investigation (Eisenhardt, 1989). A sample of 21 foreign affiliates in Germany has been studied in-depth between 2014 and 2016. In addition to analyses of secondary material, 50 interviews with management, trade union and workforce representatives were conducted [2]. Hence the case study survey includes a broader (more diverse) set of informants than many quantitative studies in the field, which often engage exclusively with managers. At the same time the data generated is more in-depth. Compared to existing single-case studies in the field, our research permits a more systematic comparison in terms of, for example, different industries, countries of origin or functional roles of foreign affiliates in Germany.

To better describe and explain differences in industrial relations at foreign affiliates in Germany, strongly polarizing selection criteria (Pettigrew, 1990) were used to establish the

sample (Eisenhardt, 1989). Selection criteria included the following: the size of the foreign affiliate (small/large), country of origin (headquarters in liberal, coordinated and emerging market economies), constitution of local management (local managers/expatriates), level of autonomy (high/low), the importance of the foreign affiliate within the MNC (central/peripheral), newly funded or acquired companies, foreign affiliates with a long/short tenure in the MNC and foreign affiliates that display conflictual or nonconflictual relations. To obtain the variance of cases required, access to cases was secured over a longer phase of the project (Fletcher and Plakoyiannaki, 2011). Existing access to foreign affiliates, mainly originating from the authors' previous works council consulting projects, was used. This ensured that the sample contains cases with strong conflicts in labor relations. The bulk of case studies, however, was secured through a randomly sampled inquiry among the management of 200 foreign affiliates in Germany. From the many positive answers, those cases that matched the previously mentioned theoretical criteria were selected.

Access to data

Access to data was enabled primarily through semistructured face-to-face interviews with local affiliate management (CEO or head of HR department), chairs of affiliate works councils and trade union representatives. In some companies, interviews with members of the European Works Council, the group works council (Konzernbetriebsrat), the general works council (Gesamtbetriebsrat) and superordinate corporate management were added. The interviews were prepared and triangulated through profiles of the foreign affiliates that were developed from a large array of secondary sources; these included the regional business press, trade union press, information provided by the companies (websites, press releases, management reports, etc.) and data from commercial registers and financial databases. For two larger well-known foreign affiliates, secondary analysis was available.

Interview guidelines

In line with the state of the art with respect to labor relations in foreign affiliates, we designed three interview guidelines (one each for works council members, trade union representatives and representatives of the affiliate management). These were first tested in pilot interviews and then used in refined versions. To achieve sufficient triangulation, we collected data concerning the following key aspects in each interview:

- historical development, functional role, unique selling point, autonomy and integration of the foreign affiliate in the MNC;
- interest representation structures, industrial relations climate, codetermination practices and industrial relations conflicts due to internationalization matters in the foreign affiliate; and
- attitude of headquarters' management with respect to the German system of industrial relations.

Interviews with affiliate managers further asked for the interviewee's nationality, qualifications, past career, career status, as well as her or his identification with the affiliate and the MNC.

In interviews with the trade union representatives, the following themes were added: degree of trade union supervision of the foreign affiliate, relevance of the subsidiary for trade union organization strategies and past conflicts that had required trade union intervention. In addition, trade union representatives and works council members/chairs were asked about the commitment of the local management to the site and the MNC.

Further, they were asked about the perceived standing of their affiliate management at headquarters level.

Validity, reliability and potential for theoretical generalization

In line with [Gibbert et al. \(2008\)](#), several steps have been undertaken to ensure the validity and reliability of data gathered in the study. All interview guidelines were developed in alignment with the current state of the art in industrial relations and international business research on headquarters–subsidiary relationships (internal validity). Next, the vast majority of data was triangulated with interviews and/or secondary data, indicating a high level of construct validity. This also included probing questions for sensitive topics in interviews. Finally, theoretical case sampling, the strong contextuality of the cases, and a cross-case analysis provide a high level of confidence with respect to the external validity of the data.

To enhance the reliability of the data gathered, all elements of the data gathering process were recorded in a case study protocol (initiation of interviews, spontaneous impressions, interpretations directly after the interview, references to potential interlocutors) ([Yin, 2003](#)). Moreover, all but two interview partners agreed that the interview might be recorded on tape, and all of the recorded interviews were transcribed, coded and evaluated with the use of appropriate software. On the basis of interview transcriptions and the case study protocol we drafted précis of the cases and stored them in a database. To ensure a high level of objectivity, all summaries were compared with the original interviews by a second project member before being saved in the database ([Houman-Andersen and Skaates, 2004](#)). Differences in interpretations were discussed and clarified by checking with the interview participant if necessary.

The case studies and related data allow for an appropriate level of theoretical generalization, as the cases show strongly polarizing selection criteria for a number of potential characteristics that according to the state of the art might influence labor relations in foreign affiliates ([Table 1](#)). Moreover, each polar characteristic can be observed in three or more cases with the following exceptions: affiliate management by expatriate (to be found in two cases), headquarters located in an emerging market (to be found in two cases), affiliate roles as miniature replica (to be found in two cases) and business activity in low-tech service industry (to be found in one case).

Heuristic conceptual framework

From an organizational and labor politics' perspective, the quality of industrial relations is of great importance. A commonly shared belief is that a climate among employees, management, and stakeholders built on cooperation, trust, motivation and a productive way of handling conflicts are crucial factors in performance and quality of work in a company (e. g. [Lecher, 1994](#); [Jirjahn, 2006](#)). This surely applies to foreign affiliates in Germany too.

[Becker-Ritterspach and Blazjewski \(2016\)](#) have developed a general actor-centered analytical framework to study conflict and cooperation in MNCs – this considers the temporal and sociospatial dimension of conflict and cooperation. Applying this framework to our research question implies connecting the long-term industrial relations climate with recent levels of industrial relations conflicts on the shop floor of foreign affiliates in Germany. At the same time, it implies consideration of the strategies and behaviors of the main stakeholders such as works councils, subsidiary management and sociospatially separated MNC management. In the remainder of this conceptual section, we are going to derive the terms “industrial relations climate” and “industrial relations conflicts” from the industrial relations literature, operationalize them and merge them into a heuristic

Anonymized name of the foreign affiliate	Business activity (1)	Affiliate role (2)	Affiliate "weight" in the MNC (3)	Control by the current owner (year)	Acquired or newly founded (4)	Affiliate management (5)	Country-of-origin category (6)
Car co1	MH	PS	Strat.	<= 2000	A	G	LME
Car co2	MH	PS	Strat.	<= 2000	N	G	LME
Supplier co1	MH	PS	Strat.	2011-2015	A	G	EM
Supplier co2	MH	PS	Strat.	2011-2015	A	G	EM
Body care co	MH	PS	Strat.	2001-2010	A	G	LME
Office systems co	SK	MS	Strat.	2011-2015	N	G	CME
Retail co	SL	MS	Peri.	2011-2015	N	G	CME
Engineering co	SK	PS	Strat.	2001-2010	A	G	CME
Food co	ML	RM	Peri.	2001-2010	A	G	LME
Fundry co	MH	PS	Strat.	2011-2015	A	G	LME
Building equipment co 1	ML	PS	Medium	<= 2000	A	G	LME
Building equipment co 2	ML	PS	Strat.	2001-2010	A	E	CME
Metal smelting co	MH	MR	Peri.	2011-2015	A	G	CME
Laboratory services co	SK	MR	Peri.	2001-2010	A	G	LME
Metal processing co	MH	RM	Peri.	2011-2015	A	G	CME
Network equipment co	MH	PS	Medium	2001-2010	A	G	LME
Paper co	ML	PS	Strat.	<= 2000	N	G	CME
Robot co	SK	MS	Medium	<= 2000	A	E	CME
Mechanical engineering co1	MH	PS	Medium	<= 2000	A	G	CME
Mechanical engineering co 2	MH	PS	Strat.	2001-2010	A	G	LME
Packaging co	ML	RM	Peri.	2011-2015	A	G	LME

Notes: (1) M = manufacturing; S = service/L = low tech; H = high tech; K = knowledge intensive (2) PS = product specialist; MR = miniature replica; MS = marketing satellite; RM = rationalized manufacturer (3) Strat. = strategic importance for the MNC; Medium = Medium importance for the MNC; Peri. = peripheral (minor) importance for the MNC (4) A = acquisition; N = newly founded (5) G = CEO has German nationality; E = CEO is an expatriate (6) Country-of-origin category: the headquarters of the affiliate is located in CME = coordinated market economy; LME = liberal market economy; EMI = emerging market

Source: Authors

Table 1.
Case study sample

framework (a matrix) that specifies four typical qualities of industrial relations in foreign-owned affiliates.

The term “industrial relations climate” describes the subjective perception of the quality that relations among employees, employee representatives and management display over a longer period of time. The quality of relations is measured by the general atmosphere as well as by norms and practices of interactions. The general atmosphere can be perceived as either trustful (actors show mutual respect) or hostile, while norms and practices of interactions can be either cooperative (actors are prepared to compromise) or antagonistic (actors insist on their claims) (Blyton *et al.*, 1987; Dastmalchian, 2008). By adapting an instructive list by Dastmalchian (2008, Appendix 2, pp. 569–571), individual indicators that allow for an evaluation of the industrial relations climate in foreign affiliates are the following:

- Employees/work councils perceive employment conditions as fair.
- Employees/work councils perceive the behavior of headquarters and other superordinate management as fair.
- Employees/works councils trust management to have good intentions for the site.
- Management and works councils share information with each other freely.
- The management consults the works council before decisions are made.
- The management discusses changes in an open and unbiased way with the works council.
- The management perceives the existence and behavior of the works council as constructive.
- Negotiations are conducted in a confident atmosphere.
- Respective positions are considered with respect.
- Negotiation partners will be true to their word.
- Strikes and walkouts are limited to warning strikes within the context of (sectoral) collective bargaining rounds.

If only half or less of the eleven positively defined indicators apply, it is reasonable to assume a negative industrial relation climate. If more than half of the indicators apply, it is plausible to assume a positive industrial relations climate.

Due to the German model of industrial relations, industrial relations conflicts emerge in Germany both on the company level and on the sectoral level. Traditional conflicts at the company level relate to the scope of the Works Constitution Act (i.e. workplace design, occupational safety and health, dismissals, information and codetermination rights). Traditionally, negotiations and conflicts regarding compensation and working hours have taken place at the sectoral level. However, over time, this picture has changed as a consequence of an increasing level of decentralization of industrial relations to the company level (Bispinck and Schulten, 2003; Schulten, 2019).

According to Hauser-Ditz *et al.* (2012), the following three indicators should be considered when evaluating the level of industrial relations conflicts (high level of conflict/low level of conflict) at the company level (in our case, the affiliate level):

- existence/number of labor court proceedings (including proceedings at arbitration committees);
- subjective evaluation of management and labor representatives as to the level of confrontation in industrial relations; and

- composition and scope of conflict issues (the shutdown of a site with collective redundancies is usually more conflict laden than matters regarding working hours or the introduction of new IT facilities).

If half or more of the negatively defined indicators apply, it is reasonable to assume a high level of conflict in industrial relations. On the other hand, if less than half of the indicators apply, one might reasonably assume little conflict in industrial relations.

By combining the respective characteristics of the two variables “industrial relations climate” and “industrial relations conflicts” in a matrix, four typical variations of industrial relations quality in foreign affiliates in Germany emerge (Figure 1).

The typical qualities of industrial relations in foreign affiliates are described as follows:

Social partnership–based industrial relations: a climate inherently characterized by trust, motivation and cooperation among staff, works council and affiliate management, in which affiliate management identifies with the site and takes a stand for the site at headquarters level. Clashes in interest are accepted and debated in an open and unbiased way. As a result, actual conflicts are rather rare, while disputes before the labor court, arbitration committees and strikes outside the context of sectoral bargaining rounds do not exist or constitute a rare exception (for an illustrative case example, [Dörrenbächer et al., 2019](#), pp. 28–33).

Conflict partnership–based industrial relations: a climate inherently characterized by trust, motivation and cooperation among staff, works council and affiliate management, in which the affiliate management identifies with the site and takes a stand for the site at headquarters level. Clashes of interest are accepted and debated. However, there are frequent conflicts or individual conflicts with a strong impact on labor that either emanate from the market situation or from the policies of headquarters (for an illustrative case example, cf. [Dörrenbächer et al., 2019](#), pp. 34–38).

Latently adversarial industrial relations: a climate characterized by mistrust, control, discontent, apathy or individualization, in which affiliate management is able to act in a relatively independent manner from superordinate (headquarters) management or standards within the MNC promote a negative industrial relations climate. Major conflicts have not emerged for various reasons (e.g. lack of affiliate integration, positive development of the local market, low-level or no trade union organization), but are to be expected or

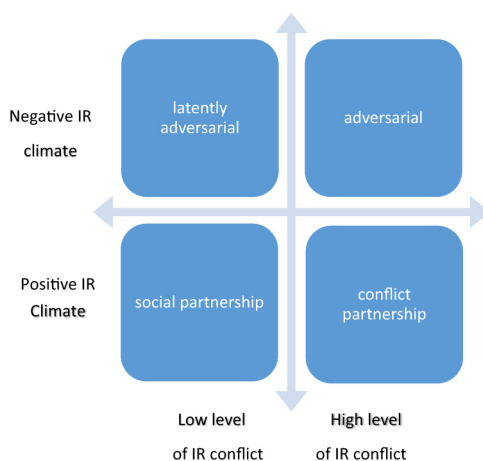


Figure 1.
Climate/conflict matrix of industrial relations in foreign affiliates

cannot be ruled out in the future (for an illustrative case example, cf. Dörrenbächer *et al.*, 2019, pp. 39–41).

Adversarial industrial relations: a climate characterized by mistrust, control, discontent, apathy or individualization, in which the commitment of the local affiliate management toward the site is doubted or in which the local affiliate management is stripped of any power and bypassed and/or instrumentalized by the superordinate (headquarters) management. The information behavior of the main affiliate actors (management and works council) is strategic. Conflicts are frequent and/or have a severe impact on the labor side. Regulation of conflicts is mostly characterized by protagonists' attempts to promote self-interests. Industrial actions are a common part of conflict regulation (for an illustrative case example, cf. Dörrenbächer *et al.*, 2019, pp. 41–46).

Classifying the cases according to the climate/conflict matrix

A classification of all case study companies according to the climate/conflict matrix can be seen in Figure 2. This classification is based on an evaluation of the specific individual

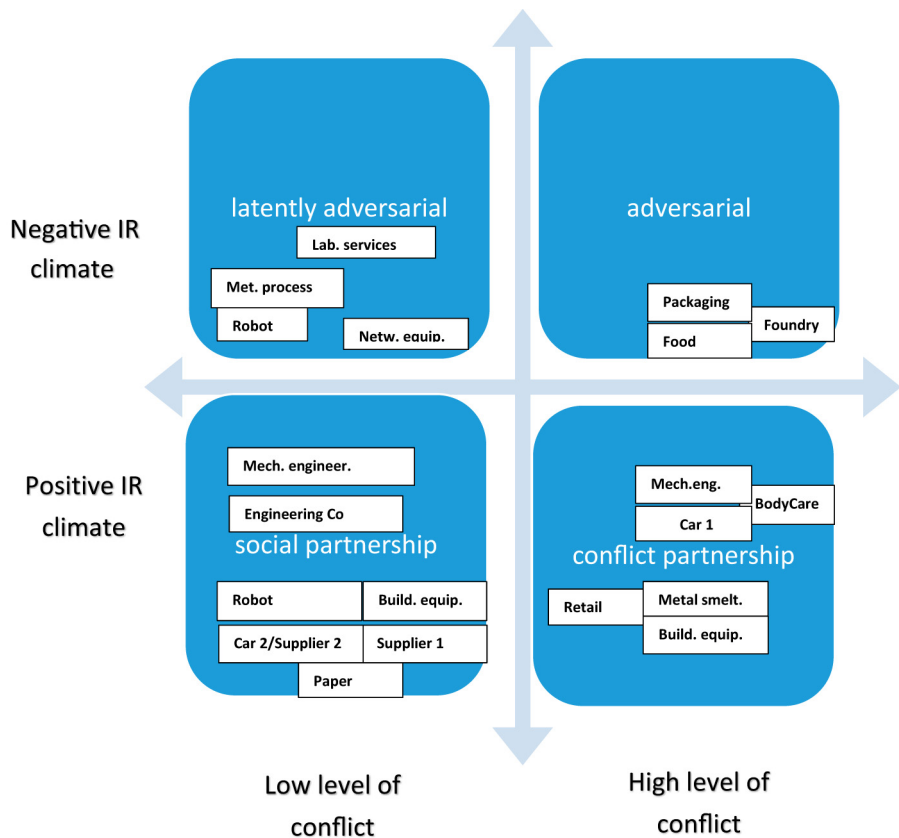


Figure 2.
Industrial relations at
the case study
companies

indicators outlined previously. For the values, please see Table 3 in [Dörrenbächer *et al.* \(2019, pp. 48–51\)](#).

The classification reveals a slight prevalence of companies with a low level of conflicts (12) over companies with a high level of conflicts (9) and a strong prevalence of companies with a positive industrial relations climate (14) over companies with a negative industrial relations climate (7). In combination, this results in eight companies with social partnership-based industrial relations, six companies with conflict partnership-based industrial relations, four companies with latently adversarial industrial relations and three companies with adversarial industrial relations.

Even though the latent adversarial and adversarial cases were of a lower frequency in our sample (and bearing in mind that a case study approach does not allow for statistical generalization), we investigated the specific circumstances and managerial attitudes that made up industrial relations conflicts and, in the long run, a negative industrial relations climate.

Overall, the following reasons for conflict have proven to be particularly common and relevant in our case study companies: performance targets imposed by headquarters; MNC-wide standardization and centralization efforts; international benchmarking and intrafirm competition; cross-border relocation of business activities; and disempowered local management and slow decision-making in the MNC. While some of these conflict reasons and managerial attitudes are well known from pure national settings (i.e. to be found in genuine German firms, too), we uncovered some specifics that relate to the MNC context. Thus, conflicts connected with excessive performance targets, often coupled with a one-sided orientation toward reducing personnel costs, arose mainly in affiliates of MNCs headquartered in shareholder value-affine countries such as the USA or UK. Next, MNC-wide standardization and centralization efforts resulted in systematic confrontation at the level of foreign affiliates in Germany when processes, regulations, templates and product content with functions and market logics created outside Germany had been transferred in to the affiliate. This led to conflicts with German labor practices and quite often to a pressure on industrial relations. Intrafirm competition and the cross-border relocation of business activities in MNCs are genuinely international issues. Here, existing or presumed performance differences among existing or fictive alternative sites abroad claimed by management drove conflicts, with performance differences claimed by management being particularly hard to assess for labor representatives as a result of institutional and geographical distance. In the same vein, conflicts and a negative industrial relations climate also emerged because in some cases, labor representatives in foreign affiliates in Germany found it difficult to anticipate, assess and evaluate the foreign headquarters' logic of action. Institutional and geographical distance, however, also worked the other way around and created conflicts and a negative industrial relations climate when, for example, headquarters' decisions collided with existing industrial relations regulations and practices as a result of ignorance or lack of knowledge. The same was true when the benefits of the German model of industrial relations were not understood in headquarters and hence not used. Finally, conflicts and a poor industrial relations climate in foreign affiliates in Germany sometimes resulted from slow decision-making processes in the MNC. Here, the underlying headquarters' verification and coordination procedures were often interpreted as overdrawn and as an expression of lack of trust.

It is interesting to note here that different informant groups hold differing views with respect to the quality of the industrial relations climate and the level of conflicts. In half of the cases where it was possible to interview both management and labor representatives of the foreign affiliate (i.e. in 7 out of 14 cases), labor representatives assessed the industrial

relations climate as worse and the level of industrial relations conflicts as higher than those from management.

Discussion: explaining industrial relations quality in foreign affiliates in Germany

[Table 2](#) summarizes information on some relevant explanatory factors that came to the fore in our case investigations.

The following commonalities become apparent: most foreign affiliates in our sample that displayed either social partnership- or conflict partnership-based industrial relations were of medium or large size and had – as product specialists – a high, often strategic importance for the MNC as a whole. Usually, these affiliates were well unionized and in the majority of cases, the headquarters were located in coordinated market economies.

On the contrary, foreign affiliates that showed latent adversarial or adversarial industrial relations tended to be smaller or medium-sized affiliates with only a marginal importance for the MNC as a whole. Typically, these affiliates held rationalized manufacturer or marketing satellite roles that in general are less complex than a product specialist role. Unionization in these subsidiaries was relatively low, and in the majority of cases the headquarters were located in liberal market economies. It is interesting to note that in more than half of the subsidiaries that displayed latent adversarial or adversarial industrial relations, headquarters had very limited knowledge of the German model of industrial relations, though at the same time governed their German affiliates strongly from headquarters level.

Overall, it became apparent from the analysis of our cases, that next to particular affiliate characteristics (such as affiliate role, importance of the affiliate for the MNC, level of unionization), the characteristics of headquarters (knowledge about the German industrial relations model, ways of governing the affiliate) play an important role in shaping the quality of industrial relations in foreign affiliates. In line with the dominant trope of previous research ([Tüselmann et al., 2002](#); [Pedrini, 2016](#)), we also observed some country-of-origin effects, with a reduction in the quality of industrial relations (from social and conflict partnership industrial relations to latent adversarial and adversarial industrial relations) in foreign affiliates in Germany going hand-in-hand with an increase in headquarters being located in liberal market economies. Adversarial industrial relations in our sample were only to be found in subsidiaries of MNCs from liberal market economies.

Conclusion

Summary

In 2017, 12% of all employees covered by social security in Germany were working in a foreign affiliate. Hence, foreign investors constitute a crucial component of the employer base in Germany. However, the quality that industrial relations have taken on in these firms and the factors that have shaped this have only attracted marginal research so far. As outlined in the literature review, extant quantitative studies suggest that there is little difference with respect to how foreign affiliates adhere to the German system of industrial relations when compared with genuine German firms. These findings correspond with statements in the International HRM literature, which generally assume a necessity for MNCs to adapt to host countries' labor laws and practices ([Ferner et al., 2011b](#); [Belizón et al., 2016](#)). However, such findings are contradicted by case-based research that depicts strongly adversarial labor relations in a number of foreign affiliates in Germany. Given the strongly contrasting findings in extant literature, the objective of this paper was to generate deeper and more systematic insights into the issue of industrial relations in foreign affiliates in

Affiliate name (anonymized)	Number of employees	Affiliate role (1)	Affiliate "weight" in the MNC	Headquarters mode of affiliate governance (centralized/decentralized) (2)	Headquarters knowledge about the German model of IR	County-of-origin category (3)	Unionization level
<i>Social partnership-based IR</i>							
Supplier co2	High	PS	High	D	Scarce	EM	High
Mech. engineering co2	High	PS	High	D	Scarce	LME	High
Paper co	High	PS	High	C	Broad	CME	High
Car co2	High	PS	High	C	Medium	LME	High
Build. equipment co 2	Medium	PS	High	C	Medium	CME	High
Supplier co1	Medium	PS	High	D	Scarce	EM	High
Engineering co	Medium	PS	High	C	Medium	CME	Low
Office systems co	Medium	MS	High	D	Scarce	CME	Low
<i>Conflict partnership-based IR</i>							
Mech. engineering co1	Low	PS	Medium	C	Scarce	CME	Medium
Build. equipment co1	Medium	PS	Medium	D	Scarce	LME	Medium
Metal smelting co	Medium	MR	Low	D	Scarce	CME	High
Retail co	Medium	MS	Low	C	Medium	CME	Low
Body care co	High	PS	High	C	Scarce	LME	Medium
Car co1	High	PS	High	C	Medium	LME	High
<i>Latently adversarial IR</i>							
Robot co	Low	MS	Medium	D	Scarce	CME	Low
Metal processing co	Medium	RM	Low	C	Scarce	CME	High
Laboratory services co	Medium	MR	Low	D	Scarce	LME	Low
Network equipment co	Medium	PS	Medium	D	Scarce	LME	Medium
<i>Adversarial IR</i>							
Packaging co	Low	RM	Low	C	Scarce	LME	High
Foundry co	Medium	PS	High	C	Scarce	LME	Low
Food co	Medium	RM	Medium	C	Scarce	LME	Medium

Notes: (1) PS = product specialist; MR = miniature replica; MS = marketing satellite; RM = rationalized manufacturer (2) D = decentralized governance mode; C = centralized governance mode (3) CME = coordinated market economy; LME = liberal market economy; EM = emerging market

Source: Authors

Table 2.
Explanatory factors
for industry relations
quality in foreign
affiliates in Germany

Germany. For this purpose, 21 case studies across various industries and countries of origin were conducted. Apart from case-related analysis of secondary material, a total of 50 interviews with management and trade union and worker representatives were undertaken.

Contribution

Our study contributes in two fundamental ways. First, the major differences in opinion among informant groups that came to the fore in our interviews suggest that existing quantitative studies on industrial relations in foreign affiliates in Germany that rely exclusively on management information (Schmitt and Sadowski, 2003; Pudelko and Harzing, 2007; Gooderham *et al.*, 1999, 2004; Dill and Jirjahn, 2017) must be considered as biased. They harbor a tendency to downplay the level of conflict prevalent in foreign affiliates and need to be complemented by surveys with a larger informant base, one that includes labor representatives. Second, existing in-depth case studies describe more or less strongly conflictual industrial relations while our investigation provides a more systematic and nuanced evaluation of industrial relations in foreign affiliates in Germany, one that includes less conflictual or even social partnership-based industrial relations. Hence, existing in-depth case studies that feature conflictual industrial relations need to be understood as partial and representative only of the negative extreme of a wider spectrum of industrial relations in foreign affiliates in Germany.

Key implications for research

Key implications that our findings might hold for future research in the field relate to the climate/conflict matrix as a conceptual tool for studying the quality of industry relations in foreign affiliates. Moreover, a number of propositions that explain the quality of industrial relations in foreign affiliates developed ahead might inspire and enrich future quantitative research on industrial relations in foreign affiliates in Germany and – with adaptations – in other countries.

The climate/conflict matrix as a conceptual tool: on the basis of the climate/conflict matrix developed here from the literature, our empirical investigation demonstrated that (going beyond the state of the art), industrial relations in foreign affiliates can take on four different qualities – those that are based on social partnership or conflict partnership and those that are latently adversarial or adversarial. This taxonomy proved fruitful for a differentiated assessment of the industrial relations quality in the 21 in-depth cases studies developed for the work. We assume that it is also a useful taxonomy for a still-awaited comprehensive large-scale survey on the quality of industrial relations in foreign affiliates in Germany today. We further assume that the conflict/climate matrix might be a fruitful instrument for a differentiated study of the industrial relations quality of foreign affiliates in other countries as the indicators used can be applied beyond the German situation. It provides also a useful framework to examine various other issues, such as the effect of differential industrial relations quality on subsidiary productivity and financial performance outcomes or on the handling of issues of resilience and sustainability in face of global pandemics and the implications for employment and conditions thereof.

Propositions that explain the quality of industrial relations in foreign affiliates in Germany: in line with the explorative nature of our comparative case study approach, the following propositions derived from our case evidence might guide future quantitative research on the subject matter.

Extant research focused primarily on country-of-origin effects when explaining the quality of industrial relations in foreign affiliates. Our case evidence suggests that we should differentiate between home and host countries' effects as relevant explanatory

variables. The overall larger number of affiliates in our sample with a higher quality of industrial relations (social and conflict partnership) might be to large parts a result of Germany's historical trajectory of cooperative labor relations and the presence of strong German labor law (host country effect). The fact that our case study sample exhibits a decreasing quality of industrial relations (from social partnership-based industrial relations to adversarial industrial relations) in foreign affiliates in Germany, in line with an increase in the number of parent companies from liberal market economies, suggests a home country effect. The previous discussion translates into the following two propositions:

- P1.* Host country effect: the German labor relations milieu encourages greater use of social and conflict partnerships compared to latent adversarial or adversarial industrial relations.
- P2.* Home country effect: latent adversarial or adversarial industrial relations are to be found significantly more often in foreign affiliates in Germany that are owned by MNCs headquartered in liberal market economies.

[Gunnigle et al. \(2015\)](#) and [Wang et al. \(2018\)](#) maintained that micro-organizational and MNC-specific factors are necessary to gain a deeper understanding of industrial relations in MNCs. Supporting and elaborating on this presumption, our case evidence firstly suggests two micro-organizational factors. First, our findings propose that the functional role and strategic importance of a foreign affiliate within its MNC play an important role. In our sample, subsidiaries that have an enhanced functional role and/or a strategic importance for the MNC (due to size, a particular product mandate or a particular market served) exhibited considerably better industrial relations than companies with less strategic significance and/or a limited functional role. This translates into the following two propositions:

- P3.* Affiliate's role effect: foreign affiliates in Germany with enhanced functional roles exhibit a significantly better quality of industrial relations than those with less demanding functional roles.
- P4.* Affiliate's strategic importance effect: foreign affiliates in Germany with strategic importance for the MNC exhibit a significantly better quality of industrial relations than those that are of peripheral importance for the MNC.

Second, our case evidence also indicates MNC-specific effects as presumed by [Gunnigle et al. \(2015\)](#) or [Wang \(2018\)](#). Here, our cases revealed that headquarters' knowledge with respect to the industrial relations model of Germany and headquarters mode of controlling foreign affiliates had an impact. Thus, in all foreign affiliates where we observed latent adversarial or adversarial industrial relations, headquarters held little knowledge in relation to the German model of industrial relations. In those cases where this lack of knowledge coincided with a centralized mode of affiliate governance, we observed exclusively the presence of outright adversarial industrial relations. This leads to the following two final propositions:

- P5.* Headquarters' industrial relations knowledge effect: latent adversarial or adversarial industrial relations are to be found significantly more often in MNCs whose headquarters have limited knowledge of the German model of industrial relations.
- P6.* Headquarters' industrial relations knowledge/control mode effect: the effect postulated in *P5* is exacerbated in cases where headquarters pursue centralized control over the industrial relations system of affiliates.

The propositions call, therefore, for a greater focus on the following three major issues: first, the effects of institutional conditions in home and host countries (institutional distance); second, the strategic and operational roles of affiliates (role of affiliates in the strategic objectives of MNCs); and third, the knowledge of host location institutional settings and the control mode for affiliates (understanding of host location institutional system and the autonomy of affiliates). Consideration of these factors provides a better understanding of the qualities of industrial relations systems in foreign-owned firms in Germany and elsewhere and may be particularly useful for improving quantitative studies in this area.

The conceptual framework and propositions suggest various implications for policy and practice for improving industrial relations quality in the direction of social partnerships, including the following: Measures that help to reduce information asymmetries may entail a greater emphasis in the information, marketing and advisory activities of inward investment agencies, development agencies, chambers of commerce, etc. The aim would be to increase knowledge and understanding among actual and potential investors of the particularities and advantages of the German workplace codetermination model and the German dual system of industrial relations. Managers of subsidiaries with more peripheral or less demanding functional roles may wish to foster subsidiary initiative, subsidiary entrepreneurship and continuous improvement of subsidiary knowledge base, competences and capabilities to enhance their prospects for subsidiary upgrading and their potential for moving into a more strategic position within the MNC network. Using and leveraging the stakeholder function of works councils can play an important role in this process.

Limitations and avenues for further research

The present study has several limitations. In the trade-off between “better stories and better constructs” inherent to any case-based research (Eisenhardt, 1991), this paper leans strongly toward creating a better construct for explaining the quality of industrial relations among foreign affiliates. Other interesting insights from the cases had to be excluded due to limitations in space. Future research papers could, for instance, take on a more processual (how did industrial relations develop over time in foreign affiliates) or strategic perspective (what distinct interest representation strategies were followed by both labor and management in foreign affiliates). Such papers might be more strongly focused around stories and can aim for greater depth. They might also allow for a deeper conceptualization of the contribution of the labor side to the quality of industrial relations (for example, using existing typologies of works councils, cf. Nienhueser, 2009).

Future research could also examine performance outcomes, such as productivity and financial performance, associated with the differential qualities of industrial relations in foreign-owned subsidiaries. Of particular interest is whether subsidiaries with partnership-based industrial relations models based on cooperation, trust and constructive conflict resolution exhibit performance advantages or disadvantages, especially in terms of commercial performance, compared to those with more arm’s length, low trust and adversarial industrial relations. Such comparative performance studies need to include the interactions with the explanatory factors for industrial relations quality identified by these studies, such as home and host country effects, subsidiary role and strategic importance of the subsidiary. Future studies might shed light on the vexed issue of the social acceptability of the operations of MNCs in host location in relation to their commercial performance. Relatedly, future research might address the extent to which their industrial relations systems align to increasing calls that benefits of FDI and MNC operations are more equally shared across all investment stakeholders, including providing mutual gains for capital and labor, which is at the heart of social partnership models.

Finally, two other limitations relate to the scope of our research. First, focusing on the quality of industrial relations among foreign affiliates and the differences here, our study is not able to provide comment on whether the quality of industrial relations has the same variance, is the same, better or worse than in genuine German firms. While there is some indication in extant literature that similar qualities of industrial relations can be found in genuine German firms (Behrens and Dribusch, 2014; Dill and Jirjahn, 2017; Hauser-Ditz *et al.*, 2008, 2012; WSI, 2017) [3], any more far-reaching comparative assessment on the quality of industrial relations would require comparative research involving both foreign affiliates and genuine German firms. Here conceptual and case-based explorative research would need to precede a representative survey.

Second, a representative survey among foreign affiliates in Germany that in addition to validating our constructs would provide information on the relative distribution of the different qualities of industrial relations among foreign affiliates and the reasons for these, was beyond the scope of this study. Yet, this poses its own data and methodological challenges. It would require large-scale and detailed representative surveys of management and labor representatives in both German and foreign-owned firms that yield sufficiently large matched sample responses for comparative multirespondent analysis to use complex and state-of-the-art econometric modeling. This, however, is an avenue for future research for which the present paper provides an indispensable base.

Notes

1. A more detailed account of the methodology underlying this paper can be found in Dörrenbächer *et al.*, 2019.
2. A total of 17 interviews were conducted with members of works councils (mostly subsidiary works councils), 12 with trade union representatives and 17 with representatives of local management. Another four interviews were conducted with higher-ranking trade union representatives on specific trade union strategies in foreign affiliates in Germany.
3. Although these studies address certain aspects of industrial relations qualities, such as cooperation between works councils and management, influence of works councils and problem areas and areas of conflict, these are treated generally on a stand-alone basis rather than combined and within the context of a comprehensive industrial relations quality framework as developed in this paper.

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