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Christoph Dörrenbächer and Michael Wortmann\*

## Multinational Companies in the EU and European Works Councils

*In June the EU Council of Ministers (excluding the UK) took up a common position concerning European Works Councils. The establishment of such Councils would grant certain information and consultation rights to the workers of multinational companies. The following paper looks at the importance of MNCs in the EU and tries to assess the extent to which European Works Councils could cope with the social problems arising in these MNCs.*

Since the Treaty of Rome, economic integration has been the centre-piece of European integration and there has for a long time been an institutionalized bias against a "social" Europe: decisions on economic matters could be taken by majority vote, decisions on social matters required unanimous approval of the Council of Ministers, which proved almost impossible to attain.

When the Commission of the European Communities proposed the White Paper on the Single Market, its main intention was to strengthen European companies' position in global competition. This was to be achieved by improving the home base conditions of these companies. With the larger Single Market as their home base, companies could recapture competitiveness by restructuring and making use of potential economies of scale. Even though the Cecchini report does not explicitly mention multinational companies (MNCs), it is obvious that many of these restructurings would happen inside these companies.

However, an institutionalized bias against a "social" Europe and a strong policy of the Commission to support MNCs did not mean that there were no attempts at a countervailing social policy. With the Vredeling Directive for instance, the Commission in the early 80s already tried to give workers the right to be informed about international strategies and decisions developed at the MNC's headquarters. But it was never adopted.

With the Treaty of Maastricht chances for a European social policy have improved. The treaty includes a Social Protocol, an agreement between all member states

excluding the UK, enabling the Ministers of these eleven countries to take decisions by majority vote on various social topics including information and consultation of workers. It was under this heading that the council of the eleven agreed in June 1994 on a common position on the proposal of the European Commission concerning European Works Councils (EWC), a suggestion the Commission had already made in 1990.

A major step towards the realization of the EWC now taken, the intention of the following paper is twofold: on the one hand it will give an impression of the importance of MNCs in the European Union (EU) and the influence the Single Market is likely to have on their strategies. On the other hand, the paper tries to assess to what extent EWCs can cope with social problems in MNCs.

### MNCs in the EU

Along with the growing interlinkage of nations and regions through foreign direct investment, the years since World War II have seen an intensifying discussion on the internationalization of companies. During this period, the composition of underlying topics as well as their protagonists changed several times. Nowadays, most of the discussion on the internationalization of companies concentrates on the issue of competitiveness, often with the basic assumption that internationalization on the company level is an essential for competitiveness (welfare) on the respective national or regional level.

In this context it is already a commonplace among scholars that competitiveness on the company level can only be achieved by firstly concentrating on a core business and secondly reconciling global production and innovation in this core business with local needs.<sup>1</sup>

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However, there is a growing discussion on what strategy can best achieve these conflicting goals. More or less independent of this discussion, we have recently witnessed a growing body of literature on how the Single European Market will influence company strategies and what will be specific strategies in the EU as a consequence.<sup>2</sup>

Before turning to those questions, we will first take a short look at the importance and structure of MNCs in the EU.<sup>3</sup> Today about 6 million persons in the EU work at foreign subsidiaries of MNCs, of which two thirds (or 4 million) are employed at foreign manufacturing subsidiaries. To put it in relation, in manufacturing about one in seven persons is employed at a foreign-owned affiliate. Surprisingly, with roughly 2.8 million persons employed at all foreign subsidiaries in the EU, non-European MNCs are more important than EU-based MNCs. The latter only account for 2.5 million persons. EFTA-based MNCs employ 0.8 million persons in foreign subsidiaries in the EU. An overview of the most important home as well as host countries for the total of 6 million employees abroad in the EU is given in Figure 1.

### Single Market Impacts

The activities of MNCs as well as the level of internationalization in the EU are expected to increase considerably due to the Single Market.<sup>4</sup> It is assumed:

- that the removal of non-tariff barriers such as national procurement policies or differing technical standards in the EU will induce a restructuring of the activities of MNCs within the EU towards the best suited locations, thus leading to an increased level of internationalization in the EU,

- that the evolving external commercial policy of the EU will create uncertainty that will lead to increased investments by non-EU based MNCs to secure market access,

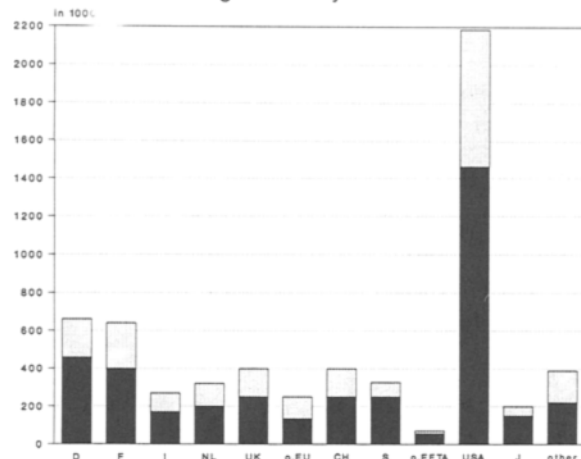
- that the cost and efficiency gains of the internal market, its expected growth effects as well as the subsidy policy of the EU will invoke investments by non-EU based MNCs to keep or ameliorate their competitiveness.

However, doubts can be raised concerning this argumentation. Not all assumptions on how the Single Market will induce foreign direct investment are undisputed. First, we think it is not all that clear that the restructuring of the activities of MNCs within the EU will lead to an increased level of internationalization in the EU. It also has to be kept in mind that the EU-wide restructuring of activities of non-European MNCs will in many cases lead to a reduction in the level of internationalization. The question whether this reduction can be compensated by

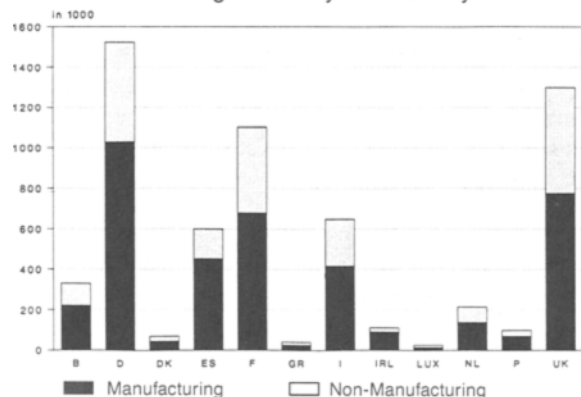
Figure 1

### Estimated Employment at Foreign Subsidiaries in the EU

According to Country of Parent MNC



According to Country of Subsidiary



<sup>1</sup> Cf. for instance: K. Ohmae: *Triad Power*, New York 1985; C.A. Bartlett and S. Ghoshal: *Managing across Borders. The Transnational Solution*, Boston 1989; Commission of the European Communities: *The European Community and the Globalization of Technology and the Economy*, Brussels 1994.

<sup>2</sup> Cf. for instance: B. Bürgenmeier and J. L. Mucchielli (eds.): *Multinationals and Europe 1992. Strategies for the Future*, London and New York 1991; J. Cantwell (ed.): *Multinational Investment in Modern Europe. Strategic Interaction in the Integrated Community*, Aldershot and Brookfield 1992; M.W. Klein and P.J.J. Welfens (eds.): *Multinationals in the New Europe and Global Trade*, Berlin et al. 1992; S. Young and J. Hamill (eds.): *Europe and the Multinationals. Issues and Responses for the 1990s*, Aldershot and Brookfield 1991.

<sup>3</sup> A detailed description of the methodology of assessment of the data can be found in: M. Wortmann and C. Dörrenbächer: *An Assessment of the Quantitative Impact of the Proposed Directive on European Works Councils. Report for DG V of the European Commission (Revised Results)*, Berlin 1994. All figures should be seen as approximate values.

<sup>4</sup> Many authors also expect an increase in the activity of EU-based MNCs outside the EU. For a discussion cf. for instance: G.N. Yannopoulos: *Multinational Corporations and the Single European Market*, in: J. Cantwell (ed.), op. cit., p. 333f.

the increase in the level of internationalization that is in most cases the result of the restructuring of EU-based MNCs, merits at least empirical verification. Second, uncertainty in trade policy might also lead to a postponement of direct investment by non-EU MNCs.<sup>5</sup> Third, even where non-tariff barriers to trade are abolished or substantially reduced, it is possible that a complete restructuring of European activities of MNCs fails to appear in favour of a strategy aiming at a reduction of currency risks.<sup>6</sup> Fourth, dual sourcing policy will probably show the same effects.

Furthermore, it is unclear in how far the recent as well as the anticipated increase in MNC activity in the EU can really be attributed to the Single Market. First, there is almost no scientific insight into how to separate the effects of the Single Market from broader trends of the world economy. Second, the removal of non-tariff barriers to trade is neither invented nor completed by the Single Market. For instance technical harmonization is a general trend that started a long time ago and has continued even after 1992. The same is true for the restructuring of companies within the EU. In addition, it has to be taken into consideration that in due course the geographic scope of the Single Market will enlarge with new countries joining the EU.

This leads to our general assumption that the upheaval due to the Single Market is probably much less severe than anticipated and as a consequence will not lead to an abrupt change in the strategic orientation of MNCs in Europe. Rather, we expected that the Single Market will influence

certain strategic components that have already been pursued by MNCs for a long time and in a broader context. Most prominent among those components are:

- ☐ a general policy of growth<sup>7</sup> with a strong dominance of external growth<sup>8</sup> (through mergers and acquisitions) and, partly as a consequence of this,
- ☐ a restructuring of European production, R&D and marketing facilities.

We further expect that the influence the Single Market is likely to have on the different strategic components will be highly dependent on the home country, the industry and the specific company.

### Restructuring of Production

The restructuring of production facilities, probably the most striking issue with respect to the EWC, can be defined as a process of concentration of production in fewer plants, which serve a larger than the national market, with a higher specialization on the product or component level. In this process, which aims at the creation of a European network of production, companies from different home countries may have very different starting-points, thus requiring different measures.

EU-based MNCs are in most cases still strongly connected with their home country. With the exception of MNCs from smaller EU countries, EU-based MNCs show a much higher concentration of employment in their home country than for instance US-based MNCs in their most important country in the EU.<sup>9</sup> Furthermore, data on foreign subsidiaries in France suggest that European affiliates of US-based MNCs are much more specialized than European affiliates of EU-based MNCs.<sup>10</sup> Taking for granted that in many important industries the development of European networks of production with specialised production facilities is a prerequisite for becoming or staying competitive, it is to be expected that most of the restructuring in the Single Market will take place in EU-based MNCs, with German-based MNCs probably having the lead.

<sup>5</sup> Cf. JETRO: New Phase in Foreign Direct Investments. White Paper on World Direct Investments, 1989.

<sup>6</sup> Cf. S. Young, M. McDermot and S. Dunlop: The Challenge of the Single Market, in: B. Bürgenmeier and J. L. Mucchielli (eds.), op. cit., p. 16.

<sup>7</sup> This policy of growth occurs not only in the EU, even if the EU is one of the main target regions for MNCs. Take the case of German-based MNCs: while employment in foreign EU affiliates (including minority owned companies) almost doubled from 1976 (458,000) to 1992 (862,000), its proportion of employment in all foreign affiliates of German-based MNCs in the industrialized world sank from 59% in 1976 to 47% in 1992, with the major reduction occurring between 1976 (59%) and 1980 (45%); (1985: still 45%). In the case of Italian-based MNCs, employment in foreign manufacturing affiliates in the EU rose by more than 50% from 161,000 in 1986 to 251,000 in 1992, while the proportion of employment in all foreign manufacturing affiliates of Italian-based MNCs in the industrialized world only slightly increased from 75% in 1986 to 77% in 1992.

<sup>8</sup> This dominance can be quantified in the case of Germany. According to the Bundesbank, employment in all foreign manufacturing affiliates of German-based MNCs increased by approximately 485,000 in the period from 1985 to 1992, in manufacturing affiliates in the EU by approximately 290,000. Based on an empirical study, we estimate that at least three quarters of the worldwide increase and two thirds of the EU-wide increase is due to external growth. Cf. Deutsche Bundesbank: Kapitalverflechtung mit dem Ausland, various issues; and C. Dörrenbächer, A. Schmitt and M. Wortmann: Internationaler Investitionsmonitor 93. Übernahmen, Beteiligungen, Investitionen, Verkäufe und Liquidationen durch deutsche Unternehmen in der verarbeitenden Industrie des Auslandes 1985-1992, Berlin 1994.

<sup>9</sup> According to a comparison of the the 30 largest and most internationalised MNCs in the EU, EU-based MNCs (25) had an average of 75% of all their EU employment in their respective home countries. With 84% of all EU employees being employed at home, German-based MNCs (9) showed the strongest connection with the home country. US-based MNCs (3) employed only 41% of all their EU employees in their most important EU country. The company data this comparison is based on can be found in: M. Wortmann and C. Dörrenbächer, op. cit., p. 4.

<sup>10</sup> French manufacturing affiliates of US-based MNCs export 37.1% of their production (in terms of turnover), compared to an average 26.2% exported by French manufacturing affiliates of EU-based MNCs. With 27.2% even the exports of French manufacturing companies are below those of French manufacturing affiliates of US-based MNCs. Cf. Ministère de l'Industrie, des Postes et Télécommunications et du Commerce Extérieur (Service des Statistiques Industrielles) (ed.): L'Implantation Étrangère dans l'Industrie au 1er janvier 1991, p. 23.

US-based MNCs, on the contrary, most of them active in the EU since at least the 60s, have traditionally treated the whole European market as one Single Market. Usually a central European unit coordinates dispersed R&D, production and marketing facilities in the EU. In many cases, a restructuring of production facilities has already taken place, maybe several times since the initial investments.<sup>11</sup> Young et al. for instance report a massive wave of restructuring on product or even component level in the European operations of US-based MNCs during the seventies.<sup>12</sup> For the US-based MNCs e.g. in the automobile and household products industries, the impact of the Single Market will only lead to minor strategic adjustment measures.

In comparison with most US-based MNCs, Japanese MNCs are latecomers in the EU.<sup>13</sup> Their investments, in many cases strictly trade-related, have mainly been undertaken since the beginning of the 80s.<sup>14</sup> Very often the engagement of Japanese firms in the EU has taken the form of a single plant investment closely tied to the parent company in Japan. Up to now the creation of a European network of production is the exception. However, it is predicted that this is likely to change with Japanese MNCs extending local sourcing and thus forcing more Japanese supply companies to follow their core companies to the EU. In this case restructuring means mainly new investments.

The restructuring of foreign affiliates of MNCs in the Single Market is not only specific to the home country of the MNC but it also depends to a large extent on the industry or even the products concerned. Here, too, Single Market effects mix with other effects such as evolving technical innovations, changes in consumer preferences (convergence or differentiation) or deregulation trends not related to the Single Market programme. In general, a high tendency to build or expand networks of production in the EU can be expected in industries that are not subject to non-tariff trade barriers, have low transportation costs, face a very unique consumer taste throughout the EU and have high economies of scale. Up to now there is no

comprehensive empirical evaluation of which industries have installed such networks of production to what extent and what they look like.<sup>15</sup> However, almost all studies on the effects of the Single Market see tremendous incentives in industries such as food and beverages, and pharmaceuticals, as well as in telecommunication and transportation equipment.<sup>16</sup>

Finally, restructuring of production is also dependent on company specific items. Due to the historical development of a company, it is possible that the starting-point for restructuring, i.e. the geographic pattern of European production, differs a lot, even when companies are based in the same home country and are active in the same industry. Furthermore, different management cultures, also to be found among companies from the same industry and home country, might lead to diverging approaches to restructuring.

### Restructuring and Employment

The example of Alcatel n.v., one of the leading telecommunications equipment companies in Europe,<sup>17</sup> provides an insight into the employment effects of such restructuring processes. Formed in 1987 by a merger between the European telecommunications operations of ITT and the predecessor of Alcatel-Alsthom, CGE,<sup>18</sup> Alcatel possessed from the beginning two technical systems and a double production structure in some of its markets (transmission and switching equipment, private branch exchanges). The potential for intra-company competition and restructuring was further enlarged due to an aggressive acquisition policy in Europe. From 1987 till 1991 Alcatel acquired more than 35 companies with at least 32,000 employees. Over the same period Alcatel sold companies with a maximum of 20,000 employees. However, the resulting net increase of 12,000 employees did not lead to an increase in the total employment figures; despite a considerable growth in turnover (from 1987: 11.2 billion ECU, to 1991: 15.7 billion ECU) total employment sunk from 137,000 in 1987 to 134,000 in 1991. All in all, a loss of at least 15,000 jobs occurred between 1987 and 1991, with restructuring on the European scale being by far the most important source of these job losses. Taking

<sup>11</sup> It seems to us that in times of economic prosperity restructuring often remains unperceived.

<sup>12</sup> Cf. S. Young, M. McDermot and S. Dunlop, op. cit., p. 15.

<sup>13</sup> The same is true for South Korean MNCs, whose structure in the EU is similar to that of the Japanese MNCs in the EU.

<sup>14</sup> Cf. JETRO: The 9th Survey of European Operations of Japanese Companies in the Manufacturing Sector, 1993, pp. 67-137.

<sup>15</sup> Of course there are several empirical studies on European networks of production. However, the MNCs treated overlap considerably (companies frequently studied are e.g. Ford, IBM, Procter & Gamble or Philips). Up to now in almost all cases MNCs of different industries are compared. Comparisons between MNCs within the same industry are still missing.

<sup>16</sup> Based on two parameters (importance of non-tariff barriers and actual level of interlacing) a classification of a total of 63 manufacturing industries according to a low, medium or high tendency to restructuring is given in: M. Heine: EG-Binnenmarkt und Regionalentwicklungen in der Bundesrepublik Deutschland, in: M. Heine, K. P. Kisker and A. Schikora (eds.): EG Schwarzbuch Binnenmarkt. Die vergessenen Kosten der Integration, Berlin 1991, pp. 61-65.

<sup>17</sup> The following example is based on a detailed company profile; cf. C. Dörrenbächer and H.R. Meißner: Unternehmensprofil Alcatel/SEL, Berlin 1993.

<sup>18</sup> Initially ITT held 30% and CGE (later Alcatel-Alsthom) 70% of Alcatel n.v. In 1992 ITT sold its 30% share to Alcatel-Alsthom.

into consideration the job losses outside Europe as well as jobs lost due to technical innovations, we assume that roughly 10,000 job losses can be traced back to restructuring efforts on the European scale.

However, it has to be recognised that in the period considered European scale restructuring only occurred in a few of Alcatel's markets. This is due to the fact that Alcatel is active in markets that face very different conditions. While the European market for private branch exchanges and terminal equipment and some cable products is quite liberalised and has a relatively low customer concentration, the European markets for transmission and switching equipment products are still very closed and dominated by one or a few customers per country. Given this structure, it is not surprising that European scale restructuring concentrated on terminal equipment products and private branch exchanges. To illustrate this point: in the course of the 80s the European market for terminal equipment and private branch exchanges was gradually opened. In terminal equipment a tremendous rise in competition mainly from suppliers from the Far East led to strong restructuring measures. Thus the production of fax-machines was abandoned and the geographically dispersed telephone production of Alcatel in Europe was concentrated in only two factories: one in Denmark for high tech and designer telephones and one in the south of Italy for standard telephones. All other European telephone plants were sold (like the plant in Hoogeveen/NL) or closed (like the telephone production in Berlin/Germany). In private branch exchanges, where customers are often connected to their suppliers by long-ranging treaties, the change due to the liberalisation of the European market was somewhat smoother than in terminal equipment. Nevertheless, here too, transnational restructuring took place. First there were shifts in the distribution of responsibility, with the national Alcatel companies operating as profit centres and all strategic questions concentrated at the Alcatel headquarter. In a second step the Europe-wide reorganization of production was conducted: the production of small private branch exchanges was concentrated at one plant in Belgium, the production of the large ones at one plant in France and finally the production of the medium ones at two plants, one in Germany and one in France.

With the liberalisation going ahead in other important markets of Alcatel's (especially in transmission and switching equipment) further European scale restructuring processes, very likely to bring job losses on the same scale as indicated above, will occur over the coming years.

### Historical Background of the EWC

Among trade unions, the discussion on the necessity of establishing their own international structures vis-à-vis MNCs reached a first climax in the late 60s and early 70s. Initiated by the North American unions, especially the Union of Automotive Workers (UAW), the first World Company Councils were set up in the mid-60s for Ford and General Motors.<sup>19</sup> A large number of other World Company Councils followed especially in the metal and chemical industries but also in different service industries. Most of these Councils were subcommittees of the International Trade Secretariats, especially of the International Metalworkers Federation (IMF) or the International Federation of Chemical and General Workers' Unions (IFCGU), and usually did not include plant level workers' representatives. The high hopes of some unionists that the internationalization of capital would thus bring about the internationalization of the workers' movement failed to be realised by far.<sup>20</sup> One of the reasons may have been the weak integration of plants in different regions of the world economy, and another reason was certainly the low representation of shop-floor representatives and thus the absence of a broad basis for mutual understanding between the trade union movements of the different countries.

Attempts by the European Commission to set up legislation on international workers' representation also go back to the early 70s. They started as part of the discussion on a European Company Statute, which has failed up to now and is not given any great chance today. Another attempt was made in 1980 with the proposal of the so-called Vredeling Directive, which would have given workers or their representatives in all plants of MNCs the right to be informed by central management. This attempt also failed. In 1990, the Commission for the first time proposed a Directive on European Works Councils. This was always vetoed by the British government in the Council of Ministers. With a common position reached by the eleven other Social Ministers in June 1994, it now seems probable that this Directive – with some minor changes – will be the first directive to be adopted under the new Social Protocol of the Maastricht Agreement.

### The Envisaged Directive

The Directive applies – according to the common position of the Council of Ministers – to companies or groups of companies with over 1000 employees in the EU(11) and 150 employees in each of at least two different member states. Affected would be EU-based MNCs as well as MNCs based outside the EU, if their subsidiaries in

<sup>19</sup> Cf. the overview given by K. P. Tudyka: Die Weltkonzernräte in der Krise, in: WSI Mitteilungen 4/1986, pp. 324-329.

<sup>20</sup> Cf. Ch. Levinson: International Trade Unionism, London 1972.

the EU fulfil the above criteria. For these companies either the European headquarter or the single biggest subsidiary within the EU will have to play the role of a central management, responsible vis-à-vis the EWC.

At the request of at least 100 employees or their representatives in two countries the management has to take up negotiations with a special negotiating body formed by workers' representatives from all the countries in which the company has employees. If the management refuses to negotiate, the subsidiary requirements laid down in the annex of the directive come into force; otherwise negotiations are allowed to take three years. This amount of time is supposed to encourage the development of flexible agreements between management and negotiating bodies which take into account the special situations at single companies and best suit the needs of both workers and management. Special agreements are explicitly given precedence over an implementation of the subsidiary requirements.

The subsidiary requirements set minimum standards for cases where a negotiated solution seems impossible. They provide for one annual information and consultation meeting of the EWC with central management. The EWC can have up to 30 members, who have to be employees of the company concerned. Local managers are also allowed to participate in these meetings, while, on the other hand, the EWC must be allowed to meet on its own prior to the meeting with the management. In addition to the annual meeting topical information and consultation meetings must be held with a restricted delegation of the EWC whenever necessary.

These requirements allow most of the eleven governments to transform the directive into national law by extending their different systems of workers' representation by just adding one further level of representation to the levels already existing, e.g. in Germany to the system of *Betriebsrat*, *Gesamtbetriebsrat* and *Konzernbetriebsrat* or in France to the system of *comité d'établissement*, *comité d'entreprise* and *comité du groupe*. In the German *Betriebsräte*, all members are workers' representatives while the chair person of the French *comités* is the head of management, but workers' representatives, coordinated by a *secrétaire*, have a right to meet on their own. Bigger problems for national legislation might arise especially in those countries where works councils or similar bodies elected by all employees are not statutory such as Ireland,<sup>21</sup> or where these bodies are still very weak, e.g. in Greece.

The matters subject to consultation are any measures which are liable to have considerable effect on employees' interests, particularly in the event of relocations, closures

of undertakings or establishments, or collective redundancies. Explicitly, management is free to make its own final decision. Thus, the EWC has no right to co-determination in any form.

The Directive will now be discussed again by the European Parliament, and a final adoption of the Directive, which then might be altered further, by the Council of Ministers is expected in the autumn of this year. It should be mentioned that Germany has so far been successful in introducing a regulation which allows a special treatment of so-called *Tendenzbetriebe*, i.e. especially companies in the media industry, where German *Betriebsräte* have fewer rights. The binding obligation to set up EWCs will only start in the year 2000, after the two years allowed for national legislation and three for negotiations at company level.

### Number of Companies Affected

Concerning the number of companies that would fall under the directive, we made an assessment<sup>22</sup> based on the original definitions given in the text of the proposed Directive presented by the Commission, i.e. 1000 employees in the EU and 100 thereof in each of two different countries, including the UK. We found that about 1,500 MNCs would have been affected, 320 of these based in Germany, 220 in the UK and 200 in France. Over 450 MNCs affected would have come from outside the EU, including 250 MNCs from the US and 50 each from Japan and Switzerland.

Since the Council of Ministers raised the threshold (from 100 to 150 employees in two countries), and due to the opt-out of the UK, the number of MNCs falling under the Directive is considerably reduced. The number of German MNCs e.g. falls from about 320 to 260. Obviously the number of MNCs based in the UK is reduced enormously, but there are still more than 50 British MNCs left whose subsidiaries in the other eleven EU countries would be affected.<sup>23</sup> The accession of Austria and the three Scandinavian countries will lead to a considerable increase of MNCs affected, especially of Swedish and Finnish MNCs but also e.g. German MNCs due to their

<sup>21</sup> In Denmark there is only a collective agreement on works councils, and here the EWC might be introduced by a binding collective agreement.

<sup>22</sup> Cf. M. Wortmann and C. Dörrenbächer, op.cit.

<sup>23</sup> In these cases British MNCs will probably be inclined to let their workers' representatives in the UK participate in the EWC. But it is not at all clear how this will happen since there are no works councils or similar bodies in the UK, representation being through trade unions (shop stewards system), and in many companies shop steward committees only exist at the plant level and not at the company or even group level. In several cases, British companies do not have any workers' representation at all simply because they do not recognize the union(s) represented at their plants. So it will be very interesting to see how British labour relations will be affected by the Directive.

many subsidiaries in Austria. Thus we assume that finally the number of MNCs that would be obliged to set up an EWC will probably be above 1,300.<sup>24</sup>

### First Voluntary Agreements

Out of this large number of MNCs, only about thirty have set up EWCs or similar bodies today. The first EWCs were set up in the mid-80s. Interestingly, this happened especially at French state-owned companies, and the initiative came from the management. The first companies were Thomson Grand Public (now Thomson Consumer Electronics), which had expanded by acquiring several smaller European consumer electronics manufacturers, and BSN (now Danone Group) which had pursued a similar strategy in the food industry.<sup>25</sup> An important background to this was the French socialist government's commitment to a social Europe.

Most of the EWCs installed today are still at French MNCs. Only in the 1990s did MNCs from other countries – most of them based in Germany – follow. The models vary considerably: they range from once-a-year meetings organized by central management with participants selected by central management where rather general information is presented, e.g. some German chemical companies like Hoechst, to relatively autonomous structures (representatives sent by the national workers' representation body; own – though usually very limited – administrative capacity; internal exchange of information) and a formal right of information and consultation by management. The most far-reaching agreement is that at Volkswagen,<sup>26</sup> while most other agreements fall short of the subsidiary requirements defined in the proposed Directive of the Commission.

### Regaining Lost Power

Discussing the consequences of EWCs, it must be stressed that the EWC has only information and consultation rights, and no bargaining rights whatsoever. This is not surprising given the differing competences of national works councils or similar bodies, whose rights will – according to the principle of subsidiarity – not be limited by the directive. It should also be kept in mind that on the national level, e.g. in Germany, the *Konzernbetriebsrat*

has no negotiating power of its own either, it needs the unanimous mandate of the lower level *Betriebsräte*.

It is certainly true that personnel management is still one of the entrepreneurial functions which is least internationalized. Different national cultures but also different historically developed systems and legal backgrounds of labour relations make a strictly international approach impossible.<sup>27</sup> A large empirical study<sup>28</sup> found that labour relations at foreign owned subsidiaries of MNCs do not show significant differences to local companies. For German subsidiaries in the UK it was shown – different from what one might expect – that they are on average no more inclined to recognize trade unions as bargaining partners than national British companies.<sup>29</sup>

Even though many decisions within MNCs are taken at a decentralized local level – not only in the field of personnel management (such as payment and other working conditions like working hours or training), but also often on production methods,<sup>30</sup> technologies, investments etc. – it would be misleading to draw the conclusion that all issues concerning employees are best dealt with by workers' representatives and management at the local level. Strategic decisions, at least, are always taken at a central level. Even in typical multi-domestic MNCs like those in the retail industry, strategic decisions such as in which countries or segments and by which means – internal expansion or external acquisitions – the company should grow and where it should divest are taken at the central level, decisions which certainly have an impact on employees. In most companies there are also other kinds of central decisions affecting workers in different countries at the same time, ranging from e.g. the installation of a new computer system at an international bank to the well-known examples of relocation of production. Thus, it is very difficult to think of any example of a company where an EWC with information and consultation rights would be inappropriate.

Certainly, there are MNCs where a single EWC would not be the best place for information and consultation on all

<sup>24</sup> This number does not include EWCs at sub-groups or at divisional levels; cf. below.

<sup>25</sup> A detailed analysis of the first EWCs is given by M. Gold and M. Hall: European-Level Information and Consultation in Multinational Companies: An Evaluation of Practice, Luxembourg 1992.

<sup>26</sup> On Volkswagen cf. T. Schulten: Internationalismus von unten. Europäische Betriebsräte in Transnationalen Konzernen, Marburg 1992. Other examples can be found in J. Deppe (ed.): Eurobetriebsräte, Wiesbaden 1992.

<sup>27</sup> The literature published in recent years thus concentrates on international management development and the problems of expatriates. Cf. R. Wunderer: Internationalisierung als strategische Herausforderung für des Personalmanagement, in: Zeitschrift für Betriebswirtschaft, Ergänzungsheft 1, 1992, pp. 161-181.

<sup>28</sup> Price Waterhouse and Cranfield University: The Price Waterhouse Cranfield project on International Strategic Human Resource Management, Report 1991.

<sup>29</sup> Cf. P.B. Beaumont and others: Key Industrial Relations: West German Subsidiaries in Britain, in: Employee Relations, 1992, No. 6, pp. 3-7.

<sup>30</sup> The international harmonization of standards e.g. through ISO-norms 9000 tends to evoke an internationally coordinated approach here.



the international issues involved; this is especially true for diversified companies where international product divisions are operating with a high degree of independence. In these MNCs, it would be adequate to set up EWCs for each division to be informed and consulted on all matters relating to the division concerned, perhaps with a smaller coordinating central works council on top which would have to be informed and consulted e.g. on long-term strategic decisions and financial matters.

Just as important as information from central management on the company's economic and financial situation and consultation on strategic and other decisions, will be the possibility of workers' representatives from different countries to meet on their own. The chance to exchange information not only on working conditions or problems with management will be necessary to check information provided by management e.g. on the relative competitiveness of a certain plant compared to other plants within the group. This exchange of information will certainly lead to a better mutual understanding of the different situations and economic, cultural, legal etc. backgrounds of workers' representatives and trade unions in the different countries. Whether this will lead to the formulation of common positions and demands vis-à-vis the management, to which all delegates would have to agree, remains to be seen and is quite unlikely at least in core areas such as wages and benefits and more probable in other areas e.g. in health and safety standards.<sup>31</sup>

Even though most trade unions have strongly supported the Directive, their position vis-à-vis the EWC is sometimes difficult. In many countries, like France or Italy, trade unions usually have a controlling position vis-à-vis the works council or similar body, e.g. through special voting mechanisms or due to the right to be represented directly, and thus would be well linked to the EWC. Unions in other countries with a "dual representation structure" like Germany and The Netherlands – or even more so

Greece – might be afraid that EWCs could develop too much of a life of their own. Further, the growing links between trade unions from different countries due to the new EWC connection might facilitate attempts towards European-scale collective bargaining on an industry level, even though expectations are not very high.

Summing up the consequences of EWCs for workers and their representatives, it can be argued<sup>32</sup> that the EWC will not add additional power to the side of the workers, but will merely make up for the power lost by national representatives due to the increased internationalization.

### Consequences for Management

Monetary costs involved with the EWC are probably the smallest problem for employers: the European Commission has estimated the total costs of running EWCs, which will have to be born by management, at about 10 ECU per employee per annum.<sup>33</sup> Employers<sup>34</sup> have stated that an EWC might hinder quick and smooth implementation of international management decisions. But (parallel) consultation – and often bargaining – on the national level, which remains necessary, would usually not take less time than consultation on the international level. Especially German employers have also warned that workers' representatives from countries with a tradition of conflictual labour relations might interfere via the EWC with consensus oriented labour relations based on mutual trust and confidentiality. If conflicts of this kind develop, they will not only raise problems for employers but also for workers' representatives which might lose their good relationship with management.

Finally, management might even benefit from an EWC.<sup>35</sup> The main advantage would be that such a body might help to shape a broader identification of workers with their companies. In special cases, e.g. of restructuring and relocation of production, it might be easier for management to deal first with a European body which itself would have problems finding a common position in cases where some plants might win and others might lose. Obviously the interests of workers' representatives from different locations would often be diverging and sometimes contradictory. Today it is difficult to predict whether information and especially consultation in a common council will produce some pressure on workers' representatives to come to common positions and harmonize conflicting interests.<sup>36</sup>

In the long run, employee involvement on a European scale through EWCs might even be seen as a factor increasing long-term competitiveness, just as *Betriebsräte* in Germany have played a positive role in German economic development.

<sup>31</sup> This is already an area where minimum standards have been set by EU Directives.

<sup>32</sup> Cf. D. Glode: Die Europäische Integration: Neue Rahmenbedingungen für das Personalmanagement und die betriebliche Mitbestimmung, in: J. Deppe, op.cit., p. 21.

<sup>33</sup> Financial Times of 20. 4. 1994.

<sup>34</sup> The different positions on the Directive can be found in: J. Deppe, op.cit.

<sup>35</sup> Cf. especially M. Gold and M. Hall, op.cit; and P. Margison: European Integration and Transnational Management-Union Relations in the Enterprise, in: British Journal of Industrial Relations, Vol. 40 (1992), No. 4, pp. 529-545.

<sup>36</sup> This is certainly not a purely international problem. To our knowledge no study exists on how these problems are being dealt with at German *Gesamtbetriebsräte* or *Konzernbetriebsräte* where basically the same problems arise.