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## Why do companies relocate? The German discourse on relocation

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MPIfG Discussion Paper 07/14

**Why Do Companies Relocate?**

The German Discourse on Relocation

Geny Piotti



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**Why Do Companies Relocate? The German Discourse on Relocation**

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## **Abstract**

The paper examines the role of discourse in supporting firm's decisions to relocate and how main actors influence such discourse. If there is uncertainty about the general functioning of the economy, discourse is the place where ideas and paradigms, and possible options of behavior, are created. Since interests are not given a priori but are socially constructed, discourse contributes to their definition by selecting, amplifying and legitimizing arguments and causal relationships between the functioning of the market and individual behavior. Some surveys of German companies show that while relocation is increasing, the advantages for firms are less clear than expected. The main argument of the paper is that the public debate in German newspapers and the business press since the 1990s could have influenced the processes of decision-making over relocation by amplifying the disadvantages of remaining in Germany and neglecting the conflicts and additional costs arising for companies by relocating their production activities.

## **Zusammenfassung**

Das Paper beschäftigt sich mit der Rolle des Diskurses und dessen Hauptprotagonisten bei der Förderung von Entscheidungen über Betriebsverlagerungen. Wenn die Wirtschaftsbedingungen ungewiss sind, ist der Diskurs ein „Ort“, an dem Ideen und Paradigmen sowie mögliche Handlungsoptionen „kreiert“ werden. Da Interessen nicht als gegeben angenommen werden können, sondern vielmehr als „sozial konstruiert“ betrachtet werden sollten, trägt der Diskurs zur Definition der Interessen von Akteuren bei, indem er Argumente und Kausalbeziehungen zwischen dem Funktionieren des Marktes und dem individuellen Handeln auswählt, verstärkt bzw. legitimiert. Einige Umfragen in deutschen Unternehmen zeigen, dass die Vorteile für Firmen nicht so eindeutig sind, obwohl die Anzahl der Produktionsverlagerungen wächst. Das Paper argumentiert, dass die öffentliche Debatte in deutschen Zeitungen und Businessmagazinen seit den 1990er-Jahren die Entscheidungsprozesse über Produktionsverlagerungen beeinflussen haben könnte, indem die Nachteile der Produktion in Deutschland stark betont sowie potenzielle Konflikte und zusätzliche Kosten ausgeblendet wurden, die für die Firmen bei der Produktionsverlagerung zusätzlich entstehen.

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## 1 Introduction

The findings of recent studies into relocation by German companies are puzzling. On the one hand, intentions to relocate are increasing; on the other, once investments have taken place, it would seem that entrepreneurs are faced with further costs they had not expected before (Kinkel/Lay/Maloca 2004; Schulte 2002; Hirsch-Kreinsen/Schulte 2000). These costs are not irrelevant as many of the companies must even repatriate their production activities, or at least continue to produce inefficiently. The questions are then why they decide to relocate and why their expectations are disappointed in the end.

The literature on globalization in general and on relocation in particular points mainly to “good reasons” for relocation and offers mainly technological, political, organizational and institutional explanations. The diffusion of new technologies, for example, facilitates communication and economic exchange by reducing the costs for companies engaged in international exchanges and transnational company management (Castells 2000). Secondly, the processes of liberalization in developing countries have helped to attract foreign investment due to fiscal advantages and lower labor costs and to make relocation more convenient for companies than trading from the home country (Faini 2004). Thirdly, in some sectors like the auto industry, relocation is essentially the result of a chain reaction, as the main customers expanding internationally require suppliers to follow them and provide continuity in quality and compliance in the production process (Faust/Voskamp/Wittke 2004; Womack/Jones/Roos 1990). Finally, the institutional asset of the home country can facilitate or even push relocation processes. On the one hand, the advantages of reducing costs are supposed to be more relevant for entrepreneurs situated in liberal economies, as firms are more dependent on market coordination (Hall/Soskice 2001). On the other hand, companies operating in coordinated market economies, characterized by higher labor and non-wage labor costs, could also become attracted by cutting labor costs to become more competitive and bring governments under pressure to carry out reforms (Crouch/Streeck 1997).

Beside these possible explanations I focus my attention on the role of the discourse on relocation and of the main actors in the discourse itself in encouraging companies to relocate.<sup>1</sup> The aim of the paper is to point to coherence between the discourse and the

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- 1 I define public discourse as the structure and content of public debate. Ideas are constructed, articulated and diffused in public debate and constitute the content of the debate. In the paper I will mainly focus on the content and less systematically on the structural aspects of discourse. Public discourse can take place in different kinds of arenas (like the press, TV debates, conferences, business meetings) that vary not only in terms of the medium used and its logic but also in the quality and quantity of the audience. However, the arguments in the debate might not necessarily be different, since they depend upon the main actors involved in the discourse.

concrete processes of relocation and to provide theoretical arguments that would support the presence of a causal relationship between the two. In fact, while more research is still needed to prove such a relationship empirically, it can nevertheless be argued that, especially if there is uncertainty about the general functioning of the economy (Beckert 1996, 1999, 2002; Culpepper 2003; Iida 1993), public discourse can be considered an arena in which the “good reasons” I mentioned before are constructed and diffused, and in which ideas and paradigms and possible options of behavior are created. Since interests are not given a priori, but are socially constructed, discourse contributes to their definition by selecting, amplifying and legitimizing arguments and causal relationships (Schmidt 2003) between the functioning of the market and individual behavior. It helps not only to make new types of behavior ideationally legitimate and plausible but also to facilitate the flow of information about the behavior of the other actors and their motivations, which fosters imitation processes in turn.

The paper is organized as follows. Firstly, I deal with the role of ideas and imitation processes as they affect the change of interests in markets, especially under conditions of uncertainty, and I apply this theoretical framework to the case of relocation (Sections 2–4). Secondly, I turn to the development and contradictions of the relocation processes undertaken by German companies and to the analysis of the discourse on relocation in the German press between 1990 and 2005 (Sections 5–7). Finally, I outline some conclusions and prospects.

## **2 Uncertainty and interest change in markets: The role of ideas and imitation**

The question of why companies decide to relocate their production to low-wage countries and how this choice becomes a more general trend can be translated in more theoretical terms into the question of how entrepreneurs’ interests change and what kinds of mechanisms set this change in motion. In a more static perspective, market actors observe each other and reproduce order by making decisions about their position on the basis of prior production periods (White 1981). However, the question is how change in such order can be explained and, in a context of uncertainty, which mechanisms might cause new actors’ strategies to converge.<sup>2</sup>

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The discourse generated by the debate among actors and the mediation of journalists contributes to both the creation and articulation and to the modification of ideas.

2 Fundamental uncertainty in particular represents a challenge for mainstream economic theory, which is based on the assumption of obtaining full information or on the possibility of calculating – objectively or subjectively – the probability with which certain events occur. From a sociological point of view, fundamental uncertainty is an important comparative advantage as it creates space for a greater role and a wider range of institutions than is the case in institutional economics. Moreover, it creates space for the role of other social mechanisms, be they structural

Uncertainty arises from limitations on the agents' computational and cognitive capabilities and from the complexity of the environment (Dosi/Egidi 1991; Simon 1955) and prevents actors from calculating the probability with which events occur (Beckert 1996, 2002, 1999; Dequech 2000). In sociology, uncertainty is mainly procedural and can be divided into strategic and analytic uncertainty (Culpepper 2003; Iida 1993). While in the former case uncertainty concerns the intentions of the other players and, in the absence of social devices, leads to a non-cooperative, hence an inefficient solution, in the latter case uncertainty is both cognitive and environmental. It is connected to the general functioning of the economy and the inability of the actors to anticipate the consequences of their behavior. On the one hand, uncertainty can in fact boost innovative behavior by the actors; on the other, the consequences of this behavior are unknown (Campbell 2004). In the case of analytic uncertainty, the intentions of players are known but there is "disagreement over means" in the process of decision-making. However, it could even be argued that uncertainty over the means first requires a reduction in the more general uncertainty over the actors' interests and intentions.

Under conditions of uncertainty, a general change in terms of interests requires the "construction" of those new interests and the legitimation of new behavior through ideas. Moreover, it requires processes of imitation based on information about the behavior of other actors and the mobilization of structural resources such as networks and power relationships. Although ideas and imitation processes are separated analytically here, they act jointly and reinforce each other. Processes of imitation are supposed to be stronger the more ideas are diffused; at the same time, the diffusion of ideas might depend on the activation of networks (Campbell 2005; McAdam 1986; McAdam/Scott 2005), power relationships and high-status actors, which favor imitation in turn.

### Changing interests: The role of ideas

An interest could be defined as actors' "want" constructed on the base of desires and beliefs (Blyth 2002). Ideas – be they cognitive constructs such as paradigms, worldviews and symbols, or normative constructs such as norms and values – respectively presume theoretical cause–effect relationships and influence what is desirable (Campbell 2004). Hence they can become beliefs and normative guides for the actors and exert influence on their interests.

Although economic interests might appear relatively stable in periods of economic stability, they cannot be considered as given *a priori*. They are rather the result of a social construction in which the diffusion of economic ideas plays an important role, especially in periods of uncertainty. Economic ideas can in fact influence interests and help to generate different patterns of behavior by the actors.

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like networks and power, cognitive like ideas, or normative (Beckert 1996).



In “The Social Psychology of the World’s Religions,” Max Weber argues that “very frequently ‘world images’ that have been created by ideas have, like switchmen, determined the tracks along which action has been pushed by the dynamic of interests” (Weber 1958: 280). Ideology and paradigms, as visions of the world, can in fact reduce uncertainty by making sense of the functioning of the economy and hence by defining interests accordingly (Blyth 2002). They shape the legitimate ends of economic activities as well as the means to reach the socially approved ends (Jacobsen 1995). If, under conditions of uncertainty, interests are not clear, ideas facilitate the choice of new strategies by altering the agents’ definition of the economic situation and their beliefs about the consequences of their own actions (Blyth 2002). As they influence the interpretation of reality and limit the range of options available for individuals, ideas affect the concrete individual behavior (Denzau/North 1994; North 1990). The more actors believe in an idea, and this becomes widespread, the more they will behave so that this will come true.

Changes in interests can be the product of a use of ideas by institutional actors facing policy dilemmas and legitimating new policy choices or facing problems of a lack of legitimation (Campbell 2004; Goldstein/Keohane 1993). In times of uncertainty ideas can act as “coalitional glues” (Goldstein/Keohane 1993) and facilitate cooperative solutions; they can therefore reinforce representation and facilitate lobbying (Woll 2005).<sup>3</sup>

Ideas can precede a change in interests. However they can also be used as ex-post justifications for new desires emerging from economic pressures or be pushed by imitative logics. In both cases – whether they drive action or act as justification for action – ideas are central for the construction of meaning and legitimation (Campbell 2004).<sup>4</sup>

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3 Generally speaking, market actors can influence state regulation directly, namely through pluralistic lobbying activities or, as part of a corporatist system, through associations. These must rely on the consensus and cooperation of members (logic of membership); at the same time, the extent to which the interests of the members can be realized is constrained by their integration in the political and institutional system (logic of influence). The stronger the influence of associations on the state, the more the associations can govern members instead of simply representing them (Streeck/Schmitter 1985). However the pursuit of the “logic of membership” is not necessarily compatible with the pursuit of the “logic of influence” (Streeck 1994). Since keeping the two logics in balance is more problematic in periods of crisis, it can be reasonably expected that associations develop and diffuse ideas to make different positions more compatible.

4 New interests presume, or are accompanied by, a change at the cognitive level. However, since action also depends on other conditions that facilitate or constrain the coherent realization of interests (for example, where entrepreneurs are concerned, financial capabilities), not all interest changes – hence not the total adoption of new ideas, paradigms and views of the world – translate into coherent action. The adoption of new ideas and the change in interests are therefore necessary conditions for intentions of action and action itself; however, they are not sufficient ones.

## Changing interests: The processes of imitation

While ideas provide the cognitive premises and legitimation for changing interests, processes of imitation also facilitate such change. These are fostered by the diffusion of information about the behavior of the other actors, and by the mobilization of the market structure, be it manifested in networks, power relationships or status hierarchies.

A simple form of imitation is so-called “herd behavior” in economic theory, where “everyone [is] doing what everyone else is doing even when their private information suggests doing something quite different” (Banerjee 1992). Herd behavior can be psychologically determined. In this sense, actors behave irrationally and follow blindly what the other actors are doing. However, in economics, herd behavior tends to be considered as intrinsically rational for individual actors (Banerjee 1992; Devenow/Welch 1996; Scharfstein/Stein 1990) since they assume they are in a situation of information asymmetry, whereby the behavior that everybody else is adopting is based on information that “the others” may have and “they” do not. This approach does not of course say anything about possible processes of cognitive change. Although actors are supposed to take the behavior of other actors into account when it comes to making decisions, markets are not really considered to be arenas where social interaction occurs and meaning is constructed. Herd behavior is rather driven by signals like prices, reputation, “sharing the blame” logic as well as payoff externalities (Devenow/Welch 1996; Scharfstein/Stein 1990).

For the new sociological institutionalism, in contrast, organizations operate in a field. Behavior is conditioned not only by market pressure (competitive isomorphism) but also by institutional pressure (institutional isomorphism) (DiMaggio/Powell 1983). Institutional isomorphism is driven by myths, i.e. dominant visions and interpretations of the world that become appropriate and legitimate for organizations within that field (Meyer/Rowan 1991). Among the three forms of institutional isomorphism identified by the new sociological institutionalism,<sup>5</sup> mimetic isomorphism is particularly important. Especially under conditions of uncertainty, where acquiring information is particularly costly, market actors create cognitive categories and identify their actions with those of similar actors and of key actors that are considered as reference points (Barreto/Baden-Fuller 2006). Hence, compared to “herd behavior,” mimetic isomorphism presumes a process of cognitive reorientation that allows new ideas and rules to become legitimate and behavior to be considered as appropriate.

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5 Beyond mimetic isomorphism Di Maggio and Powell (1983) have identified two further kinds of institutional isomorphism: coercive and normative. Coercive isomorphism refers to the coercive role of regulation by public institutions and private organizations (especially through contracts with more powerful organizations). Normative isomorphism derives from the role of professional expertise (for example, of university specialists and consultants). The distinction between the different kinds of isomorphism is mainly analytical. In reality, the diffusion of new kinds of organizational behavior can be due to different types of isomorphic pressure simultaneously.

Fields in which organizations operate can be considered to be imbued with cognitive and normative ideas. On the other hand, they can be viewed as arenas in which actors are structured in networks of vertical or horizontal relationships (Dobbin 2005; Fligstein 2001) and are positioned along a status hierarchy (Podolny 1993). DiMaggio and Powell (1983) have talked about the “connectedness” of the social structure.

Through networks, information about the behavior of the other actors is diffused, and ideas can more easily be constituted, be interpreted reflexively and become widespread (Campbell 2005; McAdam 1986; McAdam/Scott 2005), thereby making processes of imitation all the more probable. In vertical relationships, more powerful actors are able to give strong positive or negative economic incentives as well as legitimation incentives if they encourage their behavior to be imitated. Information about the behavior of high-status market actors can induce imitative processes through legitimation as well. Status differs from the notion of reputation that builds on past behavior, as it is “more directly tied to the pattern of relations and affiliations in which the actor does or does not choose to engage” (Podolny 2005: 13). This implies that “when an actor engages in behavior that can be interpreted by others as an exchange or association with another actor, the status of each affects the status of the other” (ibid., 14). A status hierarchy cannot only be constructed by actors within the field but also by external observers such as regulators and the media (Barreto/Baden-Fuller 2006). These “legitimacy providers” attribute a particular status according to their particular aims through deference attribution (Podolny 2005).

### Ideas, imitation processes and the role of discourse

One precondition for changing interests and the homogenization of behavior is that information about the behavior of other actors is known and that ideas and their consequences in terms of behavior become an issue.

Through discourse, ideas and paradigms can be more or less strategically selected from a repertoire of possible assumptions about the functioning of the economy (Schmidt 2003). New options of behavior, underlined by success stories and legitimated by high-power and high-status actors, can emerge and gain importance compared to others. Moreover, economic and institutional actors can have a direct voice. They can use media relations to package and frame ideas to make decisions appealing and legitimate according to their interests (Campbell 1998).

Generally speaking, there are at least two channels through which discourse can construct ideas and influence the way actors behave. The first channel is constituted by the direct contact between the main actors in the discourse, the second by public debate – for example in the press. The analysis of the discourse in the public debate, which is presented in this paper, can be interpreted in two ways: on the one hand, as an arena in which the construction of ideas and diffusion of ideologies occurs; on the other, as a sort of reflection of the debate and consequent propagation of ideas and strategies among economic and institutional actors themselves.

There might be unintended consequences of the diffusion of ideology and information through discourse. Imitation processes supported by ideas and discourse can generate problems both for individual actors, and at the aggregate level that are not easily rectified. In the case of economic “herd behavior,” where everyone is doing what everybody else is doing even contrary to what one’s own information would suggest, the unintended effect is a loss of general informativeness (Banerjee 1992) and an increase of inefficiency at the aggregate level (Devenow/Welch 1996). Since mimetic processes do not seem to be selective, i.e. able to distinguish between “good” and “bad” choices (Barreto/Baden-Fuller 2006), the diffusion of ideas through discourse can foster general patterns of behavior independently of the empirical “truth” of the ideas themselves. The simpler the causal relationship is between individual behavior and the improvement of market performance assessed by the supporting ideology, and the more the discourse is manipulated by certain actors to turn ideas to their own advantage, and the more prominent the statements by key economic actors advocating a particular best way are, the greater the inefficiencies in the discourse will be.

Performatists argue that some ideas are predestined to become self-fulfilling prophecies (Callon 1998). The question is how long their prophecy will remain a “good” one (Miller 2002) and to what extent the consequences of behavior that is coherent with such ideologies can be reversed, both for individual actors and at the aggregate level.

Possible consequences at the level of individual actors can range from disappointed expectations and frustration to economic failure due to the underestimation of environmental and strategic uncertainty. Because of the high sunk costs associated with the decision to relocate, for example, reversing the trend can be very difficult indeed. At the aggregate level, the diffusion of ideas that foster centrifugal trends, i.e. by pushing entrepreneurs and managers to relocate their production, can help to break existing networks, generate loss of competences and, in the extreme case, produce general impoverishment of the economic structure even without clear advantages for the individual actors.

### **3 Entrepreneurs and managers in the processes of relocation: A decision model**

How does the more general theoretical framework of the relationship between ideas, discourse and change that I sketched above fit the problematic of entrepreneurial decision-making over relocation? I will present some hypotheses about the contextual and decisional conditions for entrepreneurs and about the processes of imitation.

Firstly, decisions about relocation are decisions made under conditions of uncertainty. Although entrepreneurs, managers and consultants may formally produce projections about future expenses and gains from new plants in low-wage countries, it is not possible to calculate in advance the costs caused by the lack of information and the conflicts created or accentuated, for example, by cultural differences or differences over production between foreign management and local workers – problems that cannot be solved by appealing to hierarchy since networks continue to be the dominant governance mode through which transactions occur.

Secondly, complex decisions about relocating production are not supposed to be primarily influenced by psychological characteristics like risk aversion or risk propensity on the part of the entrepreneurs and managers. They are rather the product of the social embeddedness of the entrepreneur and managers (Zukin/DiMaggio 1990).

Entrepreneurs and managers can be assumed to be operating within a field structured not only by power but also by networks (Fligstein 2001) and status orders (Podolny 1993). Some companies in the field are supposed to be “first movers,” while others might decide to move later or continue to produce in the usual context. In their decision to move or stay, entrepreneurs and managers are influenced by ideas, norms and information about trends of behavior as well as by actors inside and outside the field. The decision to relocate or not requires the following conditions:

1. A certain urge to change. This can come about either by a certain dissatisfaction with the present and/or local conditions or by entrepreneurial momentum or opportunity. The feeling that something should change can itself be an important impetus for “first movers.” However, it may be socially constructed more strongly in the case of “followers.”
2. A more or less well-founded evaluation of the context in which production is currently taking place, be it the national, local or sectoral context. These valuations depend not only on material resources and the experience of entrepreneurs or managers but also, as I will show subsequently, on the narration that circulates about the home country/region as a production location. This narration can serve to amplify or smooth the negative or positive characteristics of a production model. Sources for the construction of this narration are different: from networks to associations to the media (Wortmann/Dörrenbacher 1997).

3. A perception of what other economic actors are going to do. Key actors are the immediate competitors, customers and those economic actors that operate in the same field or region.<sup>6</sup> However, the perception of general trends and successful stories supported by the experience of key actors contribute to the identification of what appropriate behavior is or is not under given conditions on the part of the other market actors. Hence, difficult decisions – such as that of transferring part of the production processes abroad – become easier to legitimate and make plausible.
4. Information about the contexts of projected investment. This includes a more or less well-founded evaluation of the costs and gains of the investment. Entrepreneurs' associations and Chambers of Commerce are supposed to be the organizations producing information as a club good, while consultants produce and sell information and problem-solving capacities as services on the market. Although the decision to profit from a particular service or not concerns the individual entrepreneur or manager, the target of information and communication by experts is always wider.
5. Entrepreneurs need to make sense of the new decisions and to legitimate them, particularly if they have negative consequences for the headquarters: for instance, in terms of less employment or even unemployment. Ideas about the functioning of the international market and the consequences of the decision to relocate can affect the decision to move. First movers might already be convinced by these ideas and be waiting until the time is ripe. However, ideas could serve as quasi ex post legitimation and justification for an imitation of behavior. The latter possibility implies changes in the cognitive frames as well.

Making sense of relocation or continuing production in the home country often means appealing to more general principles, such as ideas about competitiveness (Wortmann/Dörrenbacher 1997), which also shape the valuation of the context and how public policies should develop.<sup>7</sup>

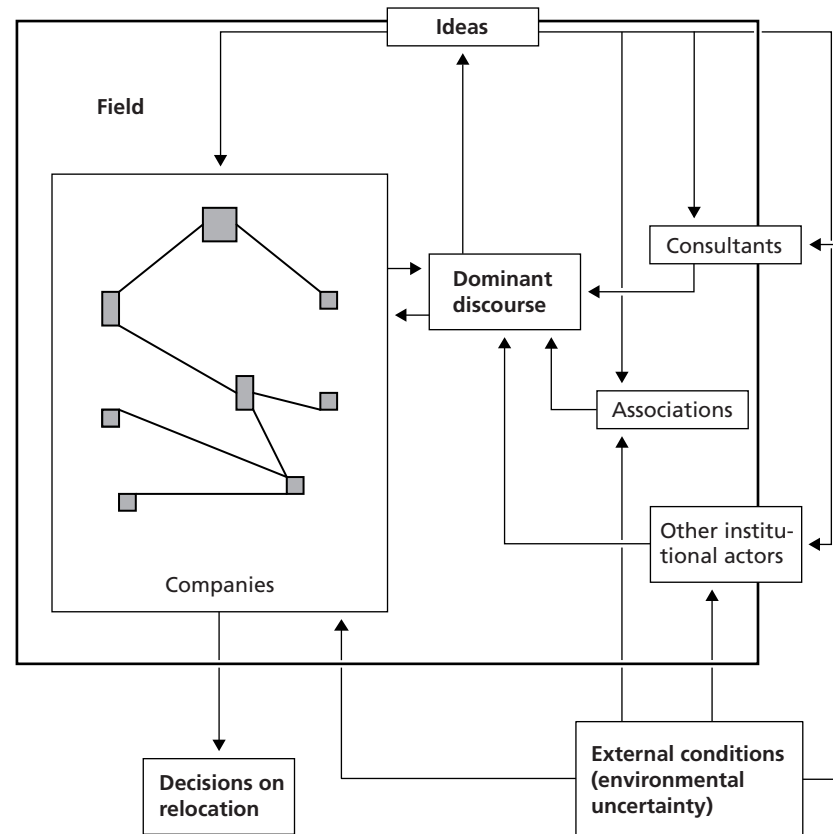
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6 In relocation processes, legitimation can come from the pressure of both shareholders and other companies in the field. Reassuring signals from shareholders are more important in non-coordinated market economies, but increasingly this also applies to companies in coordinated market economies that make use of the stock market. For SMEs especially in coordinated market economies, legitimation is supposed to mainly derive from the pressure induced by the field.

7 Competitiveness, for example, can be achieved in at least two different ways in a context of globalization. Since factors of production are mobile, investments can migrate where cost conditions are more favorable. Both relocation and global sourcing are therefore inevitable processes that contribute to the efficiency of the whole economic system. For the country of origin, the implications in terms of economic policies affect the reduction of wage and non-wage labor costs. A country in which labor and welfare costs are high is considered to be non-competitive (Sinn 2005).

An alternative idea conceives of competitiveness as not being connected to cost reduction but rather to the capacity for innovating and realizing products, the quality of which can compensate for higher costs. In this case, the "site" (*Standort*), i.e. a particular institutional and social environment which provides the conditions for producing such innovation and quality, is very

Figure 1 Ideas, discourse, actors and relocation



Companies can react to the new market challenges and to the different conceptions of competitiveness in different ways – say, through internal cost-cutting optimization, export reinforcement, relocation or investment in human capital – according to how interests and competitiveness are defined. Given the uncertainty over the functioning of global markets, dominant ideologies or paradigms supporting relocation can help to redefine the interests in such a way that relocating the production activities appears to be the most reasonable solution.

Ideas can be used by different actors with different aims: for example, by dominant companies to carry out new strategies of production or to generate a critical mass able to facilitate the success of lobbying activities, or by associations as ways to enhance power in the political exchange and govern their membership. Interests can also be socially constructed by other experts. As we will see, scientists and consultants are particularly important. “Spin doctors” can be used by political actors to package political programs attractively (Campbell 1998), while at the same time gaining legitimation for their dis-

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important (Biehl et al. 1975; Crouch et al. 2001; Streeck 1991, 1997). Relocation implies for firms the reconstruction of their site in the new context, which in turn can become very costly especially for SMEs (Hirsch-Kreinsen/Schulte 2000; Kinkel 2004).



cipline. Consultants can construct interests by providing the necessary information and expertise for their realization. They can use ideas and turn them to their commercial advantage.

In conclusion, the relationships between ideas and decisions in the processes of relocation can be summarized as represented in Figure 1. Ideas can influence the behavior of entrepreneurs or managers individually; the more widespread they become, the more likely they will be to provide for change in cognitive frames and interests as well. This depends on the social structure of the field, in particular on the type of relationships that characterize the networks and the position of crucial market actors. Finally, it depends on the capability of other external or cross-field actors such as policymakers, associations and consultants to develop a dominant discourse and mobilize the social structure.

#### **4 On the unpredicted costs of relocation: Strategic and cognitive uncertainty**

Entrepreneurs and managers who decide to relocate their production have to engage in new market relationships and act under conditions of uncertainty, i.e. take non-standard decisions, the outcome of which is not predictable. Decisions taken on the basis of previous experience might not lead in fact to efficient solutions. Because of the high initial costs, investments are not immediately reversible, so that any possible context-specific best practices can only be developed after the investment has taken place and the unpredicted costs of adaptation have already been incurred by the firm (Schulte 2002).

Where specifically do these costs originate? Because production takes place in a new context, problems attributable to the asymmetry of information (strategic uncertainty)<sup>8</sup> and the asymmetry or lack of knowledge (cognitive uncertainty) are even more relevant than in the case of investment in the country of origin.

Possible consequences of the asymmetry of information are associated with the management of the labor force and the problems of quality and productivity losses, and/or possible opportunistic behavior by local suppliers or business partners. Opportunistic behavior can in turn be favored the more the regulation of property rights and the enforceability of contracts within the institutional asset of the new context are unclear. Furthermore, it can reasonably be expected that external investments, especially from

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8 Traditional problems of strategic uncertainty in organizations are emphasized by principal-agent theory (see esp. Sappington 1991) and by transaction cost economics (North 1990; Williamson 1979, 1985).



developed into developing countries, “induce” reciprocal skepticism and, consequently, stronger control on the part of the investors and more or less explicit resistance on that of the labor force or business partners. Cultural differences can also be accentuated in a situation of external “dominance” (Mense-Petermann 2006).

For entrepreneurs and managers, cognitive uncertainty can be subsumed under the concept of analytic uncertainty. Applied to the phase of adaptation in the new context, analytic uncertainty concerns knowledge about the functioning of the new market; it can generate costs for companies, i.e. while developing product and marketing strategies or while finding and cooperating with foreign partners. Different visions of the world and conceptions of markets can lead to misunderstandings, decisional stagnation or conflicts that can be responsible for further costs or even investment failure.<sup>9</sup>

## 5 The processes of relocation in Germany and their contradictions

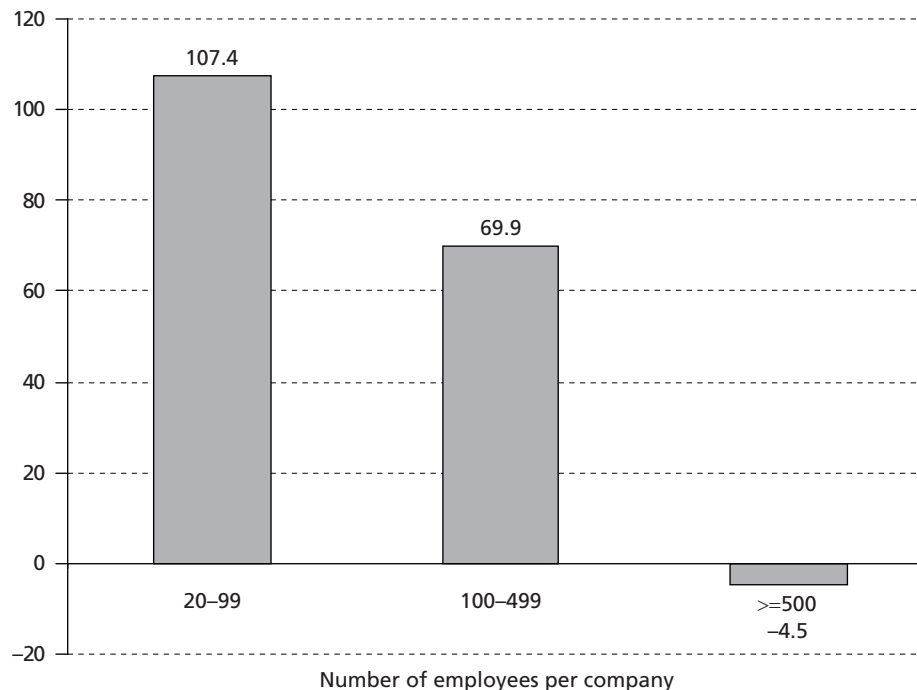
Although Germany could still count on considerable FDI inflows (about 387.0 billion USD) between 1994 and 2003, it has become one of the most important countries in terms of capital outflows, which have amounted to 452.7 billion USD over the same period of time (OECD 2004). Moreover, several surveys point to growing relocation tendencies and plans among German companies (Deutsche Industrie- und Handelskammer 2003, 2006; Kinkel/Lay/Maloca 2004). According to these surveys, in 2004 about one fourth of the companies were planning to relocate at least part of their production activities for the next three years. Target countries were to be found especially in Eastern Europe and Asia.

International relocation of production is not only expanding quantitatively but also changing qualitatively. Firstly, it is not just the prerogative of big companies as it was in the past. SMEs are in fact increasingly investing in new production plants in low-wage countries. According to a survey carried out by the Fraunhofer Institut on a representative sample of German firms in the key sectors of German industry (machine tools, chemicals, electronics and automotive industries) between 1995 and 2003, the share of firms relocating their activities is still constituted by over 60 percent of firms with over 500 employees (Kinkel/Lay/Maloca 2004). However, data on the dynamics over time (see Figure 2) show that SMEs are clearly catching up. Secondly, processes of relocation are widespread sectorally. They are not a prerogative of manufacturing industry

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9 There might also be a second type of cognitive uncertainty. This is related to possible changes in personal values and the perceptions of managers or entrepreneurs in the phase of adaptation in the new context. Processes of self-reflection on the new experience might translate into changes in their values and preferences concerning their willingness to work in the new context. Individual costs can translate into costs for the firm. High fluctuations of expatriates as a consequence of a redefinition of value can in fact hinder the continuity of management in the subsidiaries and prolong the adaptation phase.

Figure 2 Change between 1995 and 2003 in the average share of German companies relocating abroad, according to company size (in %)



Source: Fraunhofer Institut (Kinkel/Lay/Maloca 2004).

anymore; services are in fact increasingly decentralized as well (OECD 2004). Finally, relocation involves not only low value-added activities within industrial and service production; R&D activities, for example, are moving to low-wage countries as well.

Although the processes of relocation of German companies seem to be growing, these processes do not seem to be free from contradictions. On the one hand, companies relocate because they are willing to cut costs; on the other, this strategy can itself produce costs that the entrepreneurs and managers fail to predict. As a consequence, there is a discrepancy between the expectations and the actual experiences of German entrepreneurs and managers regarding relocation (Table 1). The ambiguities of the strategies of relocation, especially where cutting costs is concerned, are evident if we consider, first, the share of companies returning their production to the home country and, second, how entrepreneurs and managers justify their choice to either relocate or repatriate.

An estimation made on the basis of the survey of relocating firms shows that the share of firms returning home between 2001 and 2003 amounted on average to about one fifth of the firms that relocated in the same period of time.<sup>10</sup> But, of course, given the high initial investment, one could imagine investment failures to be only the tip of the iceberg. Other companies might continue to produce in the new context but with higher

10 On the repatriation of German companies, see also Schulte (2002).

Table 1 Motives for the relocation of firms having relocated part of their production abroad between 2001 and 2003 (projections, %)

Costs of production	85.0
Opening up of new markets	42.3
Flexibility/ability of supply	36.6
Capacity bottlenecks	28.7
Taxes and subsidies	28.2
Proximity to major customers	24.6
Availability of qualified employees	12.1
Presence of competitors	8.9
Infrastructures	5.8
Technological development	5.0
Quality	4.0
Costs of coordination/communication	3.0

Source: Fraunhofer Institut (Kinkel/Lay/Maloca 2004).

Table 2 Motives for repatriating production between 2001 and 2003 (projections, %)

Quality	48.3
Costs of production factors	46.4
Flexibility/ability of supply	39.5
Availability of qualified employees	32.9
Costs of coordination/communication	28.5
Infrastructures	25.9
Capacity bottlenecks	13.3
Taxes and subsidies	0.0

Source: Fraunhofer Institut (Kinkel/Lay/Maloca 2004).

levels of inefficiency than initially anticipated. By comparing the reasons to relocate and repatriate (Tables 1 and 2), we can see that the large majority of companies consider low production costs and the opening up of new markets to be the most important reasons for relocation, together with the aim of flexibility and ability to supply. Less important is the role played by the availability of qualified employees, the guarantee of quality standards and the need to cut the costs of coordination/communication. It could be argued that some of the typical strengths of the German model and the extent to which they can be found in the new context are somewhat underestimated.

In fact, if we look at the reasons why firms decide to repatriate (Table 2), quality problems are paramount. Even production costs represent a problem, as well as flexibility/ability of supply and the costs of coordination and communication. Relocation of production could be accompanied by an overestimation of the importance of the costs of production activities and by an underestimation of the typical advantages of Germany as a business location (Standort Deutschland) (Hardock 2000; Hirsch-Kreinsen/Schulte 2000).

## 6 The discourse on relocation in the German press (1990–2005)

Why is it that companies opt for relocation despite the risks involved and how can the contradictions mentioned above be explained? My thesis in this section is that, in the past, such decisions could be explained by a favorable discourse on relocating, which influenced the assessment of this strategic option by managers.<sup>11</sup>

The extent to which ambiguities and the possible unexpected costs of relocation are thematized is the topic of the discourse analysis I have carried out for the German press between 1990 and 2005, the results of which will be presented in the following paragraphs.

The main results presented here try to answer questions about how the discourse in the press may have contributed to the “creation” and support of the option of production relocation over the years – particularly, how the relocation trend and the cost issues have been described – and how the relatively unpopular option for the home country is legitimated among entrepreneurs and managers, especially by referring to the common good.

Table 3 The relocation trend and its inevitability  
(% of quotations on trends)

	No.	%
Relocation is growing and inevitable	205	70.0
Relocation is less than imagined and not inevitable	88	30.0
Total	293	100.0

Source: Author's calculations (LexisNexis/Atlas.ti).

In Table 3 I have compared statements on relocation, particularly on its quantitative and qualitative aspects. The statements include quotations on the relocation trend and the intentions of entrepreneurs and managers in manufacturing and services to decentralize production internationally – through outsourcing, offshoring or greenfield investments. They also include quotations on the evitable/inevitable character of the relocation trend. The analysis shows clearly that a major part of the quotations on the development of relocation presents it as an increasing, sectorally expanding and inevitable trend. This is relevant because, in the public view, relocation becomes an “almost” natural option and potentially a self-fulfilling prophecy.

11 The relationship between the discourse and the actual relocation processes is difficult to prove in quantitative terms. The database on the press is not diachronically homogeneous, so that an increase in the number of articles is not necessarily a consequence of the increasing role of the topic in the press but of the fact that the database has become richer over time. Nevertheless there must be coherence between the discourse on relocation and its general trend, which I show in the empirical part.

Table 4 German competitiveness vs. stagnation

	No.	%
Germany is still competitive	79	33.8
Germany is not competitive anymore	152	65.0
German companies are not competitive anymore	3	1.3
Total	234	100.0

Source: Author's calculations (LexisNexis/Atlas.ti).

Table 5 German competitiveness vs. advantages of target countries

	No.	%
Target countries are particularly attractive	85	32.4
Target countries are attractive under certain conditions	25	9.5
Germany is not competitive anymore	152	58.0
Total	262	100.0

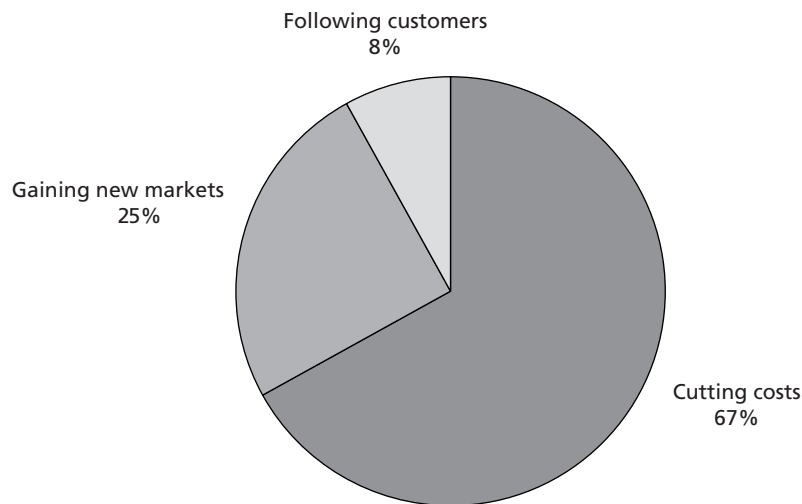
Source: Author's calculations (LexisNexis/Atlas.ti).

This discourse is often connected to a rhetoric which underlines the lack of competitiveness on the part of Germany, where wages and non-wage labor costs, taxes and state regulation are all seen as being too high and politicians are unable to introduce the necessary reforms (Table 4). Quotations that ascribe the lack of company competitiveness to organizational inefficiencies or management errors are a small minority.

The accent on Germany's lack of competitiveness in the discourse on relocation is stronger in the press than the emphasis placed on the advantages of target countries to which German companies relocate, including cost advantages (Table 5). Indeed, the advantages of investing in low labor-cost countries are indirectly derived from the perceived disadvantages of remaining in Germany. One consequence is that the discourse on relocation is constructed around the rhetoric of cost reduction and, possibly, around the neglect of further unexpected and non-calculable costs associated with the processes of internationalization through relocation.

As Figure 3 shows, almost 70 percent of the quotations on the reasons for relocation transmit the idea that it contributes to cutting costs – be they taxation, wage or non-wage labor costs, bureaucracy costs, etc. Only about one quarter of the quotations on relocation motives underline the point that relocation helps to gain new markets. A minority of quotations present the idea that relocation is connected to general processes of internationalization on the part of big companies and therefore of their suppliers. Hence, the discourse in the general and business press on relocation is focused more on cutting costs than on the argument that relocation contributes to the economic expansion of German companies.

Figure 3 Discourse on relocation focused on cutting (calculable) costs  
(% of quotations on relocation motives)



Source: Author's calculations (LexisNexis/Atlas.ti).

However, the focus of the press discourse on relocation is on the reduction of calculable costs. The share of quotations signifying that relocation cuts costs is clearly higher than the share of quotations according to which relocation is deemed to (also) have hidden costs (Table 6). Hidden costs are associated with the management of intercultural differences, organization problems (related to logistics, productivity, maintenance of quality standards, the need for further expertise), the lack of a skilled labor force, the danger of know-how transfer and the indirect support of potential competitors. The statement “relocation has hidden costs” also includes statements like “the risks of relocation are not well considered,” “the benefits of relocation are less than expected” or “the benefits of relocation will be reduced in the medium to long run.” However, even the reference to the costs of relocation does not really have the function of inviting the decision-makers in the companies to make more reflective decisions. Rather, it is often used instrumentally by consultants to emphasize the need for (their) expertise by firms that want to relocate production.

Practices of relocation can increase if they are presented to and perceived by entrepreneurs and managers as something inevitable and gaining importance. They can increase if the disadvantages of the home country are emphasized and if relocation is presented as a simple solution to these disadvantages. However, like other unpopular decisions based on particularistic interests, the decision to relocate also needs to be justified with reference to the common good (Boltanski/Thevenot 2006). From this point of view, it is interesting to compare the statements on the effects of relocation for Germany (Table 7).

Table 6 Cutting costs vs. hidden costs associated with relocation  
(% of quotations on relocation and costs)

	No.	%
Relocation cuts costs	379	60.1
Relocation has hidden costs	252	39.9
Total	631	100.0

Source: Author's calculations (LexisNexis/Atlas.ti).

Table 7 Effects of relocation on the home country  
(% of quotations on effects)

	No.	%
Relocation negatively affects the home country	120	48.2
Home country profits or is not affected by relocation	129	51.8
Total	249	100.0

Source: Author's calculations (LexisNexis/Atlas.ti).

The negative effects of relocation on developed countries easily come to mind: higher unemployment and reduction of foreign direct investment, know-how transfer, brain drain, etc. At the firm level this means, above all, downsizing (Ahlers/Öz/Ziegler 2007). However, the statements that emphasize the negative consequences of relocation account only for the minority of the quotations on this issue. In contrast, relocation is mainly considered to be neutral or even advantageous for the home country (Deutsche Bundesbank 2006). This position in the discourse reflects the economic idea of globalization as a win-win situation. While the globalization of markets produces a transfer of low-skilled labor to low-wage countries, it encourages the growth of high-skilled employment in the home country. Moreover, with production being in low-wage countries, consumers can profit from lower prices. Finally, as relocation is aimed at the acquisition of new markets, this can only have positive effects for the headquarters. A consequence of this is that companies that wish to relocate their production can rely on a strong position that facilitates their choices with few moral doubts.

In conclusion, analytic uncertainty over the functioning of the economic system and over the effects of relocation on the home country can potentially leave room for different ideas and paradigms and for different legitimations of action to prevail in the discourse. Which discourse becomes dominant among market actors depends strongly on the protagonists, i.e. on those key actors that "create" and in some cases even manipulate the discourse.

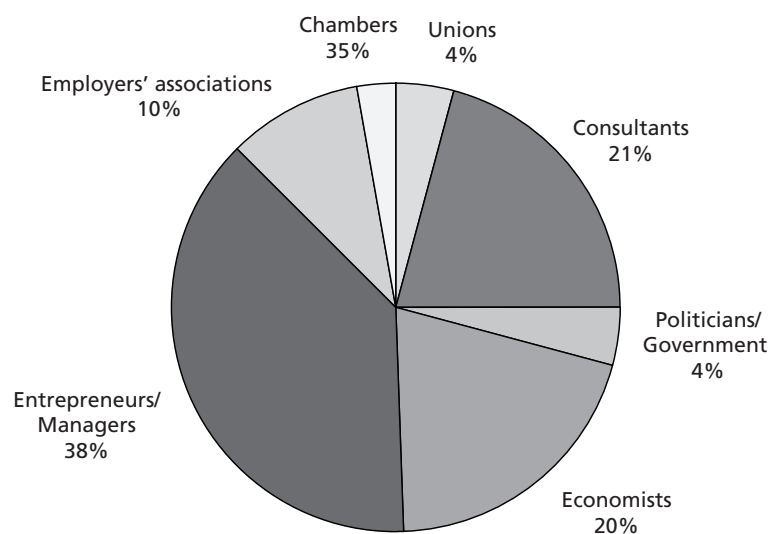
## 7 The actors in the discourse on relocation

From the analysis presented above it is clear that, since the 1990s, a general discourse oriented to neo-liberal ideas has been widespread in public debate. This is not a mere coincidence, as is quickly evident if we consider the main actors that have a direct voice in the press and the way they use the press strategically. Figure 4 shows the direct quotations identified in the press, broken down according to actors (where quoted).

Entrepreneurs and managers play an important role in the debate in two ways. Firstly, they have the major voice among the protagonist actors. Secondly, they are present in the press through the several examples of (successful) relocation. This is crucial. Changing actors' preferences often requires lead actors who have introduced changes and support them publicly – as well as successful cases. For entrepreneurs and managers to change their attitudes and preferences, the voice of their peers is much more credible than that of other actors would be. Moreover, successful examples can have a reinforcing effect and encourage processes of imitation as well. According to our analysis of the press, around 65.2 percent of the entrepreneurs/managers' quotations consider relocation positively. The remaining 34.8 percent express doubts as to the success of relocation or are in favor of keeping production in the home country.

The debate on relocation also appears to be carried out by experts, especially by economists, and by consultants. For the majority of experts (64.4 percent of experts' quotations), relocation is the inevitable expression of the importance of market principles and competition. Companies buy where the prices for raw materials and semi-manufactured products are lower, and they go where there is potential for labor-cost advantages to help them gain market shares. Competition over price implies reforms that

Figure 4 Actor presence in the German press on the issue of relocation  
(% of quotations by groups of actors)



Source: Author's calculations (LexisNexis/Atlas.ti).



reduce the role of the state in the home country. Experts provide the ideological foundation as well as the scientific legitimation for relocation. The rest (35.6 percent of quotations) consider relocation to be less inevitable and more problematic, especially for less standardized kinds of production. The competitiveness of a country should not only be measured by wage costs; productivity should also be taken into account. Finally, relocation is seen as more of a threat than an advantage to the home country.

Consulting firms have a special place in the debate. They are actors interested in increasing relocation processes, as they are sources of expertise for companies on whom they are dependent. They have used the press systematically to develop their business. It is, in fact, not uncommon for articles on relocation to have been written around the results of surveys produced by consulting firms or on the basis of interviews with consultants. It is also not uncommon to find the contact of the consulting firm interviewed at the end of the article. Their position is a bit different from that of the economists. Consultants generally underline the inevitability of relocation processes and present the findings of studies of companies and their intentions to relocate. But they also underline some risks and costs which have to be considered appropriately by entrepreneurs and managers when they decide to relocate and which can be minimized by effective consulting. Some of the quotations on the costs of relocation mentioned above have to be interpreted in the logic of profitability on the part of consultants. All in all, consultants push companies to relocate. About 66.3 percent of quotations by consultants characterize relocation positively; the remaining 33.7 percent of quotations identify it as risky or problematic.

One might reasonably expect employers' associations and the German Chamber of Commerce to figure more in the media, as the support for relocation can be considered part of a more general strategy of lobbying. In fact, 69 percent of quotations by the chambers and employers' associations describe relocation positively, as a natural option for companies to escape the burdens of German state regulation in the absence of specific policies of deregulation. However, like unions, employers' associations are generally less present in the debate, at least in the press. One explanation for this general absence could be that, as the main representatives of bigger, often multinational companies, both employers' associations and unions have mainly considered relocation as a strategy of economic expansion and not as a zero-sum game, which has become more evident recently. They have in fact started taking positions in the press only in recent years. Moreover, relocation is not seen by unions as a real threat to German employment from entrepreneurs; it is rather conceived of as an instrument for exerting pressure on the unions to alter the institutional equilibrium provided by the system of collective agreements. A second explanation is that, for the supporters of deregulation, unions and employers' associations, as main actors in the system of industrial relations, are part of the world the German economy should distance itself from. This aspect is particularly evident if we consider that most of the debate has taken place in business magazines and the more conservative press rather than in the left-wing press.<sup>12</sup>

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12 This paper does not aim to focus explicitly on the influence of the logic of media on the selec-

## 8 Concluding remarks

In this paper I have highlighted and attempted to explain a contradiction. While processes of the internationalization of production and, particularly, the willingness of companies to relocate are increasing, repatriates point to the importance of unexpected costs that can produce inefficiencies and conflicts and even lead to investment failure.

I have investigated the way the discourse has presented the phenomenon of the internationalization of production since the 1990s, with particular attention to the perceived relocation trend, the costs associated with relocation and the legitimation of the decision to relocate.

The German discourse is focused on the idea that relocation is increasing and inevitable. A further idea transmitted by the discourse is that relocation leads to cost reduction without any additional friction.

At the same time, the advantages of relocating are mostly derived in the press from the weaknesses of the German model rather than from any positive picture of the host country concerned. These presentations support the idea that relocation is inevitable, not only as a consequence of general technological development but also as an answer to government's inability to introduce reforms that assist corporate cost cutting. If the institutional conditions remain stable and the negative effects of relocation on the home country are undetermined, relocating cannot be morally "condemned" – or at least the issue remains contentious.

The constellation of the main actors in the discourse and the use some of them make of the press help to explain why this particular discourse is prevailing. Recent contributions to political economy, organizational theory and economic sociology, in particular, have shown how ideas are important in reshaping actors' interests and reorienting their behavior. The preference for relocating, like any other preference, is not given a priori but can be the result of a change at the cognitive level through the diffusion of ideas, which can make changes conceivable, plausible and legitimate. These changes can be the result of a deliberate use of ideas by institutional actors to promote cooperation or of processes of imitation supported by the social structure of the field and the diffusion of ideas themselves.

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tion and presentation of information. However, it can reasonably be expected that articles with clear (positive or negative) statements and strong slogans are more likely to be published by the newspapers and magazines compared to articles that offer more complex representations of reality; this increases the probability that a misleading kind of information will be diffused.

## Appendix

The press analysis was conducted using the software for qualitative analysis Atlas.ti. It is based on the articles stored in the LexisNexis database between January 1990 and July 2005. The database includes both German newspapers and the German business press. Some bias has to be allowed for because of the lack of homogeneity of the database. The LexisNexis database has in fact become increasingly richer over time, which of course does not permit a comparison through time. However, it can be stated that, at least since the mid-nineties, the database has begun to be relatively homogeneous. I have decided to include all the articles selected (see criteria below) for two reasons. There was a danger of losing information in a crucial time period. The beginning of the nineties are important because this is the time immediately after the fall of the Berlin wall, which suddenly opened new investment perspectives outside the country for German companies. In addition, since the topic is relatively less common in the press compared to other issues, a further selection would not have allowed enough material to be available to carry out the analysis.

Four main phases of the empirical research can be identified for the discourse analysis.

1. Defining a grid of terms, combination of terms or paraphrases related to the concept of “relocation” for selecting the articles from the database (for example: “foreign direct investments” (or FDIs), “outsourcing,” “off-shoring,” “investments in foreign countries,” “internationalization” and “industry”). Our basic database includes 400 articles in total. The analysis has been carried out on all kinds of articles, be they general reports by journalists, opinion articles or contributions by decision-makers. Although their impact on company decisions may vary (articles based on statements by economic actors can be assumed to have more influence on companies than, say, opinion articles), all kinds of articles can potentially contribute to defining the economic and institutional situation in Germany and in the target countries, to identifying trends of company behavior, to discussing problems and providing solutions.

2. Selecting quotations connected to relocation and coding. The phase of coding with Atlas.ti has balanced deductive and inductive methods. On the one hand, we have followed an initial grid of possible dimensions connected to the main research questions; on the other hand, this grid has had to be adjusted and enriched following the suggestions from the empirical material, i.e. the text of the articles. All in all, we obtained 3429 quotations, of which 666 quotations could be attributed to specific actors (see Section 7). To analyze the actors’ positions, all direct and indirect quotations by the actors were coded with the actor’s code and, where necessary, also with a content code. The analyses presented in Tables 3–7 and Figure 3 were conducted on all quotations on the topic selected. The analysis in Section 7 is based on the quotations by actors. Since the paper does not primarily focus on the media and their strategies, journalists’ descriptions of reality, claims and normative statements have only been quoted with a content code.

3. Constructing family codes. Family codes are codes situated at a higher level of abstraction than simple codes. They include codes characterized by semantic proximity and indicator relationship with the family code. The contrasted statements presented in Tables 3–7 are mainly family codes.
4. Transforming the Atlas.ti database into an SPSS matrix to facilitate quantifying quotations and comparing the contrasting statements constituted by family codes.

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