

# Chapter 8

## Transnational organizing in Europe: a case study of a multinational company in the electronics sector

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### 1. Introduction

Multinational companies have emerged as an effect of increased global competition. The ‘global firm’ (Bartlett and Ghoshal 1998) or ‘exportive firm’ (Taylor et al. 1996) takes the home country management approach and replicates it abroad, treating the global market as an integrated whole. Global firms tend to reduce the variety of business models and eventually lead to convergence, especially with regard to labour relations and human resource management practice. There is a debate concerning the extent to which MNCs are capable of transferring their business models to subsidiaries and whether host country institutions and organizational characteristics might hamper easy replication of those of the home country (for an overview of the debate see Smith and Meiksins 1995; Smith 2005). Recent research has proven the importance of sectoral differences with regard to country-of-origin effects. Meardi et al. (2013) and Ferner and Edwards (1995) argue that variations in the impact of MNCs’ global policies on employment relations can only be studied in relation to each individual firm. Nevertheless, some authors expect a broad global convergence around only one model, namely that of the United States, given the huge number of MNCs headquartered there.<sup>1</sup>

US labour relations are characterized by weak trade union density, low collective bargaining coverage and conflict where there are works councils (Katz and Derbshire 2000). Management style is characterized by centralization and bureaucratic control of the type identified by Chandler (1977). US MNCs are generally hostile towards unions and characterized by a strategic and centrally-directed non-unionism transferred to subsidiaries from headquarters (Royle 2001; Dickson et al. 1988).

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1. According to estimates, about 50 per cent of MNCs are US-owned, [http://www.forbes.com/2008/04/02/worlds-largest-companies-biz-2000globalo8-cx\\_sd\\_o4o2global\\_land.html](http://www.forbes.com/2008/04/02/worlds-largest-companies-biz-2000globalo8-cx_sd_o4o2global_land.html)

The ‘Americanization’ of business in Europe has been hotly debated in recent years; trade unions and labour representatives in particular are extremely worried by it. While the scope of the phenomenon has been identified, less is known about *how* anti-union approaches are played out in practice (Ferner et al. 2005). Ferner et al. (2005) argue that US MNCs’ anti-union policies outside the United States range from ‘high-road’ union substitution to aggressive ‘low-road’ union avoidance (2005: 704). The current contribution analyses one US MNC and its anti-unionism in the electronics sector.<sup>2</sup> The case is particularly interesting for its hard-line policy on the part of the US headquarters and the European management. The chapter will deal with anti-union policies at the European level and in selected countries in central and eastern Europe. Concerning the EU level, while the company used to have a European Works Council (EWC), conflicts between European level management and labour representatives led to its dissolution. Regarding central and eastern Europe (CEE), I present the headquarters’ union substitution policies, creating incentives for employees to resist the establishment of unions by using a range of innovative employment policies (cf. Beaumont and Townley 1985).

The chapter is based on research carried out since 2011, in particular desk research and interviews with works councils at different European sites of one multinational company in the electronics sector. It is important to note that the author has also been an adviser to IG Metall, a German trade union, in the process of setting up new ways of transnational organizing in the electronics industry. This chapter was thus written from the perspective of a participant in trade union activities and less from an academic position. The chapter starts with a brief description of the company, analysing the impact of business development on forms of labour organization and focusing on restructuring and social dumping. It continues with an analysis of labour organization in the company at the European level, basically the EWC, but also other more innovative forms that emerged in response to the specific problems of the EWC.

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2. The company is one of the major customers of Foxconn’s European sites and therefore particularly interesting within the framework of the present volume; if a company is itself hostile to labour, it will be less concerned with bad labour policies at its suppliers.

## 2. The company in brief

The multinational company (MNCE) is an US-based global company, one of the biggest players in the electronics sector, with the highest business volumes among IT companies. While initially it concentrated on the production of printers, today it produces personal computers, printers, server technology and other IT infrastructure, and offers a full range of services and software programming. According to the business magazine *Fortune*, MNCE is among the ten most important companies in the world. MNCE has more than 1 billion customers in more than 170 countries and has approximately 300,000 employees worldwide, of whom more than 75,000 are based in Europe.

MNCE is a multi-divisional enterprise, subordinating its national production and services under geographical business units that report profit and loss only to the US-based central management, which is solely responsible for strategic planning, monitoring and resource allocation among divisions (compare Williamson 1975; Bartlett and Ghoshal 1998). The European operations are thus integrated under one European management; there are still national managements, but subordinate to the European level.

MNCE entered the European market in 1959 with locations mainly in the old member states of the EU. In the 1990s, MNCE expanded its business to central and eastern Europe. Since 2009 there has been a shift in employment numbers: employment increased at sites in the new member states, while in the old member states, employment has been reduced. We clearly see a process of offshoring and relocation here, with Bulgaria and Romania benefitting most. The current workforce in the new member states is about 4,000 workers each in Bulgaria and in Romania, approximately 1,800 workers each in Czechia and Slovakia and about 3,000 workers in Poland. The largest units are always located in capital cities: Sofia, Bucharest, Prague, Bratislava and Warsaw.

Workers are mainly full-time; agency workers make up around 20 per cent of the MNCE workforce in central and eastern Europe. The number of agency workers is higher in old EU member states. Other business strategies aimed at reducing labour costs also mainly affect western European countries, where labour costs are higher. The main practices for reducing labour costs include outsourcing of divisions to local, lower cost service providers.

The qualification profile of workers is fairly diverse; most have higher education, although backgrounds vary considerably, ranging from IT, through foreign languages to a degree in history. People work as programmers or as service personnel, operating and managing customers' requests or dealing with system integration projects and consulting. The age level varies across countries, with workers in the new member states being the youngest – typically under 30 years of age – while in the old member states the percentage of those over 50 years of age is substantial.

The representation of workers' interests at MNCE faces huge challenges. The unionization rate across all countries is fairly poor. In the new member states in central and eastern Europe, labour representation is generally weak, particularly in the electronics sector; at MNCE it is almost absent. In most countries in the region, there is no labour representation at company level.

Headquarters have put in place a number of instruments to channel communication with the employees. These are union substitution measures that create incentives to choose non-union status (compare Beaumont and Townley 1985). The two most widespread institutions are employee forums and wellness programme groups. Employee forums consist of elected representatives who moderate communications between management and employees. The body has no rights and no power; it just advises management on employees' concerns and needs. Employee forums function as a 'bridge between management and employees' (interview with a member of an employee forum), which optimizes communications from a management standpoint. The wellness programme groups organize benefits for the employees, from reduced gym membership to health training. Employees working in a wellness programme are supposed to identify the needs of employees and design offers that answer those needs and promote good health. Both instruments are soft regulation bodies with no power or representational rights; their aim is to give employees a feeling of participation.

The low trade union representation is a huge obstacle for effective labour representation in the European Works Council. It is not unusual that management members become members of the EWC. Also at western European sites, trade union membership is low, reflecting the trend of weak unionization in the IT sector. However, even in where there are well established union structures or works councils, labour representatives have difficulties negotiating with the management. Because of the

management structure, national management has been deprived of negotiating power in relation to labour representatives. National management is thus becoming merely the bureaucratic administrator of upper management decisions; even if they wanted to, they have little or no scope for negotiation with local labour. The former MNCE manager for Germany left the company in 2013 because he was frustrated by his lack of influence over MNCE's strategic development in the country; for example, he could mere look on as an entire site was closed.

Across the EU, there are no sectoral collective agreements regulating wages; the only existing sectoral agreement in Spain was terminated in July 2013 and the employer was reluctant to negotiate a new one. Plant-level collective agreements also only exist in Spain and the United Kingdom; at the other sites, wages are negotiated individually between human resources and employees. As a consequence, workers complain that no pay rises have occurred. Only in the United Kingdom, where union density stands at 25 per cent, do workers benefit from negotiated pay increases.

### **3. Business internationalization and its impact on labour organization**

#### **3.1 Restructuring**

The Dot.com crisis of 2001 prompted a change in MNCE's business strategy. Like many other IT companies at that time MNCE hoped that intense internationalization would solve the crisis (Boes and Kämpf 2008). The growing internationalization resulted in several rounds of strategic restructuring, which have involved a large number of mergers and acquisitions during the past 15 years. The initial big merger was in 2002, when MNCE merged with the then largest producer of personal computers. MNCE almost doubled its personnel from 80,000 to 140,000. In 2008, MNCE bought another big software company and increased its workforce by 150,000. Today MNCE has about 300,000 employees. While this strategy increased market power, from the start the mergers and acquisitions brought many problems for workers. Two are particularly important.

First, the expansion of the company led to a multitude of different working conditions and pay systems, which were not regulated by one collective agreement that would guarantee the same standards for everyone at least

in one country. On the contrary, at each site workers experienced different standards in terms of working hours, pay or company pension scheme. In many cases, MNCE tried to lower the better standards and put pressure on workers who did not accept a new working contract with the new conditions. MNCE suggested that those workers would not be promoted or would not benefit from any kind of wage rises in the future (interview with former MNCE works council member, 2011). This pattern marks the European-wide MNCE strategy of individualizing working contracts to make labour costs as flexible as possible for the employer. Not only are employees' working conditions different in different subsidiaries, but also employment contracts and working conditions within subsidiaries and within divisions differ widely, allowing MNCE to adapt employment costs to market conditions every time they recruit new people. Particularly after the economic crisis in 2009, new workers tended to be recruited at lower wage levels than those already in employment, thus indicating a long-term degradation of working conditions in the company.

Second, before international expansion, MNCE had a distinct corporate culture, which expected a huge commitment to and identification with the corporation, characterized by strong ties between management and the workforce, leading towards hostility against all organized forms of labour interests. Works councils at MNCE therefore were often considered only as the workers' 'spokesmen' in relation to individual problems that needed clarification with the management (interview with former MNCE works council, 2011). A typical way of dealing with frustration or dissatisfaction was financial compensation. Works council members were often promoted to higher management positions as a way to tame potential opposition. Hostility was even greater against unions, which management regard as interference. However, acquisitions or mergers with other companies and in particular with the early two, brought in workforces that were used to stronger labour representation, with strong and often unionized works councils. MNCE more or less systematically tried to destabilize and destroy labour's voice. The most radical example involves the closure of an entire site of the first acquisition in 2002 in Cologne, a site that was known for its very active works councils. This was read as a warning sign against active forms of labour interest representation (interview with former MNCE works council, 2011). This incident was not unique, but part of a repeating pattern. The most recent incident was the closure in 2013 of a site in Germany belonging to the second merger company, which was largely unionized and where the union activist chair of the European Works

Council used to be employed. The site was also known to be cost-intensive due to the high average age of workers and a share of 10 per cent workers with disabilities (interview with trade union officer, 2013).

### 3.2 Offshoring and social dumping

Since the late 2000s, the search for cost efficiency has gained a new quality, doubling the number of employees in the new member states, such as Poland, Bulgaria and Romania, while in Germany and the United Kingdom personnel has decreased by 20 per cent due to the relocation of production eastwards. In addition, the company is shifting production even further east, to India and China, as well as south to Brazil. In countries such as Romania the establishment of additional capacities has been linked to the formation of a shared service centre, the outsourcing of certain divisions and services previously performed in other countries, mainly call centre operations and some elements of HR management, such as wage administration. While these off-shoring practices are not a new phenomenon in the sector (see Boes and Kämpf 2009 and Cooke 2007 for examples of HR shared service centres), the range of relocation from old member states to new member states in central and south eastern Europe has intensified during the economic crisis.

As an alternative to further relocation, the management has put pressure on sites in the old member states to lower their labour costs. This was most evident in Spain, where the national management demanded a number of concessions from employees, such as renouncing their annual pay indexation right and accepting an extension of possible daily working hours and in general longer working hours per year for the same wages. Furthermore, the management demanded that employees renounce all collective agreements regulating wages, which would have constituted a breach of Spanish labour law. Most of these claims have been rejected due to the Spanish unions' capacity for counteraction at MNCE. However, even without breaking the law, the amendments to Spanish labour law introduced in 2013 gave multinational companies such as MNCE enough room to lower labour standards. These 'reforms' affect collective agreements: company level agreements now have priority over sectoral ones, the possible extension time of agreements has been reduced and collective dismissals may be imposed more easily without costly redundancy packages. Employers can now introduce 'internal flexibility' (changes in job tasks, location and timetables) without the need for union

or works council consent; new contract forms have been introduced, allowing more ‘flexibility’: and, most worryingly, employers have the right to reduce wages without union consent (Meardi 2014).

According to the new regulations, at the Spanish sites existing workers were replaced by new ones who received only a fraction of the wages of the former personnel. According to estimates of the unions at the Spanish sites, 70 per cent of the employees have been downgraded and earn less than 1,000 EUR a month, compared with 4,000 to 5,000 EUR a month formerly. At the same time, the share of agency workers has been increased. In addition to cost efficiency considerations, there was also a tendency to dismiss workers who were older than 40 years of age and those who worked in strongly unionized units, which weakened collective workers’ representation considerably (interview with Spanish works council, 2013).

## **4. Transnational labour representation**

### **4.1 European Works Council**

The above-described situation of weak labour representation at national level makes it clear that for a global company such as MNCE only transnational labour representation make sense for workers. The EWC was founded at the company in 1996, which turned out to be one of the largest EWCs in the EU. The EWC represents 27 countries and has 44 members.<sup>3</sup> According to the literature on EWCs, however, this EWC – as I will show – barely represents a symbolic EWC (the least effective labour representation) (Lecher et al. 2001); although formally constituted, it does not really operate effectively. Even compared with other symbolic EWCs in multinational companies the situation at MNCE is bad. It was only in 2011 with the election of a new steering committee that the poor quality of the EWC’s functioning became an objective for change. The new steering committee wanted to give the EWC more power and therefore

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**3.** The elections of EWC delegates were organized by local management. In some central and eastern European countries there were rumours that elections were not carried out transparently and that managers became delegates. If members are unionized, however, we know from research that the impact of an EWC can be huge: though the expectations of CEE members with regard to the impact of an EWC are quite low (Tholen/Hemmer 2005), positive effects for members are informational advantage and a kind of legitimacy (Meardi 2002); also, local union fragmentation can be halted by the need to agree on a common EWC member (Voss 2006) and awareness can be raised that relocation is a permanent threat also for CEE sites (Dehnen 2010).

proposed signing a new and better EWC agreement. The European management opposed a new EWC agreement and continued its form of cooperation, characterized by a lack of consultation and providing only minimal information. No strategic or important issues that affect employment was discussed during EWC meetings. While this lack of information and consultation has been well documented elsewhere, the situation at MNCE escalated. The EWC employee representatives considered that fundamental legal rights conferred on EWCs were neglected by the management; in particular, training for EWC members was challenged, and external experts were not approved.<sup>4</sup> Furthermore, when a huge restructuring was planned for the entire corporation – merging two MNCE divisions – the EWC only learned from the media that 29,000 jobs would be lost, representing about 8 per cent of total employees, of whom 8,000 would be lost in the EU. The EWC declared its dissatisfaction with the level of information given by the management and accused MNCE management of failing to provide adequate information to employee representatives at the national level, as well as of violating the information and consultation rights given by the EWC agreement. The EWC announced, first, that it would like a judicial decision on the right for external experts to discuss these far-reaching restructuring plans, and second that it would terminate the current EWC agreement as the EWC cannot work and fulfil its role for the workforce given the limited information they received.<sup>5</sup> However, before the first court hearing took place, an MNCE lawyer asked to postpone the hearing and for negotiations to be resumed. MNCE's European management feared negative press and therefore agreed to a new EWC agreement. The new agreement was to be registered under UK law and the existing EWC would be the negotiating body for the new agreement. Management also agreed that the EWC would receive training about UK legislation and could work with experts chosen by them. This concession by the European management was not the end of the story, however, but the beginning of further rounds of negotiations that led eventually to the EWC's dissolution.

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4. Management even checked passports to prevent the participation of non-MNCELEC employees, such as experts, before EWC meetings.
  5. The new agreement should be reached within one year, negotiated by an internal new negotiation body consisting of 13 members elected out of the members of the existing EWC. A new EWC has to be set up if local managements of at least two European countries demand its establishment. The EWC also assumed that a new EWC could be established under UK law. The biggest share of the workforce is located in the United Kingdom and thus it would be natural to set up the EWC under UK law. Although the UK has implemented only a minimalist adaptation of the new Directive it would still offer a better standard than the old agreement.

When an EWC dissolves, a company – upon request – has to establish a so-called special negotiating body (SNB) consisting of representatives from each country in order to discuss the conditions of a new EWC agreement. The formation of an SNB, however, is not without risks for labour representation. First, it can take a long time and thus leave workers of the company without any form of representation at European level. Second, because members of the SNB are elected individually in each country, there is a huge risk that management will become delegates to the SNB or obtain substantial influence over delegates in countries that lack labour representation. In the case of MNCE, it turned out that, after the election of the SNB, less than half the members were unionized. The negotiations between the SNB and the management are ongoing. So far, there has been no break in the negotiation culture. Management continues its policy of impeding dialogue. It refuses to provide interpreters for members who do not speak English well. Furthermore, the members of the SNB have not received preparatory training, which again violates their rights laid down in the EU Directive.

The experiences of the EWC at MNCE call for a new analytical category. Its information and consultation rights are violated so it cannot be classified as a participatory EWC. However, the labour representatives have been very active, so it cannot be classified as purely symbolic. It is an active EWC that confronts an obstructing European management, which eventually led to open and even legal conflicts. I propose enlarging the EWC classification to include a new ‘conflictual’ type.

## 4.2 Other forms of transnational representation

Given the formal weakness of the EWC, during its existence the EWC board mobilized as much support as possible. Their attempts are fairly unique in the electronics sector. First, they built up a transnational alliance of trade unions operating at MNCE in October 2012 – the so-called MNCE European Alliance – to build up a parallel forum for exchange and communication for the time the EWC was not operating.<sup>6</sup> Second, the EWC organized transnational support across the company’s

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6. Members of the MNCELEC Alliance included works councils that are unionized and trade union representatives of the respective countries, as well as works councils (mostly from CEE countries) that are not yet unionized but are considering the foundation of an MNCELEC enterprise union.

sites for unions to ensure that the elections to the SNB respected union candidates and were organized in a fair and transparent manner. Third, the EWC directly contacted MNCE central management at headquarters to gain more public attention, assuming the last thing the CEO wanted was negative press.

The MNCE European Alliance is of particular interest as it represents a new form of transnational labour organization. Its objective is to coordinate ad hoc trade union responses to corporate decisions across Europe. It aims at coordinating strategies against workforce reduction; supporting collective bargaining; and increasing union membership in the company in order to improve working conditions. Their focus is thus a bit different from that of a EWC as it tries directly to support the establishment of unions at company sites in countries in which management opposes unions. It is thus explicitly union oriented. The most recent case is that of Bulgaria, where the foundation of a trade union – the first at the company in one of the new member states – provoked strong resistance from the management. To give some examples of the type of resistance I myself experienced as a delegate to an international union networking event: potential participants in the networking event from CEE countries did not get travel permission from their local managers and potential participants from Bulgaria were repeatedly asked by the local management not to go. Local management did not participate despite being invited. Nevertheless the attendance was fairly good and numerous participants joined the local union afterwards.

## **5. Conclusion**

This contribution has shown the impact of a US MNC on labour organization in Europe. The company has systematically undermined fundamental labour rights and standards guaranteed by law, European directives, collective bargaining and codetermination. The question posed at the beginning of this chapter – concerning the extent to which business in Europe has come under the negative influence of US-based MNCs – can be answered straightforwardly: in the electronics sector, this influence is rampant. This is alarming for anyone interested in European labour organization. The example under study goes beyond what we know from the literature in terms of denying the EWC's rights to information and consultation, preventing other forms of labour organization at the national and transnational level and cutting back labour standards. In

particular, the practice of restructuring in an attempt to get rid of cost-intensive and unionized workforces is alarming for European labour.

In the case under study, the multinational company has transferred its business model and its ideas about business and profit-making to the EU and the negative effect on employment has been EU-wide, regardless of the different host-country institutional contexts. The analysis has shown that managers who deviate from corporate strategy will be pushed to resign, while works council members are likely to be fired or threatened. The only actors trying to resist are trade unions and unionized works councils. However, we have seen that a traditional representation body such as a EWC rapidly comes up against a wall. Despite being very active and conflictual the EWC was not able to change any corporate strategy. This is not only frustrating for the members, but puts a serious question on the table: how can European labour standards and ideas about good business practices be protected? New forms of labour representation, such as the union-based Alliance, are an experiment that show the degree of international solidarity and an increasing networking capability among unions across Europe. Beyond that, however, new forms are needed to effectively counterbalance some of the negative employment practices stemming from US MNCs. The immediate reactions of MNC management towards any negative press might indicate its Achilles heel, especially as a corporation that puts a lot of emphasis on corporate social responsibility. However, it would be better to find institutional solutions based on more than attacks on corporate reputation.

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