THE IMPACT OF GLOBALIZATION ON EMPLOYER AND EMPLOYEE RELATIONS IN GERMANY

by

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In Germany the relationship between employer, *Arbeitgeber*, and employee, *Arbeitnehmer*, has changed as a result of globalization. There is a strong history of labor union support in Germany, and thanks to the labor unions German employees enjoy some of the most generous compensation and benefit packages in the world. In the face of globalization, pressure to cut costs to compete globally has strained the relationship between employees and employers. Through the analysis of six different cases some of the most important changes to this relationship are illustrated. The six cases are: Kaufhof, ThyssenKrupp, the coal industry, Deutsche Bank, Volkswagen and Daimler Chrysler.

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CHAPTER I: INTRODUCTION

Overview

Since the 1960s, the economies of the world have become increasingly interconnected. The word "globalization" has been coined to describe the process of global interdependency of world economies. People's feelings toward globalization vary. Some see globalization as a process that exploits workers in countries with low wages while at the same time creating huge profits for global conglomerates. Others view it as a breakthrough in world trade that has broadened markets, increased employment and helped meet the needs of people on earth. Regardless of how one views globalization, it has stretched the fabric of social structures worldwide. Changes, created by globalization are difficult for people to adapt to causing social friction.

This thesis will focus on how German society and specifically the relationship between "Arbeitgeber" and "Arbeitnehmer" have changed as a result of globalization. These German words for employer and employee themselves to indicate the classic relationship between the two in German society. "Arbeitgeber" and "Arbeitnehmer" literally mean work giver and work acceptor respectively. These words illustrate the

social bond between employer and employee. The employer "gives" work. This bond is reflected in German laws, which prevent employers from reducing the number of employees. The law demands a "socially acceptable" reason for laying employees off or firing employees. Germans often work their entire life for one company, a situation that characterized employee/employer relations in America up until the 1980s. In the 1980s, American business downsized considerably. It took some time for the American economy to recover, but now it is effective and efficient. The flexibility provided by American work relations has allowed greater labor flexibility for companies, which has translated into stronger growth and lower unemployment. Currently, German labor laws and relations are too inflexible. Greater flexibility in the short run would increase unemployment in Germany, but in the long run would strengthen growth and decrease unemployment. The German employer/employee relationship will probably change in the next decade, though these changes will surely be tempered by German social values. Longstanding social norms only change with great changes in the environment in which they apply.

There are many examples of the influence of global cultural interconnectedness on Germany. The societal influences of globalization are impossible to measure. Media has become global, resulting to a certain extent in a global homogeneity of media products. Even the desires of German people have changed as a result of increased exposure to global cultural. This thesis will explore certain cases of cultural changes due to globalization.

Beyond cultural changes, there are many German firms which have become major players in the global economy. The cornerstone of this thesis will be the analysis of the

mergers of Daimler and Chrysler, Thyssen and Krupp, as well as the acquisition practices of Deutsche Bank. The industries that will be explored are retail and the coal industry Lastly, Volkswagen and Daimler's policies affecting the German auto industry will be compared. These industries and companies are "barometers" of Germany and its economic health.

These businesses qualify as "barometers" because: they are among the largest companies in Germany, Japan, and the United States (*Fortune*, Global 500), together they represent about 13% of Germany's GDP, a significant portion of Germany's economy (*Fortune*, Global 500), and they represent a proportionally large part of German employment. Reactions to globalization by these representative companies with respect to the concept of "work" in general and with respect to employer/employee relations in particular, will allow me to draw conclusions about changes in the German business world. Each one of these companies has experienced a "critical event," and I will analyze its effect in my analysis of the situation before and after that event. Examples of these events are the renewal of labor contracts or changes in hours worked. I will specifically focus on the social bonds between employer and employee, employees' quality of life (pay, number of hours worked and relative job security) both before and after the critical event. This thesis will argue that German companies want to change the relationship between employers and employees, that employees will benefit from this new relationship and that these changes will impact German social norms with regards to pay, number of hours worked and job security.

Projections

The analysis of six different large "barometer" businesses should indicate how "work" is changing due to globalization in Germany. Since these businesses are leading businesses in German industry, they serve as examples for other businesses. It is safe to assume that their changes with respect to work hours and compensation are indicative of changes on a larger scale. I expect that low-tech production and the jobs connected to it are moving abroad to low-wage markets in order to lower production costs. Daimler has lowered its overall production costs by building production sites in Alabama, Brazil, Austria, the Czech Republic and Spain. As governments worldwide reduce regulations impeding global trade it becomes increasingly attractive for firms to move production sites worldwide. This study of large, economically important, German companies studies this trend.

How Germans relate to work reflects the changes in the structure of work. These changes and the resistance to them are mirrored both in the diverging opinions of younger and older Germans, and also in the pressure many Germans face to change their traditions toward global homogeneity. Narrowly examining social changes will reveal any connections to changes in the work environment.

Where does this research fit?

My thesis is on the cutting edge of economic and social research. Some research and publications have addressed certain aspects of this topic in different regions of the

world. For example, much research has been done on how globalization influenced the economic crash in Asia from 1996-1999. My research ties together some of the micro-focused research done by institutes in Germany. The research attempting to connect the impact of globalization and the European Union with social problems surfacing in Germany is not extensive enough. Much of the research done in German is focused on specific, small-scale issues, for example, the effects of extended trading hours on Germany's financial exchanges on the opening hours of the Bremer Landesbank (ECU, 48). The European Commission has commissioned many studies on European integration and the impacts on countries in the European Union, one example being New Forms Work Organizations: Case Studies 1998. Many universities have created institutes to study "Globalisierung," how it affects Germans, and to discuss possible reactions to global economies. The Universität Bremen, Institut für Interkulturelle und Internationale Studien--focuses on cultural differences, global relations and conflicts, globalization, international institutions and European integration. The Institut für Sozialwissenschaftliche Forschung studies industry, work, professional social developments, globalization and global ecology. Universität Duisburg Institut für Entwicklung und Frieden studies the processes of globalization. The Institut für Arbeit und Technik (IAT) studies mainly the division of work and creation of new jobs with respect to global business. The Institut für Weltwirtschaft analyzes the process of globalization. These institutes all focus on many of the issues related to my thesis.

My paper presents a thorough overview of some of the current research findings as they relate to the topic of work and employment in Germany. In addition, it analyzes current trends in the business world in order to extrapolate what are some of the future

social and economic changes that Germans must face with respect to their work environment. In my analysis, I will not only focus on highly publicized cases--as previous studies by *Die Zeit, Der Spiegel,* and other German publications have done--but look instead at the six largest companies in Germany. I thereby hope to present a more accurate and general picture of the changes and problems Germany is currently facing.

What is the scholarly significance of this research?

This research will present groundbreaking connections between globalization and the social changes Germany is experiencing with respect to work. I feel the way human beings relate to work is reflected in many of our social norms. This research is important because it will highlight the economic realities of globalization in Germany and shed light on what future changes may occur.

CHAPTER II: GLOBALIZATION

History of Globalization

Globalization is a process that began long before the word was coined. First, this chapter will discuss the history of global business (globalization). Next, it will explore the history and developments of globalization and its effects on the Germany economy. Finally, this chapter will close with the current state of globalization and the importance of globalization to Germany. As trade barriers and tariffs decrease, Germany must adapt both economically and socially to a world becoming increasingly interconnected. As the famous saying goes: a butterfly in the Amazon Rainforest can flap its wings and change the weather pattern in Kansas. So too can the temporary shutdown of one microchip production facility in Taiwan change world financial markets.

Before World War II, most countries had isolationist policies that prevented any one country from becoming dependent on other countries. This strategy made sense for countries during this time period, because international communications and transportation technology were not advanced enough for global trade to function efficiently or for that matter effectively. At this time, it would have been foolish for a

government to think that global trade could reliably satisfy domestic demand for goods or satisfy those demands more efficiently than domestically producing the goods. On top of these factors, the demand for foreign goods was considerably lower than today. Over time, the demand for foreign goods has increased for many reasons, but some key factors are the increased supply and lower prices of foreign goods and advances in transportation and communications technology.

International trade increased dramatically after World War II (Chesnais 15). From every country involved in World War II, many soldiers had experienced different cultures in many different countries of the world. These new experiences have been credited with jump starting the demand for foreign foods, goods and (in some cases) services (Chesnais 16). In 1947, twenty-six nations created an agreement on international trade, GATT (General Agreement on Trade and Tariffs), which effectively outlined their generally agreed upon principles for international trade (Cornell). Interestingly enough, out of the three countries with the largest values in international trade only the United States (the largest) was party to the initial birth of GATT. Germany and Japan, number two and three respectively in international trade volume, did not participate or sign the agreement (Cornell). In a report issued by Cornell University it is speculated that Germany and Japan did not participate in the agreement because they were not openly invited to join by the other winning countries of World War II. Later, both countries would sign the agreement and participate in the continual reevaluation of GATT. GATT attempts to control tariffs and trade barriers, thereby simplifying and increasing international trade.

The European Union has never been recognized by GATT (Phelps 8). In a certain way this fact illustrates how the EU has reacted to world trade. In the early stages of the European Community, the forerunner of the EU, little policy was decided collectively, each individual country still had separate tariffs for and relations with individual nations. In the late 1950s and 1960s, the economies of many European nations were booming. In 1966, Italy had the highest unemployment rate in Europe at a low 3.4% and Germany had the lowest at .3%. Few European governments had protectionist policies toward international trade, which is reflected by the fact that in 1966, only 20.8% of imports were subject to tariffs, a rate lower than the United States, Japan and the world as a whole (Phelps 20). By 1986 this trend would change: 54.1% of imports into EU countries were subject to tariffs, much higher than the United States, Japan or the world as a whole. This reflected the increasing trend of protectionist, anti-trade policies that many EU governments espoused.

Marc Humbert, a French economist, described the situation during the 1960s in the following way: "a dominant nation (America) and its firms, several semi-dominant (European) nations and their firms were exercising their economic power upon the rest of the world" (5). In the 1970s this situation would change, first, because Japan became an international economic power which balanced European and American economic power (Humbert 5). Second, the world changed because of the emergence of a so-called "New International Division of Labor" (Humbert 5). The "New International Division of Labor" refers to the process that occurred during the late 1970s and early 1980s of low-skilled industrial production moving to lower-wage nations. During this period, some Less Developed Countries (LDC) became net exporters partly due to foreign

multinational firms manufacturing goods in the LDCs and exporting to the leading countries (U.S., Japan, Germany, etc.), which were often the location of their headquarters (5). In the early 1980s GMC and Ford both began to locate some parts-production in Mexico (22).

Current Trends in Globalization

This short history brings us to present-day Germany, the European Union and the world as a whole, where international trade has become an economic necessity. One can also recognize the current facets of globalization in its roots. An eloquent definition of globalization, by Marc Humbert, sheds even more light on the present state of world trade: "Globalization is the name given for the lack of a theoretical concept matching more closely observed phenomena" (1). His comments on the state of globalization reveal that globalization, in his mind, has yet to run its full course and will become even more pervasive, ending in total world economic integration akin to a domestic market:

> Although we are far from a world integrated economy, which would rationally characterize the completion of a wide globalization process, we can point out that the evolution of important economic variables, which are necessarily localized and important to the economic future of their location, depends on economic forces that are mainly driven by non-local factors" (Humbert 1).

Also, Humbert states correctly that control of our economic destinies is changing from local to global levels; one no longer controls one's own "financial destiny." Francois Chesnais' emphatic, but no less sober declaration about globalization provides even more detail about globalization, while at the same time creating a social setting from which one should consider globalization:

> Globalization is a state of fact. It expresses the increased advantages and opportunities for value- and profit-creating production, that are now open to certain types of firms (the restricted group of large multinational enterprises (MNEs) belonging to the principal world oligopolies), but also the severe constraints placed on smaller firms, governments outside the G7 and non-corporate social interests in all countries: for all of the latter, today globalization and all its consequences are facts, and only fairly determined policy enacted simultaneously in at least several large countries could reverse this trend (12).

Globalization is "here to stay." If one looks at the one hundred largest companies in the world, all but eighteen are American, German or Japanese, which indicates the concentration of economic power in a few countries (*Fortune*). The combined revenues of the top one hundred firms almost equal the combined revenues of the bottom four hundred firms of the 500 largest firms in the world (*Fortune*)! These data are interesting, but the repercussions of such a concentration of economic power are startling! To illustrate the power of these top one hundred firms one can look at their total combined revenues of almost six trillion dollars and compare it to a test country, Germany, which has a GDP of a little over three trillion dollars (*Fortune*). That figure, six trillion dollars, is almost double the GDP of Germany, the third largest economy in the world! Monsieur Chesnais points out the "other dimension [to globalization] is the loss of many of the attributes of economic and political sovereignty suffered by an increasing number of countries (probably all save Japan, Germany, and the United States)" (13). Countries are becoming powerless to change the world integration of firms. The fact that the revenue of the world's one hundred largest firms is almost twice the GDP of Germany reinforces Chesnais' statement that, "today globalization and all its consequences are facts, and only fairly determined policy enacted simultaneously in at least several large countries could reverse this trend" (12). The power of these large companies is truly impossible to measure and it is hard to say whether Chesnais over- or underestimates the power of the

global economy. Clearly, these large companies, all of which have comprehensive international strategies, have great power collectively (*Fortune*).

Firms create global strategies for other reasons besides accumulating immense power. For example, a global strategy creates many cost advantages. After all, globalization occurs first and foremost because of economic factors. To begin to comprehend globalization and why it impacts every society in the world, one must first make some assumptions about for-profit business. According to classic western business thought, a for-profit business must continuously grow both in volume and profitability in order for it to add value for its stakeholders. When analyzing a company that has reached market potential for its product, one will find that the value of that company has peaked and possibly even declined. This situation creates a paradox: businesses are trying to continually expand on a finite earth, with a finite number of customers and amount of resources.

The goals of for-profit businesses result in our current state where many companies attempt to reach as many consumers as possible, but have yet to exhaust the supply of new consumers or resources. Attempts to reach new consumers and resources are often translated into a global strategy of expansion into underdeveloped markets. Though many criticize globalization for its negative effects--such as the possible exploitation of people in less developed countries or the imposition of western economic and social norms on other cultures--the concept is clear to any businessperson. One aspect of the concept is the outsourcing of products to countries with lower labor costs and the distribution of these products to countries with higher incomes, resulting in a large spread and high profitability for the companies. A second aspect results from

countries levying high import duties on products. Businesses can avoid these duties by producing goods in the target country or often in one of the neighboring countries (neighbor countries often have favorable trade agreements). For any growing business, these two factors alone make globalization a natural strategy to earn higher profits and to create faster growth.

For similar reasons (higher profit and faster growth), in the past twenty years, around the world there has been strong domestic concentration in many industries (Humbert 8). Now that most domestic markets in developed nations are highly concentrated, firms in these countries have begun to look for new markets to expand into (8). This trend in the past five years has continued to the global level creating global oligopolies (8). An oligopoly is a small group of firms that have monopolistic like powers. Examples of global oligopolies are the large passenger aircraft market, the chemical industry, pharmaceuticals and elevator industries. Many economists feel that concentration ratios, the percentage of any given market controlled by the top five, ten or any selected number of firms, on a domestic level are no longer valid. Instead many economists feel that the largest five or ten global firms in terms of total assets or sales realistically describe the power of firms in any market given current global economic trends (Holmes 98). Chesnais believes globalization and the formation of global oligopolies occurs when:

> 1. Industrial and technological development has both created opportunities and imposed constraints on firms (notably in the form of large R&D costs which must be recouped) to make them produce for the world markets distinct from even the largest domestic markets and also to source key inputs to production, notably in the form of scientific and technological advances made in foreign countries on a worldwide basis; and 2. When concentration, after having developed principally on a domestic basis, has evolved as an international process involving

> transnational cross investment occurring in the form of acquisitions and mergers (Chesnais 15).

As this quote points out, the savings on R&D or broader distribution of new products are key impetus for globalization. Global firms can research technology in more advanced countries, then source the production to lower-costs countries and sell it to all markets. This process lowers costs, thereby increasing profits. Examples of this process occur often. Probably one the most notable is the merger/takeover of Chrysler and Daimler. Companies, such as Nike, are famous for creating products in technologically developed nations, then producing these products in low-costs countries.

The "transnational cross investment[s]" represent the changing times of global business, which government regulations or policy have yet to adapt to. "More sales by US firms come from overseas production than from exports. Traditional instruments of trade policy do not work as they once did" (Holmes 96). This is an interesting concept because most often people hear about the "trade balance" of a country; for example, Germany had a 128 billion-dollar positive (more exports than imports) trade balance in 1998 (Consulate Facts). Excluded from this calculation are sales in foreign countries by national companies. To illustrate this one can use Volkswagen as an example: Volkswagen produces cars in Brazil and also sells cars there. The cars produced and sold in Brazil are not counted in the trade balance for Germany, although the profits from these sales are eventually repatriated to Germany.

These trends in globalization have resulted in Germany becoming increasingly dependent on global markets and German companies globalizing their search for capital. Chesnais predicts that governments can no longer control all aspects of their economy

with the, "onset of financial globalization, which has led especially to the formation of totally international financial and monetary markets, placing governments under the sway of the level of interest rates established in the strongest countries" (13). Fortunately, Germany is one of the largest economies in the world and is not at the total mercy of foreign financial markets. One questions how long Germany can retain this sovereignty, as global financial markets and companies become larger and increasingly interconnected. Even now, Germany cannot enact regulations, which would drive companies from Germany. The threat of firms moving production from Germany is very real, as Daimler illustrated by moving some production to America, Spain, Brazil and the Czech Republic. A wholesale departure of large companies from Germany would result in catastrophic economic consequences for Germany.

CHAPTER III: THE GERMAN ECONOMY

The Challenges Facing Germany

Germany's economy is a so-called "social-market economy." There are three key factors that make Germany susceptible to trends in global business: Germany's "dual system" of education, credit-based capital markets and powerful labor unions. Germany's internal system of educating and training future workers relies heavily on industry participation. This participation results in a highly qualified work force, but makes Germany especially susceptible to changes in industry, and thus changes in industry due to globalization. The easiest way to understand this is with an example. The coal industry in German is slowly moving to foreign countries. Long-term positions in it no longer exist, but over 2000 students still enter the field as apprentices. The government subsidizes the coal-industry apprentice programs because there are not enough apprenticeships for the number of students without government support. This causes structural problems for the German "dual system" of education. This example illustrates the challenges globalization can create for German society.

German companies are greatly affected by two norms of German business culture. First, Germany's credit-based financial system concentrates a large amount of economic influence in the hands of few large banks. With only a few people having such power, the German economy could fall prey to "group think," (group think means that differing opinions are stifled and only a few opinions are considered). In credit-based financial systems capital markets are weaker. German banks own significant portions of their corporate customers' securities and provide most investment credit (Whitely 31). Economies with strong capital markets tend to have a wider variety of capital options, because more people, and thus opinions, participate through the purchase of stock. The second and even more pervasive aspect of German business culture affecting German business is large, powerful labor unions. The labor unions make it difficult for quick changes to the labor structure of a firm. They have also increased the wages and benefits of employees in Germany. German employees are well compensated and secure in their positions thanks to the labor unions. This has a positive impact on German society as a whole. Unfortunately, some foreign companies, such as Ford Motor Company, which has moved much of its production to lower-wage Britain, choose not to locate production in Germany. These factors--a well-trained labor force, plentiful capital and labor unions--make Germany at the same time attractive and unattractive to businesses wanting to do business in Germany, but also make Germany vulnerable to globalization and its changes to business. This would not be a problem if the productivity of German workers was compensatory with their pay.

Many economists and the German government have been concerned about the changes in labor, education and financial markets that have taken place in the past two

decades. The 1980s and 1990s have seen a steady increase in wages, decrease in work hours and increase in vacation time (Turner 110). Some German economists wonder about the future of the viability of *Standort Deutschland* (Germany as a production site) (Turner 110). The state has been accused of excess subsidization of aging industries, such as the ten-and-a half-billion Mark subsidy to the hard coal industry (Muller 2). Affecting even more companies is the high a tax burden, the highest tax bracket is over 50% (2). The strong links between banks, industry, and the German system of corporate governance as a whole have been criticized (2). As big German corporations are becoming increasingly dependent on international capital markets, they are under more pressure to comply with Anglo-American financial rules (2). Anglo-American financial rules demand greater disclosure of performance and prevent the concealment of high profits or losses.

The Education System

The stress of a changing global economy has not only influenced by German industry, but also by the German education system. Germany has a "dual-system" of education, where there is extensive cooperation between the government (schools) and industry (EC 172). In Germany, the close ties between industry, schools, researchers and scientists were forged at the beginning of the industrialization process and are ascribed to the early attainment of equality of status between technical universities and traditional universities (Whitely 71). The system, in recent years, has been ineffective at matching training and schooling programs with industry needs, resulting in not enough candidates

in many service sectors and too many in traditional manufacturing and construction sectors (EC 176).

The poor match between training and available positions can also be related to global trends, by which production facilities move to low-cost markets and the design and R&D of products remains in highly developed countries. Most design and engineering tasks have remained in Germany, but the production facilities for less technologically complicated products moved to lower-costs countries. Some Germans, who have been trained in less complicated production technologies, are unable to find jobs in Germany. Economies in most highly developed economies have changed to service economies. From 1991 to 1995, the makeup of the labor market in Germany changed considerably; in 1991, 51% of jobs were service jobs, whereas in 1995 62% were service industry jobs (EC 26). Clearly, Germany is continually becoming a service economy, though not yet to the extent of the American economy, where 75% of jobs are part of the service sector (28).

The trend toward a service economy creates interesting demands on an education system. For example, from 1991 to 1995, the number of employees in almost all manufacturing and construction sectors in Germany declined and the sectors with the highest growth were the retail, accounting/financial, high-tech, architectural, and healthcare sectors (65-74). The German government estimates that in the next decade the demand for university trained employees will grow by 10% and the demand for technically trained employees will grow by 14% to 19%, both above the overall growth in the job market (EC 38). In the chemical industry, "the percentage of employees with a university degree increased from 4.3 per cent in 1982 to 7.0 per cent in 1994. Graduate

employment in banks has increased even more; for example, the graduate ratio of Regional Bank increased from 6.2 per cent in 1985 to 16.1 per cent in 1995" (Muller 8). The changes in the chemical industry and the banking industry result from two separate trends. As the chemical industry has progressed, the demand for university-educated employees has increased (8). In contrast, the level of education in the banking industry appears to have increased because fewer university graduates can find positions in their desired field (9). These graduates instead have migrated toward the relatively stable, well-paying jobs the banking industry provides (9). Unfortunately, the Germany higher education system cannot meet the demand. It is designed to handle 800,000 students per year, and now handles 1.5 million students, but is overcrowded and inefficient (EC 38). The average age of higher education graduates in Germany is twenty-seven.

A serious threat to the German system of initial vocational training is the long-term increase in graduate employment (Muller 8). The increase in demand for university or technical school certifications results in a lower participation in vocational programs, which are a cornerstone of the German education system. The majority of students participate in training programs or schools sponsored by industry and government. "Between 1985 and 1995 the apprentice ratio in the chemical industry fell from 5.5 to 3.9 percent and in commercial banks from 9.0 to 6.3 percent" (Muller 7). These data represent the ratio of apprentices to normal employees and illustrate this frightening change in German industry. It is worth noting that, whereas almost all German-owned firms have some form of apprenticeship program, the majority of the foreign-owned firms either have limited or non-existent training programs (Muller 4). Germany's education system is producing to many industrially skilled students but not enough

service industry or highly skilled students. As Germany's economy changes to a service economy it demands more skilled workers and less vocational ones. The changes to training programs in Germany represent only one of many challenges facing Germans as the demands of the world economy change.

The Labor Model

Germany needs to become more competitive in the global market. In 1993, a study commissioned by the German government issued a warning that high labor costs, long vacations and inflexible labor negotiations were harming Germany's global competitiveness (Turner 111). The report compared trends in other advanced industrial societies in work hours, productivity, flexibility and wage levels; it concluded that German industry showed negative trends in all areas (Turner 111). Germans face the "threat and reality of employer disinvestment in Germany, itself a product of high labor costs and declining competitiveness in an era of 'lean production,' intensified trade competition, and new reservoirs of low-cost skilled labor in central and eastern Europe" (Turner 24). In short, as Michael Muller says: "the government, employers, the media, academics and foreign observers have questioned the viability of the German model and have suggested that it must be changed" (Muller 1).

The challenges facing the German model are many, but a good is example is the cost of industrial labor in Germany. Industrial labor in Germany now costs $31.76 an hour in western Germany and $20.82 in the eastern part, compared to $20.26 in France, $14.63 in Britain and around $17.50 in the U.S. (Banks 130). Social security taxes

represent 13.5% of the GDP in Germany, 8.5% of the GDP in the United States and 18.6% of the GDP in France (Arthur Andersen 6). The extra social security taxes do not explain why Germans are paid more. The strength of labor unions in Germany is probably the best explanation for higher labor costs in Germany. To justify the level of wages, German workers would have to be almost twice as productive as American workers are. Otherwise, they become inefficient in comparison to other industrialized labor forces. However, this is not the case; industrial workers in the U.S. and Germany, depending on precise area, are close to parity. This translates into many opportunities for German businesses to lower their labor costs by moving their production facilities outside of Germany.

The powerful German labor unions have been the biggest stumbling block for many international and domestic companies in Germany. In the 1980s, around 90% of the West-German work force was covered by collective agreements, negotiated by trade unions and employer associations (Turner 29). This figure still remains high, but has dropped some in recent years. Howard Banks of *Forbes* summarized the German labor market as having a "legal and customary straitjacket" preventing it from becoming competitive with the rest of the world (Banks 134). Banks believes that the labor laws in Germany are too inflexible and force German companies to have more employees than they need; they in turn employ fewer employees, because it is so difficult to lay them off.

Michael Muller, a prominent European economist, believes "German business is embedded in a system of social institutions, which legally impose a uniform set of arrangements on companies and/or provide incentives for employers to accept institutional constraints. In this system change is achieved by negotiation rather than by a

unitary imposition of managerial decisions" (1). This is much different than America's adversarial relationship between management and the rank-and-file or Japan's somewhat unified vision between workers and management. The German system results in a social partnership between management and workers, overseen by the government, which plays a low-key role. Social partnerships begin with employers and employees recognizing that each has legitimate, but contrasting interests in the workplace, the company and the economy. This recognition allows a win-win negotiation because each side understands the differences and is willing to compromise on a jointly acceptable agreement (Turner 31).

In theory, the labor market has a "touchy-feely" air to it. The labor market provides for both sides of the equation, labor and management, are supposed to be happy. Though one may question the success of the "German model" in recent years, it is still extremely effective at providing a socially responsible solution, where most people are "caught" by the social "safety-net." But the long period of high unemployment that Germany is experiencing has drained money from government coffers, decreased resources that could be used for investment and modernization, and strained labor relations (Turner 114). In addition, labor unions the world over have had to overcome declining membership and increased opposition to unions from companies (25). The deterioration of labor's market power in the face of rising unemployment and the changing character of international competition have produced pressure for a decentralization of bargaining (Thelen 156).

Some of Germany's unemployment problems are linked to globalization and others resulted from the reunion with East Germany. The large labor unions, with the

blessing of the government, intentionally created conditions in East Germany that led to high unemployment. The government and unions decided labor contracts negotiated in East Germany should be set at 62-68 percent of the West and would slowly reach parity over a decade or more (Turner 41). The low productivity of East German workers warranted the lower wages, but the low productivity was partially related to outdated machinery, and for the most part was only temporary (41). West German business did not invest heavily in East Germany because the low productivity and wage levels--though only 62-68 percent of West-German wages--resulted in even higher labor costs than in West Germany (42). By the end of 1991 1.1 million (out of the 9.8 million formerly employed) East German workers, mostly skilled, migrated to higher-paying jobs in the West, causing even more unemployment in the West (43). This example illustrates the power of labor unions in Germany's labor market and also the difficult economic situation, which the German economy must overcome in addition to the challenges of globalization.

"Neoclassical German economists" put forward the view that the centralized collective bargaining system sets a high minimum wage and restricts flexibility. They point out that this is a particular problem for low-performing firms, branches or regions as well as for unskilled workers and the unemployed (Muller 2). At every firm with five or more employees, blue- and white-collar workers together are entitled to elect a works council with legal rights to information, consultation, and in key areas of personnel and compensation policy full codetermination (veto) rights (30). Most salary and job condition contracts are negotiated on a regional or industry-wide level (EC 123). Kathleen A. Thelen believes that, "central bargaining produces a body of (jointly agreed)

central rules and regulations that, especially under critical economic conditions is experienced by the individual firm as rigid, inflexible, and severely constraining its adaptive response to market contingencies" (157). There is great pressure in Germany for "Neu Organization [sic] der Arbeit" (Thelen 201). The prime motives are for greater flexibility in job assignments and manning levels to better meet production requirements and adapt to changes in demand. These negotiations are mostly plant specific. Thus they are an argument against centralized bargaining (201).

The current system the labor unions use seems too inflexible to many in the German business community. Klaus Steilmann, boss of the Steilmann group, Europe's biggest clothing manufacturer, complains: "German unions have lost touch with reality. There is a lot of day-dreaming going on when it comes to pay and conditions" ("Germany's car" 88). Steilmann and other German chief executives worry that *Standort Deutschland,* or Germany as a manufacturing center, is becoming increasingly expensive because of German workers' high wages and long holidays (88). There have been similar warnings in the past, but this time companies are doing something about it. On May 8th, 1992 Werner Niefer, the head of Mercedes Benz, said the car company would axe 20,000 jobs or 11% of its workforce (89). The biggest reason for Mercedes Benz' moves in 1992 was they had agreed to pay increases of 6% in 1990 and 6.7% in 1991, but could not raise prices because other luxury car makers were driving hard bargains to keep their own costs down (89). Those component-parts firms that dared to raise their prices lost business to cheaper foreign suppliers (89). Several other branches of the engineering industry suffered the same fate (89). This example illustrates the stance many German firms are taking toward inflexible labor unions and high costs. With easing regulations

and an increase in global trade, it has become increasingly attractive for companies to leave Germany. Cases in point are Bayer's six-billion dollar investment in American production facilities or RWE's purchase of large coal fields in Pennsylvania and Alabama.

Impetus to Change: The Social Security System

German companies have begun demanding more favorable labor contracts than in the past. Besides simply moving production facilities abroad, firms in Germany have begun flexing some of their might in an economy starving for firms to keep facilities in Germany. Some investments into new plants or equipment have become contingent on negotiated flexibility into employee contracts. For example, Opel, a large European car manufacturer owned by GMC, threatened to move a new metal-stamping plant from Bochum, Germany, to England or central Europe unless the work council and union allowed the plant to operate continuously (Turner 32). Before 1986, firms could not use such tactics without the fear of crippling strikes. Then, in 1986, the conservative CDU-led government passed a revision to work legislation known as "paragraph 116," which eliminated unemployment benefits for those workers affected by cold lockouts (those workers laid-off because of shortages due to strikes or lockouts in other districts) (Thelen 168). This change curbed the ability of unions to strike because unions cannot afford to offer benefits to all participants in an effective strike--they simply do not have the resources. Before this point, participants not actually striking, but laid-off because of

parts shortages received unemployment benefits. Now, it more difficult for unions to have enough workers to make the strike effective.

This legal change is one of a few instances where government has intervened in employer/employee relations. The government's policies with respect to other portions of work are more intrusive. The social system in Germany has created an unemployment system that encourages unemployment. In a study conducted by OECD and the governments of Sweden, Austria and Germany, researchers concluded that the generous unemployment benefits in Austria, Germany and Sweden encouraged long-term unemployment (58). In Germany, researchers analyzed the average duration of unemployment, both before and after the changes in unemployment benefits in 1986. In 1986, the maximum period for which one could receive benefits was extended to two years. After these changes, data revealed the average length of unemployment increased 12% (OECD 59). The conclusion of the study is that even modest unemployment benefits drastically decrease peoples' motivation to find work (OECD 99).

Though Germany's unemployment system is very effective at protecting workers from ruin, it might encourage unemployment and, most important, is extremely costly. The contribution rate for unemployment insurance has jumped from 2% (of total wage costs) in 1975, to 3% in 1981, to 4.3% in 1990, and as of 1993 to 6.5% of an employee's salary must be contributed by the employer--on top of the normal wage--to unemployment insurance (EC 138). These unemployment contributions represent billions of Deutsche Marks. The Ifo-Institute estimated that Germany's industry contributed DM112 billion to social insurance programs for which there is no direct link to their employees--for example early retirement benefits, benefits to family members of

employees, and contributions during periods of unemployment of former employees (EC 188). The money saved from cutting these costs could be invested by the industry in new technology and production, and ultimately result in lower unemployment. Politicians and unions have begun to realize that money for investment in industry is important, and the social system is changing. In the past few years in Germany, unemployed people receive full benefits only up to six months, at which point the benefits begin to decline. During the time a person is unemployed, one must prove one has searched for a job. Similarly, in the past, as long as employees had proof from a doctor that they were sick, they could continue to miss work indefinitely at full pay. Now, pay is reduced to 80% after the official number of sick days are used (which vary from firm to firm). The German federal government hopes to reduce social insurance costs and estimates that for every 1% drop in social insurance contributions, employment increases by .3% (EC 190).

Changes in the German social system parallel changes in the workings of German financial systems. This will have important effects on certain areas of compensation in Germany. *Der Spiegel* estimates that top American managers and employees receive one quarter of their compensation in the form of stock-options ("Wirtschaft"). As the young millionaires at Intel, Microsoft and many high-tech companies are likely to tell you, stock options are a powerful tool to retain and recruit talented employees. SAP, in recent years, has struggled to retain talent in the face of lucrative contracts in the UK and the U.S. Currently, though legal, stock options in Germany are an impractical and unattractive form of compensation, because of tax laws and policies surrounding the exercising of stock options. These laws and regulations are set to change in 2001, which should help German high-tech firms compete in the global market.

The changes occurring in 2001 to financial regulations should also increase investment in industry. In the past, German financial markets have been characterized by long interlocking relationships between large firms and major banks (Turner 29). The German financial system is mainly based on bank credit, and the stock market remains underdeveloped (69 Whitely). The changes should help curb the flow of capital from Germany to American financial markets. Increased access to capital should increase investment and help the economy, while at the same time make Germany even more of a participant in the global economy.

Only if the competitiveness of German industry significantly decreases may a radical convergence towards US employment practices or some other system or hybrid be expected. In sum, it appears that there has been no transformation of the German system of industrial relations. Although there has been some decentralization of collective bargaining issues, a non-union sector has not emerged so far. Organizational autonomy, the ability of companies to decide all facets of their business, is still significantly restricted by German-labor market institutions (Muller 8). "The deterioration of labor's market power now means that where central unions were once useful in maintaining wage stability, high unemployment now guarantees moderate wage settlements" (Thelen 156). The apparent popularity of the US free-market model among German economists, employers and politicians is likely to increase pressures on the three key labor market institutions of centralized collective bargaining, workplace representation and initial vocational training. These labor market institutions will also face many challenges created by globalization.

CHAPTER IV: KAUFHOF

Kaufhof's Attempt at Change

Changes in the retail sector in Germany illustrate the changing attitudes of Germans towards long-standing cultural traditions. These changes reveal some of the influences of globalization on Germany and the manifestation of the influences into cultural changes. German retailers have witnessed a movement of large British, French and American retailers in to the German market. Behemoths like Wal-Mart have established beachheads in the German retail market. Germany's retail sector has stirred heated debates among many Germans. Kaufhof, a large department store chain in Germany, wants to stay open on Sundays. German stores are typically open from 10:00 until 18:30 during the week, except for Thursdays when they are open until 20:00 and Saturdays from 10:00 until 16:00. Normally all stores, except for a few kiosks, are closed on Sundays. Many Germans revere Sunday as a day for family, religion and peace. Therefore, Kaufhof's desire is seen by some as sacrilegious, tantamount to a sin against religion and Germany's consensus-seeking society, because it has chosen confrontation instead of negotiation.

Kaufhof used a street party celebrating the 30th anniversary of the Berlin town plaza's, the Alexanderplatz's, main fountain to apply for special opening rights on Sunday, August 13, 1999 (Simonian 2). Stores can apply for these permits during special events (2). The department store received the permit, but could only sell tourist goods. Consequently, all goods sold at Kaufhof that Sunday had a sticker saying "Souvenir of Berlin." This manipulation of the current law may have never occurred to Kaufhof if, at the beginning of August, the mayor of Leipzig had not declared the entire Leipzig city center a tourist zone (Nagorski 12). His declaration allowed many stores to open on Sundays as long as they sold "souvenirs" (12).

The current restrictive store opening hours stem from a law passed in 1956 (Nagorski 12). This law allows stores in tourist zones to remain open outside the legally allowed times. The result of the tourist-zone designation was that many stores in the Leipzig city center stayed open from 12:00 until 16:00 Sunday and recorded ten to fifty percent of their week's sales in that four-hour time period. This is a proportionally high sales volume for such a short opening time (12). For the short period Kaufhof was open it increased its weekly sales volume. Kaufhof did not analyze long-term sales volume, so it is difficult to predict if overall sales volume over time would remain higher or sales would only be redistributed. When asked why she was shopping on Sunday, Sabine Konig, a shopper in Berlin, said "[I am] here in the name of freedom--and to do something that has been forbidden here all my life: go shopping on Sunday" (12).

Fierce debates surround the mere four hours of extended Sunday shopping. Many trade unions and Margret Mönig-Raane, the chairperson of Gewerkschaft HBV, say that large stores such as Kaufhof will eliminate smaller "mom-and-pop" stores by simply

staying open longer, while smaller stores do not have the financial resources to increase store hours to compete (Nagorski 12). Kaufhof has become the battle cry for ministers in Germany, who claim that Kaufhof is defiling the Sabbath (13). In response to Cardinal Joachim Meisner's criticism, the president of Kaufhof, Lovro Mandac, said, "Herr Meisner beschäftigt doch auch Sonntags Pfarrer. Die bieten den Menschen auch Service. Wo ist der Unterschied zu dem Service, den wir den Menschen am Sonntag anbieten wollen" ("Sonntagsöffnung").[1] Justice Minister Hertha Däubler-Gmelin (SPD) strongly declared that Sunday is a day for peaceful activity, and that a day without the possibility to shop "zeigt, daß wir mehr als Konsumenten sind" ("Sonntagsöffnung").[2] Many of these debates are directly related to changes attributed to the world becoming a global village. Some supporters of longer opening hours say that Germans, a people known to travel during their long vacations, only desire what they experience in other industrial nations.

Store Hours and Globalization

All other nations in Europe have dealt with the problem of longer store hours. In Austria, stores can stay open up to forty Sundays per year, but this is optional ("Ladenschluß"). Austria's experience reveals that only about a third of stores take advantage of the Sunday opening time. In France the law states that all stores can stay open any six days of the week. This law results in about half the stores in Paris being open on Sundays and closed on Mondays ("Ladenschluß"). All countries in Europe,

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[1] Mr. Moister has priest's-work on Sundays too. The church offers the people service. How is the service we offer different?

[2] "shows that, we are more than just consumers"

except Germany, allow stores to be open on Sundays, but the duration and frequency varies in each country. According to *Der Spiegel Online*, contrary to what many German politicians proclaim, in most countries in Europe only one third to one half of stores actually take advantage of Sunday opening hours ("Ladenschluß"). Many stores in towns bordering Germany appreciate the extra sales to Germans on Sundays ("Ladenschluß").

In this case, the tie to globalization might not be direct, or at least is more difficult to envision. The spread of longer store hours around the world appears similar to that of Just-In-Time (JIT) inventory delivery. The exploration of the spread of JIT will help illuminate the connection between globalization and the demand for longer store hours in Germany. Initially, JIT was a concept developed in Japan. In its beginnings in the 1950s and 1960s, few western companies investigated or even considered JIT inventory planning. The wisdom of large inventories was the norm. After Japanese auto manufacturers began to enter the U.S. car market successfully, many American auto manufacturers started to investigate the reasons behind the Japanese companies' success. One new concept that was revealed was JIT. It drastically reduced inventory costs because there was no need for large warehouses or huge cash outlays for inventory. The idea has continued to spread, and currently all western auto manufactures in the world use some form of JIT to reduce costs.

Similarly, the concept of longer or even continuous opening times has spread around the world. The business sense behind longer store hours is logical. If a store can better meet the needs of its customers by providing more flexible times to shop, it can increase sales volume and better satisfy its customers. Many in Germany argue that the demand for goods is not going to increase just because stores are open longer. There is

little data to indicate that the overall demand of a domestic population would increase if stores were open longer or on Sundays. If stores were open on Sundays, however the purchase of goods in foreign stores along the German borders would surely decrease, increasing domestic sales. Further more, tourists, who are not part of the domestic economy, would have 14% more shopping time to spend money in Germany, also increasing domestic sales. The link between globalization and the demand for longer store hours in Germany is clear. The steady spread of longer store hours to all countries in Europe, except for Germany, most definitely has increased the appetite of German consumers for longer store hours.

The social impacts of stores in Germany staying open on Sundays are difficult to measure. Many political and religious leaders, even the pope, claim that allowing people to work on Sundays will be the downfall of Germany's socially-conscious society

Figure 1. Survey of German opinion on longer opening hours (*Spiegel Online* 22.3.2000)

(Woltersdorf 32). In contrast many Germans feel differently, as figure 1 above indicates. To be sure, the demand for longer store hours is heavily skewed towards the younger

generations. The users of *Der Spiegel Online* are internet users and surely younger than the average of a random sample. A survey conducted by the *Meinungsforschungsinstitut Infratest* (a German survey institute) indicated that out of a random sample, 65% of Germans responded negatively to stores being open on Sunday. Adrienne Woltsdorf, in an article for *Der Spiegel*, astutely summarized the debate surrounding Kaufhof:

> Der Kampf um die offene Ladentür ist wie kaum ein anderes Thema zum Symbol für den schwierigen Weg der Deutschen in eine neue Gesellschaft geworden. Flexibel, service-orientiert und offen für den Wettbewerb soll sie werden - und doch die alten Werte der sozialen Gerechtigkeit, des Gruppenkonsenses und der kulturellen Identität hochhalten. Ringsum in Europa, von den USA gar nicht zu reden, ist die Kauffreiheit schier grenzenlos - nur hier in Deutschland gilt strikt: sonntags (fast) nie (32).[3]

As she points out, this argument surrounding Kaufhof has greater social implications for the changing state of the German economy and society. No longer are countries isolated, but their economies must be competitive on a global scale and their societies must struggle to keep their identity against the flood of global cultural influence. As large foreign retail chains open stores in Germany, the pressure to conform to the global standard of open Sundays will increase. Employers will demand that employees be more flexible and work on Sundays. This debate has no easy or good solution and pits two equally strong viewpoints against each other. The true consequence of either decision is difficult to discern and will not likely be known prior to the conclusion of this volatile issue.

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[3] The battle over opening times is like no other topic a symbol of the difficult path Germans face in renovating their society [to compete globally]. It [German society] should be flexible, service-orientated and open for competition, and still hold high the old values of social justice and group consensus. All around Europe and without question in the USA there are no limits to opening times, only in Germany there is a rule, (almost) never on Sunday.

CHAPTER V: THE THYSSENKRUPP MERGER

ThyssenKrupp and the World Steel Industry

The case of ThyssenKrupp reveals two trends in the German economy. The first trend is the consolidation of companies into huge firms that can compete in global markets. The second is the movement of less technologically complex products to Asia and South America because these low-technology steel products can no longer be profitably produced in Germany. In this example, ThyssenKrupp has stopped producing most basic steel products, and instead focuses on higher-margin, more technologically advanced steel products. The production of these complex steel products requires better-trained steelworkers. ThyssenKrupp is the world's 39th largest company with revenues of $24.5 billion in 1999 (*Fortune*). Thyssen and Krupp began merger talks in September of 1997 ("ThyssenKrupp Financial Statements"). On March 7, 1999 ThyssenKrupp became a new single company and the world's seventh largest producer of steel, and third largest producer of stainless steel and other composite steel products (Steel Industry). This merger strengthened Thyssen and Krupp's position in the world steel markets. The new company, ThyssenKrupp employs over 108,000 workers in Germany and 76,000 workers

outside of Germany (ThyssenKrupp 1999 Financial Statements). ThyssenKrupp is one of Germany' largest employers, both nominally and comparatively.

The merger represents a significant change in the landscape of large German industrial companies. The major sectors that ThyssenKrupp operates in are steel, elevators, industrial service, engineering and many other unrelated business lines. ThyssenKrupp is now the fifth largest company in Germany (Hoover). The number of people it employs makes it one of Germany's "heavy hitters" with regards to employment trends and contracts (*Zeit*).

Many steel analysts felt the merger between Thyssen and Krupp was a necessity to compete in the increasingly globally dominated industry (Hoover). Successful steel companies fall into two categories: mega-steel producers who use economies of scale to

Table 1. World's largest steel producers

The largest steel-producing companies, 1997 and 1998

million metric tons crude steel output

rank	production	rank	productiom		
1998		1997			
1	25.6	2	26.4	POSCO	ROK
2	25.1	1	28.1	Nippon Steel	JAP
3	20.1	3	18.8	Arbed	LUX
4	18.9	6	16.1	Usinor	FRA
5	17.1	10	11.4	LNM	GBR
6	16.3	5	17.0	British Steel	GBR
7	14.8	4	17.4	Thyssen Krupp (1)	GER
8	14.5	7	14.8	Riva (2)	ITA
9	11.5	9	12.0	NKK	JAP
10	11.0	8	12.0	USX	USA

Source: http://www.worldsteel.org/trends_indicators/figures_2.html

push technological innovations and lower production costs and small "mini-mills," which use less costly electric furnaces and recycled steel to produce high-quality, small-batch

steel products. The over-capacity in the world steel industry has resulted in many medium-size companies failing (Economist 60). When these medium-size producers fall on hard times, the larger producers often purchase the profitable portions of their business. Many parts of the world, such as America, Brazil, Europe, Japan and Korea, have experienced several rounds of consolidations in the steel industry (60). Some speculate that the recent inroads into the American steel market by foreign competitors will lead to another round of consolidation in America.

Similar to American producers, European steel makers have suffered the double-edged sword of depressed prices as a result of sluggish demand and increased competition by foreign steel makers in Eastern Europe and Asia (Economist 61). Further increasing pressure, large auto makers such as GM, Ford and DaimlerChrysler, seeing the drop in world steel prices, have pushed for renegotiations of their steel contracts (Business Week 16). Fortunately, in their respective domestic markets European steel makers are protected from cheap foreign imports to a greater extent than American producers are by import quotas. With the change to the Euro in 1999, a new competitive climate has emerged between European steel producers, thereby creating an atmosphere similar to that of America. This change has put price pressure on German producers. In Germany prices for steel are often 8-12% higher than those in France (Economist 61). Already it appears that German steel prices have begun to move closer to those in other Euro countries and that there is greater transparency in Euro-zone steel prices (61).

The price difference is indicative of a common theme in this thesis; many steel analysts feel Germany will become less of a center for low-quality and low-tech steel production because of high labor costs ("Hans" 16). In the German steel industry, non-

wage costs such as social security and sick pay are equivalent to 80% of average wages in Germany (17). Wages are higher in Germany in comparison to other western steel-producing countries. If one adds in non-wage costs German, workers cost 50% more than their counterparts in the United States, Japan, France or Britain (18). These cost differences make expansion in Germany unattractive to many companies. The one redeeming factor in the steel industry is that many managers within Germany and other western countries view German steel workers as more productive and better trained, especially in high-quality grades of steel (Economist: Metal 67).

Further exacerbating the problem of perceived worker value in Germany is the labor contract won by IG Metall (a large German union representing millions of workers in industrial jobs) for steel workers in 1992 ("Hans" 18). This contact secured 6% pay raises in 1993, and 3% pay raises per year for the next six years (18). With the inflation rate in Germany at close to 1%, the pay increases could not be justified by inflationary

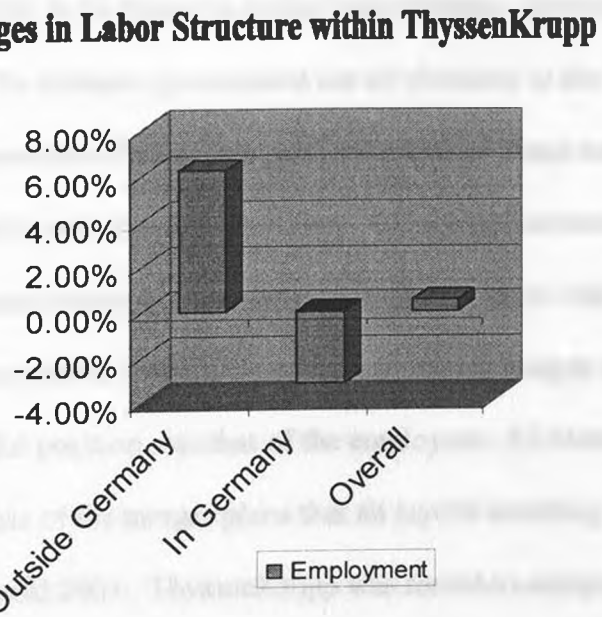

Figure 2. Graph of workforce changes at ThyssenKrupp
Source: ThyssenKrupp financial statements 1999: 44

pressure, but instead were demanded to offset the increase in taxes from the reunification of East and West Germany. The contract negotiations were particularly abrasive by German standards. IG Metall threatened widespread strikes, which would have crippled production not only in steel plants, but also in many other industrial sectors. *The Economist* claimed that the "victories [of better benefits and pay] can come only at the cost of jobs and long-term damage to the Germany economy" (18).

Thyssen and Krupp's Post-Merger Actions

Most Americans would assume that a merger between two related companies would alleviate high labor costs, though, unfortunately, by the reduction of redundant positions. This same pragmatic, though sometimes heartless, approach to corporate restructuring and mergers cannot be applied to Germany; or at least the same effects cannot be realized as quickly in Germany as in the United States. German labor contracts, the unions and the German government are all obstacles in the path of quick layoffs. With the announcement of many mergers in the United States comes the announcement of a reduction of redundant positions. The merger between Thyssen and Krupp was a difficult process because there were many stakeholders - the government, some shareholders, and employees - who did not want to see the merger succeed. One group which had a powerful position was that of the employees. IG Metall demanded as a condition to its acceptance of the merger plans that all layoffs resulting from merger redundancies be delayed until 2001. ThyssenKrupp was forced to accept this condition because of the IG Metall's strong position. This condition also means that some

synergies expected from the merger of Thyssen and Krupp will not be realized until ThyssenKrupp can freely act upon sensible labor policy.

Though never explicitly mentioned by management, ThyssenKrupp's policy toward employment appears to be heading toward fewer production sites being located in Germany. *The Economist* reported that unnamed German steel industry managers feel moving operations outside of Germany might be a response by upper management to the aggressive labor negotiations ("Hans" 16). The figure 2 illustrates this trend at ThyssenKrupp during 1998 and 1999. Though by no means conclusive, it does indicate a reduction of the labor force in Germany and an increase in the number employed outside of Germany. In almost every financial statement of any ThyssenKrupp business the number of employees outside of Germany is stated within the first two paragraphs, which seems indicative of management's desire to increase employment outside of Germany ("ThyssenKrupp Financial Statements). Unfortunately, because there are no explicit statements regarding ThyssenKrupp's employment policy in Germany, it is impossible to determine conclusively the reason for these changes.

In spite of the lack of information regarding a global employment policy at ThyssenKrupp, ThyssenKrupp's merger intentions are made clear in its statements. The global thrust of ThyssenKrupp is spelled out in its switch to US GAAP (Generally Accepted Accounting Principals). This move indicates ThyssenKrupp's desire to be listed on international capital markets in the United States, the largest capital market in the world. To do so a company must comply with US GAAP standards. Many people feel that although GAAP accounting can be complex, it provides greater transparency than German standards, which allow for reserves and large allowance accounts. Reserves

and allowance accounts can make it easier to smooth earnings and manipulate financial reports. With regard to US GAAP ThyssenKrupp's management said: "we [ThyssenKrupp] are presenting full US GAAP consolidated financial statements containing all the required elements and disclosures. In this way we have considerably improved our position on the global capital markets and increased our transparency vis-à-vis international investors." This statement is interesting because it indicates ThyssenKrupp's senior management's desire to access global capital markets, which could increase the pressure on ThyssenKrupp to report increased earnings. The pressure could adversely affect management's relationship with employees through cost-cutting measures, which in other companies experiencing similar pressure seem to be manifested into reductions in labor costs, and thus employees. Foreign investors who do not fully understand Germany's system of cooperation between employee and employers might not view kindly such lucrative employment contracts. The planned introduction of a stock option compensation package for the top managers of ThyssenKrupp tied to its financial performance could compound management's desire to increase earnings at all costs.

Clearly, in the case of the merger between Thyssen and Krupp the event was motivated by pressure to compete globally. The merger will directly affect relations between ThyssenKrupp and its employees. ThyssenKrupp's large size means that changes to employment contracts or trends in employment with the company will affect a large number of employees and, at the risk of sounding like a politician, families. Any changes would, of course, have to be within German labor laws or those of target countries. In addition, the loss of manufacturing jobs will impact students leaving *Hauptschule*, because these students frequently enter the manufacturing sector. This loss

only compounds the structural problems of the German education system. These problems have resulted in the German government issuing thousands of work visas for foreign-workers with computer skills. Without question, ThyssenKrupp is slowly changing its exposure to restrictive German labor laws.

CHAPTER VI: THE GERMAN COAL INDUSTRY - DIVERTING FATES

German Coal Industry Overview

The German hard coal industry is the worst example of Germany failing to adapt to globalization. This case illustrates how the German government is equally as guilty as the hard coal industry for the problems relating to apprenticeship positions and structural problems with the German economy. Contradicting the hard coal case, the lignite coal industry illustrates how Germany is the world leader in certain advanced-technological products and processes.

Hard Coal

Employer and employee relations in the German hard coal industry, unlike in other industries or companies, are greatly affected by changes in government subsidies. The German hard coal industry is, unfortunately, a model of inefficiency for economies protected from global competition by subsidies and import quotas, as are France and

Table 2. Western European Coal Industry Subsidies, Production and Import Prices, 1996

Country	Coal Industry Subsidies (Million 1996 Dollars)	Hard Coal Production (Million Tons)	Average Subsidy per Ton of Coal Produced (1996 Dollars)	Average Price per Ton of Coal Imported (1996 Dollars)
Germany	6,947	57.9	$120	$43
Spain	1,116	22.5	$50	$43
France	863	8.0	$108	$48

Sources: **Coal Production Subsidies:** Directorate-General XVII—Energy, European Commission, *The Market for Solid Fuels in the Community and the Outlook for 1997*, web site www.europa.eu.int (Brussels, Belgium, June 6, 1997); and U.S. Federal Reserve Bank, "Foreign Exchange Rates (Annual)," web site www.bogfrb.fed.us (January 4, 1999). **Production:** Energy Information Administration, *International Energy Annual 1996*, DOE/EIA-0219(96) (Washington, DC, February 1997). **Average Price of Coal Imports:** International Energy Agency, *Coal Information 1997* (Paris, France, September 1998).

Spain's hard coal industry. Unlike the hard coal industry, the lignite coal (also know as brown coal) industry is the most productive and efficient in the world. As table 2 above illustrates, Germans pay almost three times as much in subsidies for hard coal compared

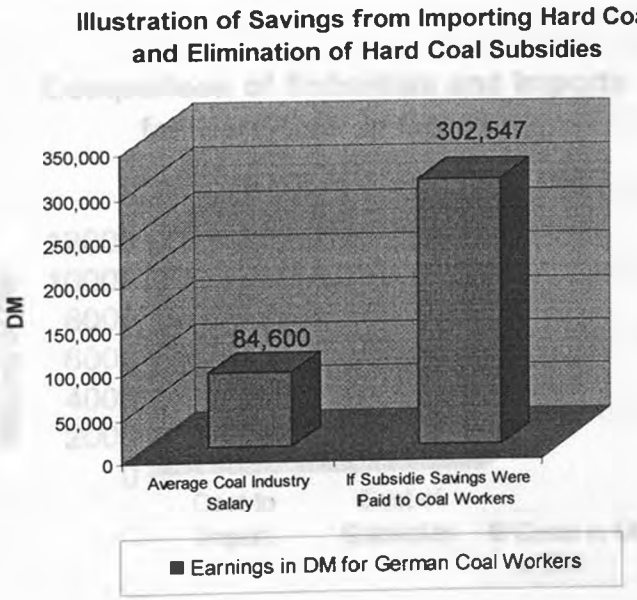

Figure 3. Comparison of coal salaries and subsidies
Source: US Department of Energy, *International Energy Outlook 1999*

to the cost of imported hard coal (DOE). This situation truly borders on the ridiculous; it would be cheaper to pay the hard-coal workers to stay at home. As figure 3 above illustrates, the German government could afford to almost quadruple the salaries of German hard-coal miners with the savings from importing hard coal. The hard-coal miners would simply stay at home, and Germany could import hard coal to meet demand with imports instead of domestic production (DOE). Automatically, the German government could stimulate industry spending and individual savings by repealing the 7.5% tax on electricity. Currently, all electricity is taxed a 7.5% rate, if there longer was an energy tax companies would be more profitable.

Hard coal has two primary uses in two forms: steam coal and coke (BP Amaco). Steam coal is used in the generation of electricity. Coal, both brown and hard, provided 37% of the world's electricity generation in 1998 (DOE). In the United States, hard coal is one of the main sources of energy production with 56% of electricity being produced

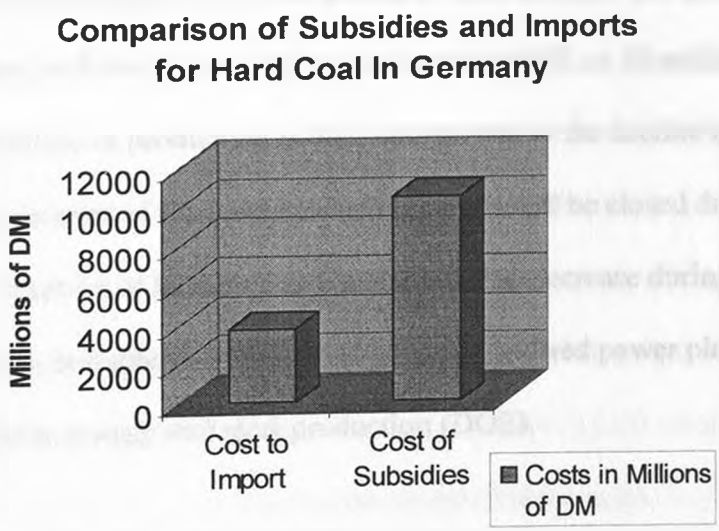

Figure 4. Comparison of hard coal imports subsidies
Source: US Department of Energy, *International Energy Outlook 1999*

form hard coal (DOE). In Germany, lignite coal provided 38% of the base power needs (the constant demand for energy) and coal provided 51% of the total electricity generation coming from coal-fired power plants (BP Amaco). Hard coal is used more often for energy needs because of higher calorie content. Lignite coal's calorie content is much lower, so low that it is not economical to transport it over long distances. In Germany, lignite coal travels an average of only fourteen kilometers before it is burned for electricity generation (RWE). Hard coal is necessary in the transformation of raw iron ore into steel, but even this use has been reduced by improvements in technology (Steel facts).

In 1997, there were 68,000 hard-coal miners in Germany (DOE). Under a deal that was struck between the coal unions, the German government and the European Union, that number will shrink to no more than 36,000 by 2005 (DOE). Accordingly the subsidy for the hard coal industry will sink from ten-and-a-half-billion German marks in 1997, to five-and-half-billion German marks in 2005 (DOE). The production of hard coal in Germany will shrink from 58 million tons in 1997, to 33 million tons in 2005 (DOE). The decline in production is disproportionate to the decline in miners and subsidies because nine of the least productive mines will be closed during this period (DOE). Consumption of hard coal is also expected to decrease during this period as better technology and alternatives such as natural-gas-fired power plants are discovered or implemented in energy and steel production (DOE).

Lignite Coal Industry

Unlike hard coal, lignite coal production is expected to stay relatively stable at 166 million tons per year in Germany (Saus 6). Germany is the largest producer of lignite coal in the world; the second largest producer is Russia, which produces only 84 million tons per year (Rheinbraun). Lignite coal is the largest domestic energy resource in Germany (8). More important, lignite coal production also receives no government subsidies in Germany (Rheinbraun). In a report commissioned by Rheinbraun, the largest producer of lignite coal in the world, it is estimated that lignite coal reserves in Germany will last 250 years at forecasted consumption rates (10). Dissimilar to the hard coal industry, Germany's lignite coal industry is a model of efficiency and productivity. Currently, the largest open-cast mine in the world, Tagebau Hambach, needs only sixteen operators to move approximately 1.920 million tons of material per day (Rheinbraun).

Rheinbraun is a perfect example of the efficiency and productivity of the German lignite coal industry. It is the world's largest lignite coal producer (Saus 10). Last year it operated four open-cast mines, from which they extracted 96.6 million tons of lignite coal and removed 473.8 million tons of overburden (the soil on top of the coal bed) (Rheinbraun). To accomplish this, it employed only 11,318 people, which includes all people employed by Rheinbraun (Rheinbraun). German lignite mines had the highest production per miner of any country in the world (Rheinbraun).

Germany also excels in the technology for the extraction and use of lignite coal. Currently, RWE, a large German conglomerate, is constructing the largest, most efficient

and most environmentally friendly lignite-fired power plant in the world in Niederaußem, Germany (RWE). The first of four "blocks" is scheduled to be completed in 2002 and the fourth and final block is scheduled for completion in 2008 (RWE). When completed the power plant will produce approximately 3600 megawatts (MWS) of electricity, in addition to the 2650 MWS of in-place capacity at Niederaußem (RWE). The largest machines in the world, bucket-wheel excavators, provide the coal for these mammoth power plants. Enabling efficient removal and extraction of huge amounts of coal and overburden, these machines are the leading technology in opencast mining.[4] Each of these technologies--clean, high-efficient power plants and bucket-wheel excavators--is highly exportable. RWE currently has eight power plants under construction in various countries of the world.

Coal Industry: Future Outlook

Although on the surface, these data might seem somewhat unrelated to the relationship between employer and employee, they illustrate how the two facets of the German coal industry have divergent employment prospects. The negotiations, which led to the current plan to reduce subsidies in half, were fierce. Initially, all subsidies were to be eliminated, but because of political pressure, Helmut Kohl, former German chancellor and Christian Democrat, gave into the coal unions' demands for a longer period of subsidies. The 2,489 apprentices who completed their apprenticeships in the hard coal industry last year illustrate the difficulty that Germans are having adjusting to the

[4] See Appendix A for photos.

dynamic global coal market (Schmid, 56). These apprentices are entering a field that will lay-off an average of 6000 coal workers per year for the next five years (56). Employers have no choice but to lay-off workers as subsidies are eliminated and unprofitable operations must be closed. The continued apprenticing of people for the hard coal industry is ludicrous and only insures that the transition to 30,000 miners by 2005 will be even more difficult. It is almost as if some people in the coal industry and government are in denial that the German hard coal industry is too costly in comparison to the global coal market. Germany's hard coal reserves are too disperse and labor costs are too high to make the hard coal industry competitive.

Lignite coal has an entirely different outlook. Some employees in administrative positions will be laid-off in the coming year, but this number is small (Rheinbraun). The total number of people employed in the German lignite coal industry should remain relatively stable for the next twenty years (Saus 10). Unlike the hard coal industry, the German lignite coal industry is the leader in technology. Globalization has benefited the lignite industry because it has improved exports of equipment and consulting services. Employee and employer relations in this industry should remain stable. Few expect major changes in the actual production work force.

This two-faceted industry illustrates some of the major structural changes that Germany is facing. Inefficient and costly industries can no longer compete in the global market. Germany's protectionist attitude toward these industries only results in a further lack of competitiveness and only worsens the outlook for the future. After all, the large amount of resources wasted on terminal industries could be redirected to new industries and technologies. If this had begun three or four year ago, Germany would not have to

issue thousands of work visas for information technology workers and computer specialists now. Encapsulated in the other facet of this industry is the global leadership Germany has in many industries. Germany needs to accentuate the industries that it competes well in and develop the industries of the future. As demonstrated by the coal industry, employer and employee relationships do best when the overall industry or business is competitive and free from financial strain.

CHAPTER VII: DEUTSCHE BANK

Becoming the Global Player

The influence of large banks on corporations in Germany is revealed by the analysis of Deutsche Bank. Deutsche Bank used its position of power to influence many of its clients and to influence employment practices in Germany. Deutsche Bank is possibly even one of the companies influencing globalization worldwide. In spite of its influence, Deutsche Bank is also subject to the forces of globalization and has changed to meet these demands. As David Fairlamb of *Business Week*'s Frankfurt office sagaciously summarized the demands on large banks: "Global corporations today expect their bankers to serve them anywhere and have the expertise and financial products to suit any deal in any industry" (54). Deutsche Bank is certainly striving to become the "one-stop" bank for corporate clients worldwide. With its purchase of Bankers Trust in 1999, Deutsche Bank became the largest bank in the world with 1.5549 trillion Euros in assets ("Die Zehn"). Unfortunately, just being the largest bank does not equate to being the leading bank.

In an interview with *Fortune* magazine, Rolf Breuer, the CEO of Deutsche Bank, recognized the challenge of becoming a leading bank in all areas and of becoming highly profitable:

> Our corporate and private clients do not need the traditional universal bank for depositing their savings or getting credits anymore. They tap the capital markets directly. They need us as brokers or advisers or asset managers. They need us as the arranger, the lead managers, the chief underwriter (90).

This quote indicates the direction that Deutsche Bank is taking. Deutsche Bank wants to enter the capital markets and challenge such "bulge players" as J.P. Morgan, Goldman Sachs & Co and Morgan Stanley Dean Witter. These three firms represent the three largest investment banks in the world and are nicknamed "bulge players" because of their size. Investment banking is an area of the market Breuer feels "there is no way for Deutsche Bank to back out of" (91). Breuer thinks rightly that investment banking is the most lucrative part of the banking market, but to compete in this market Deutsche Bank will need to have a stronger presence (91). Many bank industry analysts feel that for Deutsche Bank to enter investment banking successfully it needs to take over or buy either J.P. Morgan or Merrill Lynch. Currently, the investment-banking segment is dominated by the "bulge players" and Deutsche Bank does not have the size or talent in the investment-banking segment to compete without purchasing another medium-sized investment bank.

A first step toward becoming the largest, most profitable global player, which there is no doubt it is, would be for Deutsche Bank to continue its merger with Dresdner Bank, the third largest German bank, also based in Frankfurt. The combination of Deutsche Bank's and Dresdner Bank's investment banking segments would give it enough size and talent to begin to compete in the investment banking sector. Global customers

demand their investment banks have the talent and the physical size to carry out their securities offerings. This stalled merger would have sealed the German banking market and provided a strong retail banking segment to work from ("Blues" 22). In its efforts to make its own retail banking more profitable, Deutsche Bank has trimmed its retail-branch staff by twenty percent since 1992, and has replaced traditional branches with more efficient, less expensive mini-branches in shopping malls ("Snail's" 55). The merger with Dresdner Bank would have saved Deutsche Bank three billion Euros ("German Banking" 81). To realize these savings Deutsche Bank would have eliminated 14,000 jobs in Germany by 2003 and closed overlapping branches of Dresdner Bank (81). One can imagine the number of overlapping branches between the number one and three largest banks in Germany. Excluding the 14,000 cuts in Germany, another 2,000 jobs would have been eliminated as quick as regulations would allow in operations outside of Germany (81).

No German politician likes to hear about the elimination of 14,000 jobs in Germany, but these cuts are necessitated by the German banking system. In an article in the April 8th, 2000 edition of *The Economist,* the problems facing Deutsche Bank in Germany are astutely summarized:

> The reason that Deutsche Bank has found retail banking at home unrewarding is not that it is too small. It is that the market is dominated by state-owned savings banks and subsidized Landesbanks. Now a new threat is emerging in the form of Internet banking which, by dispensing with costly branches and staff, promises to offer customers even cheaper financial services. Nor will promised cost cutting be easy to deliver: Germany's rigid labour [sic] laws and strong trade unions make it too hard and too expensive to shed surplus workers (22).

Government-subsidized banks do not have to turn a profit, which makes competing with them extremely difficult for commercial banks. As the quote points out, even if the

merger between Dresdner Bank and Deutsche Bank had succeeded, it would have been difficult for it to realize the projected cost saving and job cuts. Even without the merger, Deutsche Bank is a leader in internet banking, and competition in internet banking should not be a threat to its operations. Deutsche Bank's internet, ATM and telephone banking subsidiary, Deutsche Bank 24, gained 80,000 customers in March of 2000 ("Deutsche Bank 24"). This brings the total number of customers since its launch in September of 1999 to 7.1 million customers ("Deutsche Bank 24").

The trend in Germany toward internet and telephone banking is similar to the trend in America. The future of bank tellers worldwide appears to be dark. Though this has been said many times in the United States, a complete realization of "humanless" banking has yet to happen, and probably never will. German bank tellers should worry that internet banking will reduce their numbers, but it will by no means make them extinct. The area of internet banking and resources is the one facet of the German banking industry that government subsidized banks have yet to master. Deutsche Bank has partnered with internet power house e-Bay to create safe online shopping and increase the number of services Deutsche Bank provides online ("Online-Auction").

The introduction of the Euro will give the opportunity for a European bank that spans all European Union countries, and should provide cost savings for banks and customers. These cost savings will be realized from the consolidation of the European banking industry and the elimination of over-saturated bank markets. There are twice as many bank branches per person in Europe as in America ("Blues" 22). Deutsche Bank appears poised to be one of the banks to do this. Deutsche Bank attempted to take over two medium-sized French banks, but was prevented from doing so by French regulators

("Snail's" 55). Unfortunately, the resulting industry consolidation will result in the reduction of bank labor forces.

Deutsche Bank's actions domestically have changed the way its employees feel about it. The reduction in its retail-banking workforce clearly breaks the lifelong bond, which may have been a reality for some Deutsche Bank employees in the past. In an interview with *Fortune* magazine, Breuer said, "One-third of all staff of Deutsche Bank is neither German nor works in Germany. And that will change to fifty-fifty after the acquisition of Bankers Trust. So that makes me much more hopeful" (91). The words, "that makes me much more hopeful," when Breuer talks about the declining number of people employed in Germany, should strike fear in any German Deutsche Bank employee whose job is not related to Deutsche Bank's global strategy (91). Commenting on Deutsche Bank's attitude toward its global strategy, Breuer said, "The theme is speed, speed, speed. No endless discussions. No committees. No meetings" (91). Few would argue these comments agree with the German hallmark of a consensus-seeking society. These quotes, in aggregate, also indicate his feelings toward continued reliance on the German labor system, which he unequivocally does not want to continue. Breuer is well supported by the board of Deutsche Bank ("Online-Auction"). German politicians should take notice of Breuer's comments and realistically analyze the impact on the German labor market and economy.

The influence of Deutsche Bank's philosophy is greater than most Americans would think. The German financial system, unlike American financial markets, relies heavily on bank lending. Deutsche Bank owns approximately $23 billion in shares of German companies, including nine billion dollars worth of DaimlerChrysler (Deutsche

bank F/S). In addition to the securities owned by Deutsche Bank, it has $127 billion in loans to German corporations and German corporate bond investments of $31 billion (F/S). These enormous sums of money attest to the huge amount of influence Deutsche Bank has on many German corporations. If the CEO of Deutsche Bank publicly expresses his opinion about globalization and employment in Germany, it can be assumed that Deutsche Bank gives similar advice to its clients. This advice is sure to influence some companies to adopt a similar philosophy as Deutsche Bank.

The globalization of capital markets results in the demand for global banks and investment banks. The talent pool for investment bankers is small and only a few investment banks have the ability to successfully complete billion-dollar securities offering. Globalization has increased the size of securities offerings limiting the participation in these deals to only a few bulge players. Deutsche Bank needs to merge with a global player to increase the size of it investment banking talent pool, experience in investment banking and funds available for underwriting activities. The increased global reach of Deutsche Bank has also given it the ability to centralize some global functions such as investment banking in one geographical area and cut its global workforce.

Deutsche Bank appears to be one of the leading companies in globalizing its operations. Its philosophy will be detrimental to employment in Germany's banking sector. Further more, Deutsche Bank's management's position on employment in Germany reveals a diversion from standard German philosophy. Breuer's solution to difficult German labor laws appears to simply avoid dealing with them and operate globally. To be sure, Deutsche Bank must work with these laws. The tie between the

German education system and industry only worsens the impact of such a strategy for future German employees. By gearing to the job market the education system must react quickly to changes in the job market, and if it does not react quickly the results could be disastrous. Deutsche Bank's relationship with its employees has become one-sided. There are no strong labor unions fighting tooth and nail for every job cut and there are sure to be continued reductions in Deutsche Bank's German labor force.

CHAPTER VIII: VOLKSWAGEN

Success for Volkswagen

Volkswagen represents a departure from a recurring theme in this thesis. Instead of reacting to globalization by becoming more like other global companies, Volkswagen has resisted the trend. Volkswagen has adapted some forms of global cost-cutting measures yet has still stuck to typical German business practices. Volkswagen is the third largest automaker in the world and the largest on the European continent (Guyon 96). Last year, Volkswagen earned $3.6 billion before taxes on $79 billion in sales. It owns such car brands as Volkswagen, Skoda, Audi, SEAT, Bentley, Bugatti and Lamborghini (97). Combining all its sales, Volkswagen produced over 4.7 million vehicles, which ranged from less expensive Skodas to extremely expensive Bentleys, Bugatti and Lamborghini - none of which have vehicles priced under $240,000 (97). These facts and statistics do not reveal the amazing turnaround of Volkswagen since 1993, when Ferdinand Piech took over the helm (96). In 1993, Volkswagen lost $1.1 billion and had a mere 14% of the western European auto market (*Business Week* 62). Much of its lost market share came at the hands of the large global competitors, the

American companies Ford and Opel. 1999 was considerably different, Volkswagen now has a 19% market share, is considerably more profitable and has some of the best-selling cars on the market.

Volkswagen is also well known for its labor policy; a policy that, similar to the word Volkswagen, which literally translated means a people's car. Volkswagen is similar because it is a company for its employees. Up to this point, every company examined has reacted to global competition and poor macro-economic conditions by reducing labor-force size and moving some parts of production abroad. This response, to a limited extent, is also true for Volkswagen. Nevertheless, it has kept most of its current production facilities in Germany. Most of its production facilities outside of Germany are related to acquisitions of foreign automakers, for example Skoda in Poland and SEAT in Spain. Instead of moving production to these foreign facilities, Volkswagen has increased total production levels and not decreased production in Germany. Volkswagen needs global sales to maintain profitability. The German market for Volkswagen cars is not larger enough for Volkswagen to remain profitable. The company uses a common platform among many of its cars, allowing it to realize a tremendous savings of 2% of total sales by centralizing some production of particular parts at certain plants (Brierley 29).

Consensus between Management and the Unions

A desire to avoid eliminating employees has been a central impetus for Volkswagen to centralize some parts production in Germany. In 1995, an agreement

with the powerful IG Metall trade union covering more than 100,000 German Volkswagen employees allowed Volkswagen some flexibility in the number of hours worked and the timing of vacations, but did not allow it to eliminate any of the 100,000 employees through layoffs ("Heavy Going" 7). Essentially, this deal forced Volkswagen to employ more people than it needed to. Piech quickly turned what could have been a problem into an asset. Instead of outsourcing many parts as Volkswagen had in the past, Piech suggested that Volkswagen begin to "insource" some parts manufacturing (DIY 60). As a result, divisions within Volkswagen were organized to bid on part production in direct competition with outside suppliers (61). Piech set the criteria that for a division to "insource" the parts, it must win the bid. Consequently axles and power-steering systems, which had been outsourced are now produced internally (61). Not only does Volkswagen benefit from lower costs, higher quality and a more reliable flow of parts, but it also reduces costs further because it utilizes workers, who would have been idle in the past. Volkswagen found a cheaper solution to outsourcing, but was forced to think longer about not laying people off. Some times the easiest solution, outsourcing, is not always the best, although not every company could produce the same savings from insourcing.

This success seems almost impossible within the straightjacket of German labor relations, but Volkswagen's labor policy successes do not end there. Initially, when Piech took over in 1993, there were talks with IG Metall about the elimination of 30,000 positions in Germany over a four-year period (Brierley 29). These job cuts would have been on top of the already planned reductions due to attrition. Instead of the wholesale slaughter of 30,000 positions, Volkswagen and IG Metall came to an agreement to cut the

average work week from 37.5 hours to 28.8 with a 20% pay cut (29). Instead of layoffs Volkswagen would spread the work over more employees. Although in this plan it appears that Volkswagen is being very generous in not laying off employees, there is another factor which influenced the decision. Since the German state of Bavaria owns 20% of Volkswagen, the quasi-government ownership of Volkswagen would have made it impossible for Piech to eliminate 30,000 jobs (Guyon 96). The plan included an introductory period of four years for all new employees, which stated they would start at 18 hours per week and slowly increase to 28.8 hours per week at the end of four years (29). Another measure, which reduced costs, is a steady reduction of hours worked after age 50 from 28.8 hours per week to 18 by retirement (29). There has been a mixed response among Volkswagen employees to the reduction in hours and salaries. Most understand that the policy is better for the "greater good," but some have grumbled about the pay cuts (29). These reductions and agreements allowed the company to keep its current workforce, something that was very popular with German politicians already facing high unemployment.

Many financial analysts vilified the agreement as another example of the German economy taking another step back instead of forward (Guyon 97). At the time of the agreement, in 1993, Volkswagen had planned to pull out of most of its American showrooms, in an effort to cut costs (97). This pullout was considered as further evidence of Volkswagen's financial weakness (97). Compounding Volkswagen's lackluster sales was its outdated product line, which had the oldest average design of any major automaker (97). Given its financial position and place in the world auto-market, the analysts were correct in assuming the labor agreement would only be temporary

before real financial troubles would force Volkswagen to lay-off thousands. In fact, the labor contract would have only worsened Volkswagen's financial woes. Thanks to an amazing turnaround none of these predictions came true.

Riding a Sales Wave

One surely notices that the predictions in the last paragraph do not match Volkswagen's current financial data in the opening paragraph. Many auto-industry analysts credit the turnaround to astute changes made under the direction of CEO Piech. The first move Piech made after assuming command was to cut the number and cost of parts used (Guyon 96). Now he checks the parts list of every new car design to ensure none of the parts prices are out of acceptable limits (96). He also made the decision to make most of Volkswagen's cars on four different platforms (96). A platform is the basic chassis used to make a car. At Volkswagen, cars in all of its Audi, Volkswagen and Skoda lines use the same platforms (Brierley 29). These measures saved Volkswagen 2% of total sales, or $1.4 billion in 1999. The new designs, which have fueled Volkswagen's growth, also began after Piech's takeover. These new designs have sold well and are the real key to the success of Volkswagen's labor policy. Without the massive increase in production it has experienced, Volkswagen would have suffered the consequences of its labor-policy decisions.

At current production levels, Volkswagen's factories operate at near capacity. Operating at close to capacity results in higher profit margins because expensive investment in the factories can be spread over more vehicles. The higher profits can be

concealed to a great extent under Germans opaque accounting laws, a measure which Piech has used to his advantage (Brierley 30). Piech has succeeded in hiding the current financial strength of Volkswagen from the unions, though some union officials have complained that the employees are still suffering the burden of cost-cutting measures, while Volkswagen fattens its profit margin (30). Most companies in Germany do not funnel profits into reserve accounts because as they become cash rich they become takeover targets. Now, instead of limiting the actions of Volkswagen, in 1993, the 20% stake owned by the German state of Lower Saxony makes a takeover unlikely (Guyon 96). Financial analysts believe the government ownership is a "poison pill" for any firms wanting to take over Volkswagen (97).

Volkswagen is financially healthy and has a strong position in the global car market. Unlike the other companies and industries examined in this thesis, Volkswagen has succeeded financially, while at the same time retaining the hallmarks of German business. It is difficult to say if the same policy toward the number of hours worked would function for other companies or industries; since every company has a little different "personality." DaimlerChrysler, the second-largest German automaker, has taken a different approach to global pressures from American and Japanese carmakers. The government has realized tremendous savings from Volkswagen's prevention of the layoffs, in spite of the fact that it has subsidized the salaries of some Volkswagen workers. These subsidies are considerably cheaper than the loss in tax revenue and unemployment benefits the government would have had to pay had 30,000 jobs been cut from Volkswagen. IG Metall and Volkswagen have successfully cooperated to create a relationship that benefits Volkswagen and its employees.

Volkswagen illustrates that there are many different solutions to the challenge of competing against large, aggressive companies in a global market. Other global car manufactures continually improve their products and also trim costs to reduce the price of their cars. The pressure from global competition both in Germany and in all other world markets means that Volkswagen must also strive to reduce costs and improve quality to prevent becoming uncompetitive. Further more, consumers demand innovation and inexpensive products. The Volkswagen case reveals that companies must innovate themselves to overcome the challenges of global competition, but this global competition does not mean companies will have to abandon their own philosophy regarding business policies.

Much credit is given to Piech for Volkswagen's success and rightly so. He has been severely criticized for eliminating all members of management and the board who did not agree with him (Brierley 97). He has managed to trim 33,000 jobs from Volkswagen since his takeover with few layoffs - mostly through early retirement. He has succeeded in the car market, which is one of the most globally contested markets in the world. The company must continually compete against fierce Japanese and American carmakers. Volkswagen is a success story for the German socially conscious, consensus-seeking society.

CHAPTER IX: DAIMLERCHRYSLER

Chrysler: Germany's Largest Company

DaimlerChrysler is the largest company in Germany. Daimler has illustrated its desires to take advantage of the opportunities globalization provides, such as larger markets, lower costs and more diverse management styles. It has demonstrated its desire for global practices through its merger with Chrysler, relocation of production to lower-wage countries and reliance on global sales. This analysis will illustrate how Daimler has changed the way it relates to its German employees. This case will only refer to Daimler and not DaimlerChrysler, because most of the changes at Daimler happened before the merger with Chrysler. Further, the merger with Chrysler appears to be more of a strategic move on Daimler's part than on Chrysler's. Daimler is the best-example of a large German company demanding changes in the structure of the relationship between companies and their employees to adapt to changes in global markets. This case also illustrates the very different approaches that Volkswagen and Daimler took toward similar problems.

A major event happened at Daimler in 1993: for the first time in the company's 103 year history it reported a financial loss on its financial statements (Flint 41). The loss was only $100 million under German accounting standards, but over $1.25 billion under American accounting standards, which the company would later adopt in 1996 (41). German accounting standards allow for reserve accounts, which help smooth earnings and hide losses. There is not even a word in German for "operating profit," a key financial statistic under American accounting standards. American accounting standards require the disclosures of such losses and earnings fluctuations. Much to the chagrin of Daimler's largest shareholder, Deutsche Bank (which owned 24% of Daimler), 1994 proved to be no better than 1993 (41). In early 1995, Deutsche Bank forced the CEO of Daimler, Edzard Reuter, to resign. In May 1995, Jürgen Schrempp took command of the company.

The Wind of Change: Jürgen Schrempp

Since taking over command of Daimler, Schrempp has been nicknamed "neutron Jürgen," and some Daimler employees have called his actions: "*Über Leichen gehen*," to step over the dead, or in this case Daimler's laid-off employees (Taylor 144). "Neutron Jürgen" is a reference to Jack Welch, CEO of General Electric, a major American company that faced similar problems as Daimler. Welch received the nickname because he cut 300,000 jobs in 10 years at GE. He was like a neutron bomb: the buildings were still there, but no people were in them (145). By no means has Schrempp cut such large numbers of people, but from 1995 to 1998, he cut 51,000 jobs from Daimler's German

Operations (145). In light of Germany's pro-labor system, the number of layoffs is equally astounding as Welch's cuts. Not only has Schrempp cut jobs, he has cut costs and closed or sold many unprofitable segments of Daimler (146). Like Welch's success at GE, Schrempp has managed to turn Daimler around from a lumbering, over-diversified, industrial giant to a nimble, focused industrial company. The merger with Chrysler appears to be another well-planned strategic business move that opens up new markets and infuses fresh managerial talent and ideas into Daimler.

The changes at Daimler began before Schrempp became CEO. In 1993, by threatening to move its then new small-car plant to lower-cost Britain, France, or even to the Czech Republic, Daimler won big concessions from its employees ("Slow" 60). Daimler's employees agreed to sacrifice 1% of any salary increase negotiated by IG Metall, the huge German industrial union (60). In exchange the employees received an agreement to upgrade an under-used plant in Rastatt, Germany where Daimler's new small-car product line would be built (61). This kind of mutual response to the challenge of high labor costs in Germany is rare. Within the scope of the research for this thesis, no other example of workers sacrificing union-negotiated pay-raises exists. The example illustrates that if employers and employees work together, a mutually beneficial solution can be found with the framework of Germany's labor norms.

Daimler's employees have demonstrated a greater willingness to work with Daimler to achieve Daimler's goals. In 1996, when Daimler switched from German accounting standards to American GAAP, Schrempp set a requirement that every division and factory would have to earn a 12% return on capital ("Neutron" 72). As reported in the *Economist* "When managers of one factory in the Black Forest said they could not

possibly meet the 12% target, Mr. Schrempp, who hails from the Black Forest himself, went to the works council. Over a few beers he got a commitment from the workers to make the changes their managers had considered impossible" (73). These changes led to the Black Forest division meeting its goal; it achieved over a 12% return on capital (73). Simple changes, like the ones described in this quote, indicate the types of changes that need to be made to keep "Standort Deutschland" an economically competitive reality.

In 1995, a new labor contract was negotiated with Daimler's employees that will last until 2000 (Taylor 146). This contract ensures that Germany will continue to be a key country of operations for Daimler. This contract provides for even more flexibility in the number of hours worked, timing of vacations and many other less important concessions (146). During these contract negotiations Schrempp revealed his willingness to work with Daimler employees in return for more flexibility. The employees received further guarantees of job security (146). One revolutionary and very American aspect of this contract is the pay cuts employees accepted in return for a profit-sharing bonus plan (146). In 1997, all 150,000 Mercedes-Benz-division employees were eligible to receive a profit-sharing bonus and the average employee received several hundred dollars (146). The size of the bonus employees receive is determined by the profitability of the division or manufacturing facility they are a part of (146). Daimler and its employees are happy with this solution; Daimler because it cuts costs and the employees because it provides monetary reward for their hard work toward Daimler's fiscal goals (146).

The largest contributor to Daimler's fiscal goals is its Mercedes-Benz automobile division. Daimler earned approximately two-thirds of its revenue from its Mercedes-Benz division, prior to the merger with Chrysler. Mercedes Benz must compete against

auto manufacturers from many different countries and has been for sometime. The automobile industry is arguably one of the most competitive industries in the world. The Luxury car market has become increasingly competitive in the last decade with the entrance of Japanese car manufactures in this market. This entrance has put increasing pressure on Mercedes to reduce the price of its cars because the Japanese cars are priced lower and are of similar quality. Many automakers in the United States manufacture parts in Mexico and South Korea, the latter of which Japanese auto companies also source some parts to. These companies have lower labor costs, which intern reduces the costs of manufacturing parts. Schrempp has taken an approach similar to that of many of his competitors. Since becoming CEO, Schrempp has moved billions of dollars of parts contracts to Asia, Spain and Latin America ("Neutron" 73). The sourcing of parts to foreign countries has allowed Daimler to cut costs and the number of people employed in Germany.

Daimler Refocuses

The Mercedes-Benz division is not the only division that must compete fiercely in global markets. For instance, Daimler owns 38% of Airbus, which arguably has only one competitor, Boeing--an American company that is the only other producer of large passenger jets in the world (Taylor 146). The competition between Boeing and Airbus is both fierce and on a global scale. Recently, Airbus has led Boeing in the world market for large passenger-jet airplanes. Airbus' financial success has helped stop losses at Daimler. This contrasts with the losses Airbus suffered at Daimler's low point in 1993

(146). Airbus is becoming a key profit-producing division of Daimler. Airbus benefits from the "Dual System" of apprenticing students, which creates a highly skilled work force necessary for Airbus' success (146). In the case of Airbus, the German labor system is highly beneficial and has provided a competitive advantage for Airbus over Boeing (146). In a speech to Daimler's American stockholders, Schrempp said:

> From an operational and engineering standpoint, we are in a great position to face up to global competition. In particular, the well-established "Dual System" of apprentice training in Germany creates a highly qualified workforce that allows our plants to maintain a steady flow of incremental process innovations and to rapidly overcome initial production problems when new products are introduced (57).

Airplane manufacturing represents the type of industry that Germany needs to promote: highly-skilled, high-technology and globally competitive industries. These types of industries fit well with the German philosophy toward labor and education.

Daimler illustrates the challenge facing the German industrial sector, competing against other globally competitive countries. Daimler has achieved a balance between locating all of its production facilities in Germany or all in foreign countries. Daimler has changed what some view has a labor straightjacket into a successful partnership, in which the employees and management have made mutually beneficial compromises. This does not mean there is no tension between Daimler and it employees. Many Germans feel that Daimler's policies are a direct attack on traditional German values, but as Schrempp said, "we [Daimler] must deliver world class returns. Profitability can no longer be a ghost word in Europe. Only profitable companies can ensure jobs and benefits" (57). Unlike Volkswagen, Daimler has chosen to purse non-traditional forms of employee and employer relations, but within the labor laws of Germany. Daimler continues to be Germany's largest and leading company. It has addressed the problems of

globalization with adroit labor and supplier policies, which allow it to be competitive globally now and in the future.

CHAPTER X: CONCLUSION

Each case in this thesis revealed a different set of challenges facing German companies and industries as a result of global competitive pressure and influence. Global competitive pressure has existed for many decades, but the recent increase in communication technology decreased the cost of competing globally and increased the speed of the movement of goods. Although the challenges were slightly different in each example, there were some common themes. First, companies and industries must figure out how to make labor more efficient vis-a-vis the cost of labor. There appear to be a few solutions to this problem: a) ThyssenKrupp and Deutsche Bank's solution of slowly eliminating positions either permanently or moving them to lower-cost countries; b) as in the case of DaimlerChrysler, companies can rapidly cutting jobs and building production facilities in lower-cost countries; and finally c) employees can cooperatively work with employees to reach a common goal of profitability as Volkswagen has.

Hindering such solutions are labor regulations in Germany. The powerful labor unions present immense challenges for companies attempting to better match the timing and number of people working with the flow of work. Some laws regarding compensation make it difficult for German companies to keep talent in Germany; for

example, because of high tax rates and difficulties with German compensation laws, most high-technology companies cannot offer the broad range of compensation packages that many American companies can offer. This problem is also linked to problems with the education system because there are not enough trained high-technology workers in Germany to begin with.

As alluded to in the labor challenges, the second problem facing Germany is the matching of the education system with the dynamic demands of a global economy. This challenge has manifested itself in several ways. The students apprenticing in the German hard coal industry represent one form of structural problems facing the German education system: students apprenticing in fields that will no longer exist in ten years and that the student will have no chance of working in. As illustrated by the banking and chemical industry, another two structural problems must be overcome by the German education system. The chemical industry and the high-technology industry both demand large numbers of college-educated employees, and the German education system is failing to supply enough in these fields. The lack of students is related to students not wanting to go into these fields and Germany's education system not meeting the demand for students in high-technology fields. The third problem as seen in the banking industry is the failure of the German education system to match the number of students demanded in a field with the number of students studying in a field. The result of this problem is that positions once taken by non-college-educated students are now taken by college-educated students because the college-educated students cannot find positions in their fields of study. This problem was illustrated by the changing make up of the banking industry.

Unfortunately, the structural education problems could cause even larger social problems, compounding the current high unemployment in Germany. Chapter Three described the different levels of the German education system--Hauptschule, Realschule and *Gymnasium*--if the students in the higher levels begin to take positions intended for the lower levels of students, there will be no positions for the lowest levels of students. Almost all *Gymnasium* students used to continue on to university, but now many choose to take apprenticeship positions in the banking, insurance and other service industries (Ripke). The students educated in the higher levels, are of course, better qualified for many positions. If this trend continues or increases, it could mean even more unemployment for Germany's already overburdened social system.

Related to the lack of students in emerging industries are the challenges facing emerging industries because of Germany's credit-based financial system. This problem has many facets. First, the failure of some large corporations in recent years, would have been discovered much sooner had the corporations relied on capital markets, regardless of accounting standards. Further, as revealed by the analysis of Deutsche Bank, the power of a few mega-banks to control lending stifles innovation in German industries. The best way to envision this capital market is to think of a high-tech start-up company attempting to get financing from a conservative bank. Of course, the bank will probably not lend money based on these circumstances. In reality, the positive or negative impact of this restrictive system will not be known for years. For all anyone knows, investors in high-tech companies in the United States could be in for a huge disappointment if no real value from these companies ever materializes. The development of even larger capital markets in Germany or even in Europe would focus the movement of funds in these

markets. There is a real possibility of the global consolidation if the rumored merger between the Frankfurt DAX and the London stock exchange transpires. The merger of these two stock exchanges would create a capital market rivaling the New York stock exchange and increase capital activity for Germany and England. It is unclear, however if the government is willing to allow such a mixing of capital markets.

The government plays an important role for Germany in many aspects of globalization. The government determines many of the regulations which have made Germany sometimes difficult for companies to operate in. Since the highest marginal corporate tax rate in Germany is over 50%, it is understandable why some companies would prefer to move profit-producing operations to lower-tax-rate countries. The laws regarding compensation, social security taxes and benefit packages are all determined to a certain extent. In this case, only the government sets the rate of contribution to social security programs. In other areas such as length of vacations, benefit plans and compensation levels the government only plays a monitoring role, basically ensuring a minimum level is met. In recent years, the German government has revealed a willingness to intervene in labor trends to strengthen Germany's competitive position in global markets. An example of this is the cut of sick pay from 100% of salary for at least six weeks to only 80%, and reductions in the amount of time one can be unemployed for before unemployment compensation begins to decrease. These changes lower the costs associated with employees but not directly related to compensation, costs that can reach 80% of an employee's salary in certain industries. Echoing remarks made by Helmut Kohl, former chancellor of Germany, Jürgen Schrempp, CEO of Daimler, has said: " I [Jürgen Schrempp] agree with Chancellor Kohl in his recent New Year's speech that we

cannot continue as we have in the past. We need to modify the 'German model' so that we not only reap the benefits of consensus but also adapt ourselves successfully to a world that has significantly changed" (Schrempp).

One of the basic premises of this thesis is that the world that Germany's economy operates in has changed. International trade has existed for many years, but until recently the communications and transportation technology were not advanced enough to allow the rapid movement of products and information on a global scale. Unlike earlier international trade, now almost every country in the world needs global trade. Earlier international trade only involved a relatively small number of countries and could hardly be called global when not all regions of the globe participated. The question is how do these changes affect employees in Germany and what are the impacts on society and business in Germany. These questions have been answered, but it is impossible to answer them conclusively. A summary of these problems and answers as they relate to the cases analyzed in this thesis depict these trends.

There are many negative aspects discussed in these analyses. The case of Kaufhof illuminated what can be seen as the friction between the young and the old in Germany. There are positive and negative reasons for allowing stores to open on Sundays, and, as the polls revealed, German people are deeply divided in their opinions of this change. As exposed in the chapter, young people feel that storeowners should have the right to choose when their stores are open. Conservative Germans, demographically older, and religious people feel that Sunday should be a day for peace and free of consumer desires.

These archetypes transcend a debate of whether stores should be allowed to open on Sunday and reveal a deeper conflict in German society. Young Germans do not have the same job opportunities as their parents did, which causes friction between the elderly, who feel deserving of large retirement transfer payments, and the younger generation, which knows that it will not receive the same benefits. Exacerbating the loss of opportunities and Germany's educational problems are the feelings of some German parents, who do not consider a university education necessary and refuse to support their children in this endeavor, leaving their sons and daughters looking for apprenticeships (Ripke). Many of these social conflicts are not directly related to globalization, but are indirectly related to changes resulting from the dynamic pressures of globalization.

Globalization has placed enormous amounts of structural pressure on employment in Germany. In every case analyzed in this thesis there is some example of conflict between employers and employees. In the Kaufhof case, there is conflict surrounding the possibility that some employees will have to work on Sundays. ThyssenKrupp is faced with the harsh reality that it can no longer profitably produce low-grade, simple steel products. Its employees, not prepared to learn new steel-making techniques, can no longer be employed. Thousands of workers in the coal industry do not seem to understand the reality that Germany cannot afford to pay billions in subsidies forever. Bank tellers in Germany, and eventually Europe, can longer count on lifelong employment as the industry has reached the brink of mass consolidation. Volkswagen and Daimler employees appear to have made some of the biggest paradigm shifts of all employees examined in this thesis. These employees understand unless their company is profitable, their jobs are at risk. Volkswagen's employees began to change their attitude

toward the profitability when they saw their unemployed former colleagues unhappily attempting to find new jobs. This consensus among management and employees at Daimler and Volkswagen has resulted in impressive changes. The hard coal industry understands it needs to become competitive with imports, but because of political pressure the government has not taken steps to force the hard coal industry to become competitive. What is clear from this mass of evidence is that Germany realizes that the global economy is dynamic, and both companies and people need to find a solution to Germany's interaction in the world market.

Not all cases discussed the negative facets of the German economy. The lignite coal industry illustrated the strength of the German economy. Germany's system of education does produce some of the highest skilled workers in the world, and when functioning in productive markets these workers can be extremely competitive and produce high-quality products. The technology used in the lignite coal industry is very complicated and difficult to integrate, but Germany has succeeded in doing so. Germany is the world leader in opencast mineral extraction and low-pollution, high-efficiency power plants, both technologies they can export to meet global demand.

Deutsche Bank is similarly successful in the global banking market. As the largest bank in the world, it has expanded its influence to much of Eastern Europe, Australia, the Middle East, Japan, Europe, America and Latin America. In some banking functions it may not be the world leader, but it is by far a key player. No one company can satisfy the demand of every customer. German companies can use the success of Deutsche Bank in many foreign markets to launch their own endeavors into the global market. Companies can enter new markets by using Deutsche Bank and its expertise in

various countries around the world. Deutsche Bank has a large consulting practice, which is underused by German companies.

A strategy of global expansion will help meet global market demands, as Deutsche Bank has done, that not only must a company serve the market it must often do it on local level. Companies must locate some production in other parts of the world, simply to serve the vast array of world demands. When German companies announce plans to build production sites in other countries, many Germans react negatively to the news. These people think any movement of activity outside of Germany is bad for Germans, but this is not necessarily the case. For example, Volkswagen produces cars in Brazil to meet demand in the Americas because it would be too difficult to meet this entire demand from sites in Germany. To be successful, companies must have many different facilities in different locations to serve an ever-expanding network of customers.

The dynamic nature of globalization will continue to cause friction between traditional German business and social beliefs. Certain industries, which still employ thousands of German workers, will slowly fade from importance in Germany. Global economic trends indicate that most advanced economies are changing to mostly service economies. Germany has changed less rapidly to a service economy, but as German companies become uncompetitive in these industries they will eliminate these positions. Germans may even have found a solution for the future with respect to work. Volkswagen's innovative workweek may help ease unemployment in many advanced economies, while at the same time improving the quality of life. Global economic trends could shift and eliminate many of the challenges facing Germany. During the "*Wirtschaftswunder*" of the 1960s, there was little unemployment, and huge tax revenues

easily supported large social programs. The United States has experienced a business boom and large tax revenues recently. Because of the booming American economy, tax receipts have been larger than expected. How Germany and Germans react to changes at the macro- and microeconomic level will determine the continued success of Germany on a global scale.

How does one summarize the complex interactions between employers and employees in Germany? Snapshots can be analyzed for threads of truth, but the truth is subjective. Many believe globalization provides no benefits. Some say that globalization actually increases the cost of products because so much energy must be used to transport goods over such great distances. Governments often react in a hostile manner to companies moving production to foreign countries because they only see the loss of employment and tax revenues in the home country.

Globalization has increased in the past decade and has really only reached a critical mass in the last five to ten years. Unlike international trade of the past, globalization affects almost every country in the world. The advances in communication technology have led to amazing increases in global interconnection. Without these advances globalization of financial markets would be impossible. Companies would be unable to effectively run operations spanning the globe without quick, efficient communications technology. The pervasiveness of this technology also leads to global trends and influence from limited sources. One company or source can quickly distribute information or norms like no other period in the past.

This thesis may seem to be pro-globalization, but in fact I have attempted only to analyze the current economic circumstances facing Germany, in as objective way as

possible. It is impossible for me as a human being, nurtured in a different culture, to transcend my subjective perception of the world. It is hoped that this thesis opens the door to a whole new understanding of German business and the surrounding culture. There are many misconceptions surrounding globalization. Those that one chooses to ignore and those espoused will determine one's perception of this topic.

Appendix A

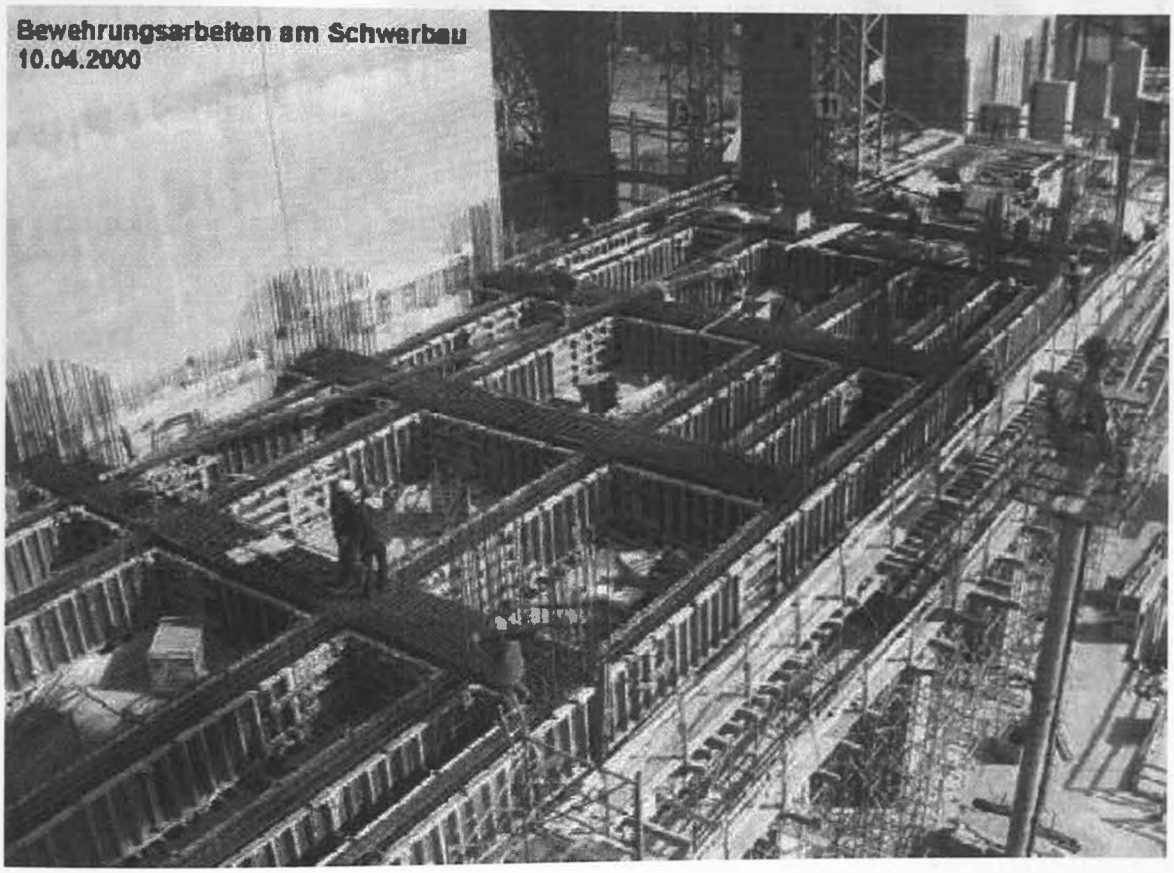

Figure 4. Construction of new high efficiency coal power plant: lower combustion area

Figure 5. Construction of new high efficiency coal power plant: upper combustion area

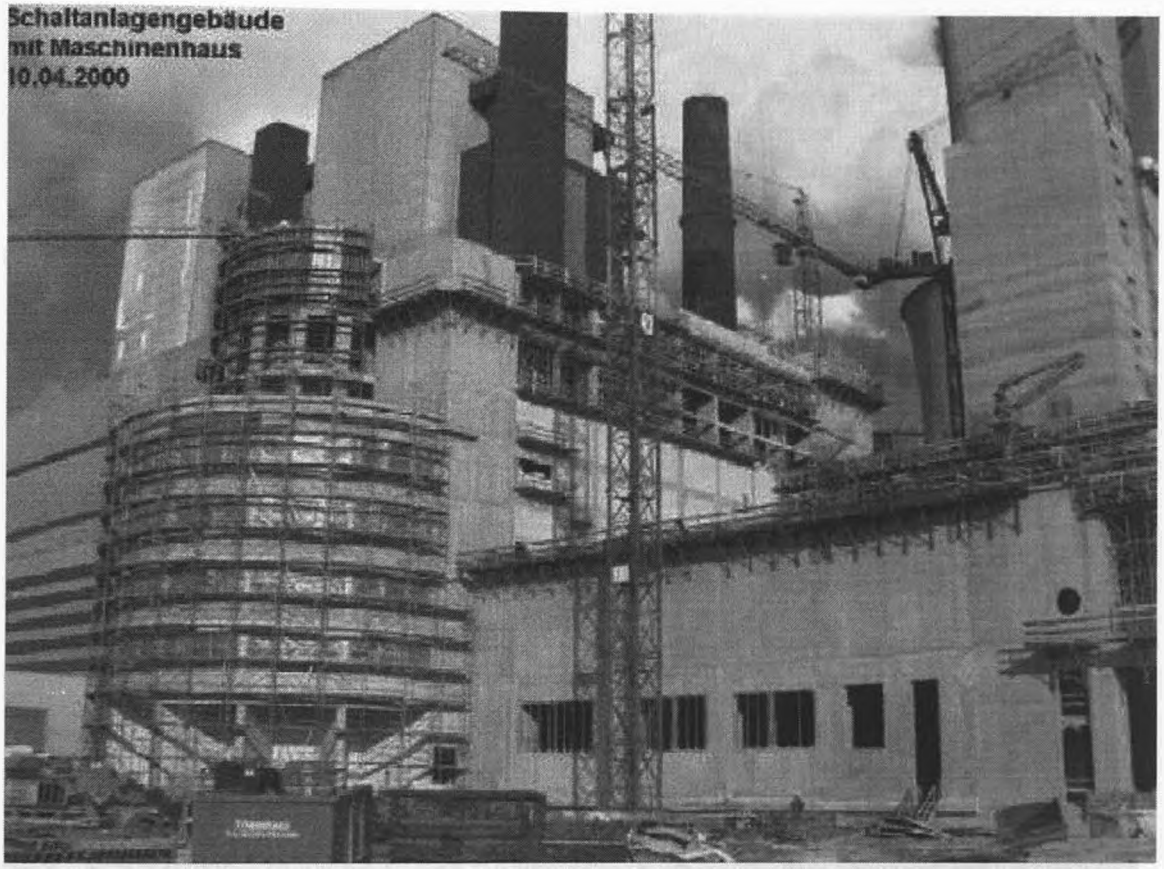

Figure 6. Rearview of coal power plant construction

Figure 7. Garzweiler Tagebau, near Cologne, Germany

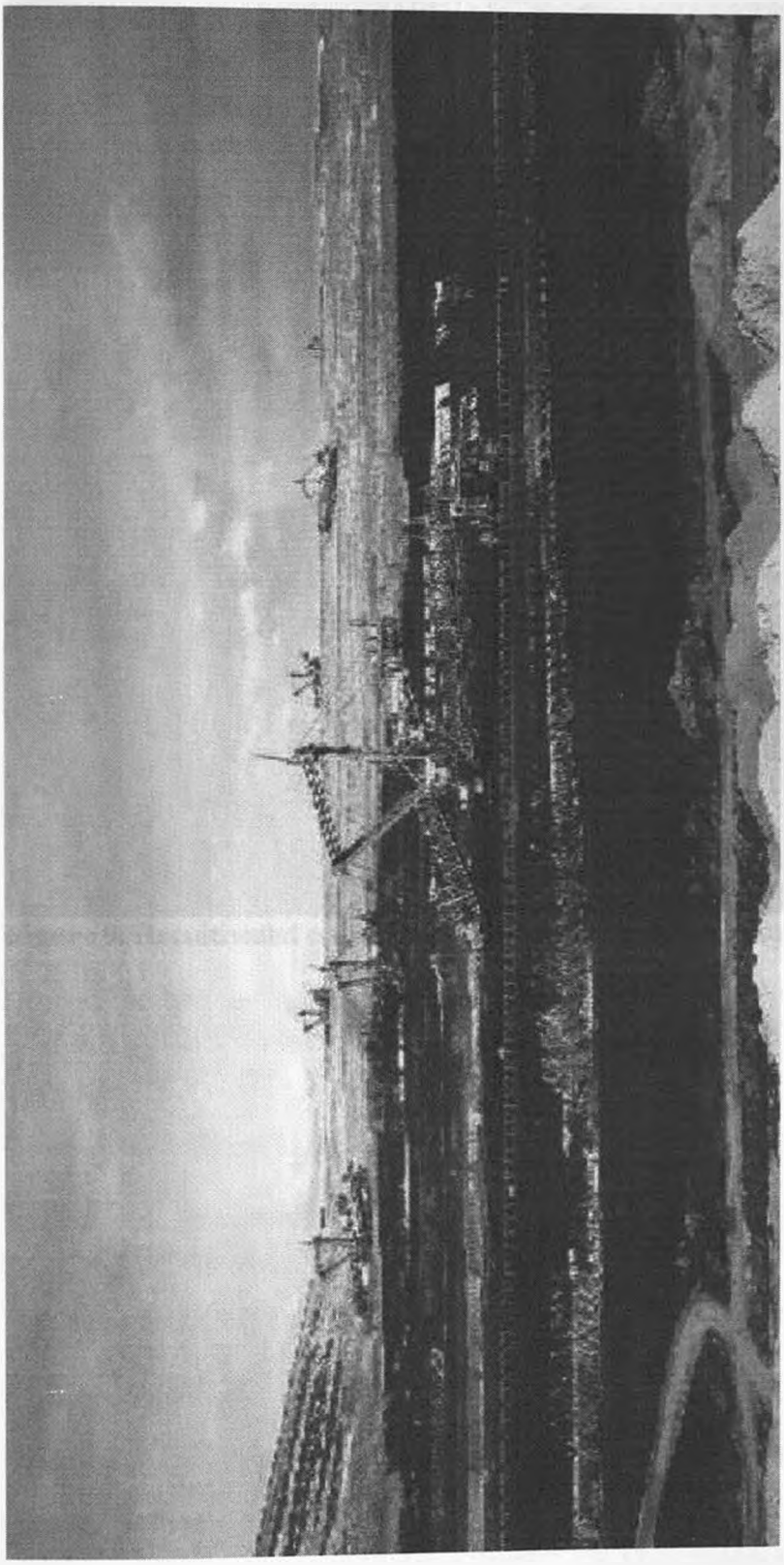

Figure 8. Tagebau Hambach, outside of Cologne Germany, largest opencast mine in the world

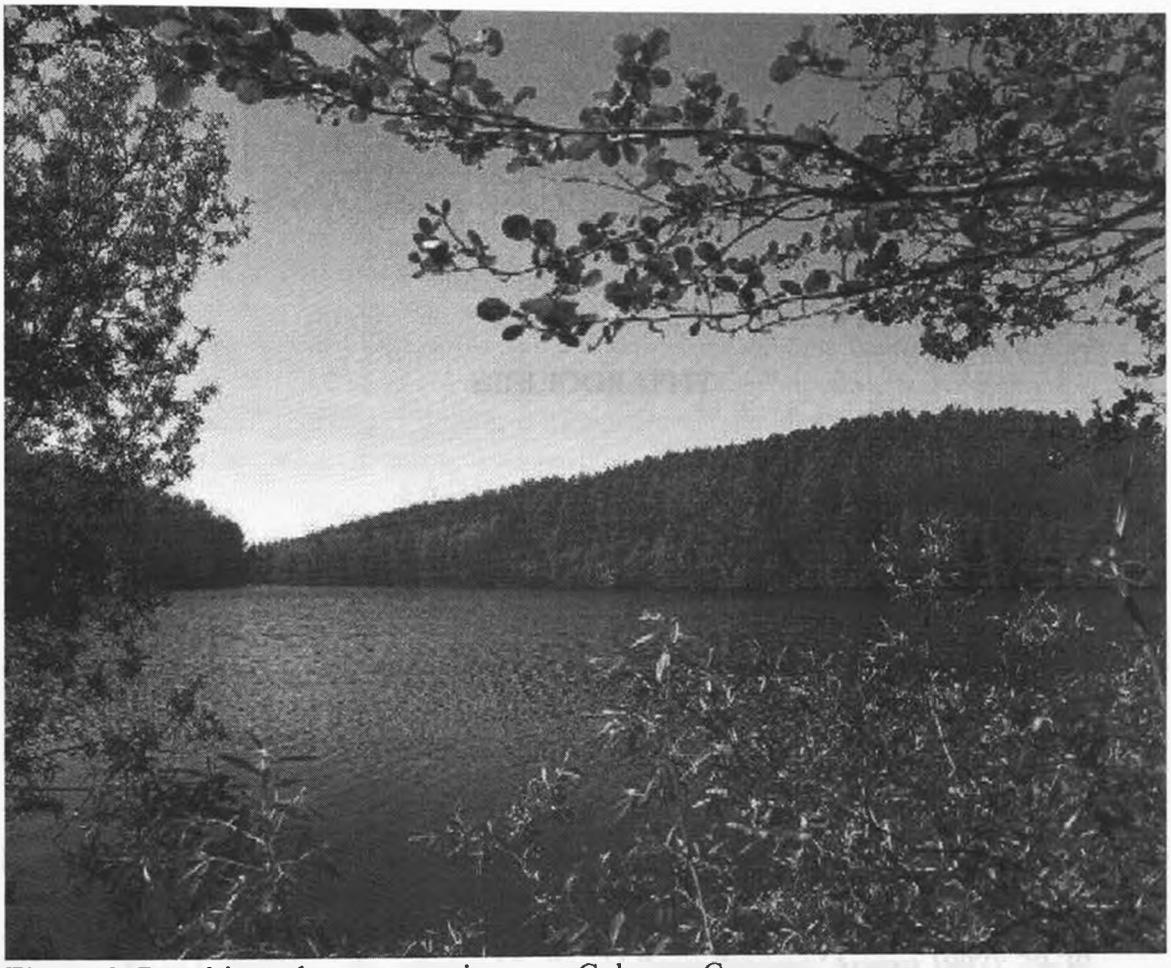

Figure 9. Recultivated opencast mine near Cologne, Germany

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