# U.S. MULTINATIONALS AND WORKER PARTICIPATION IN MANAGEMENT

Ton DeVos

## THE AMERICAN EXPERIENCE IN THE EUROPEAN COMMUNITY

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# PREFACE

This book represents the convergence of several interests. It evolved, first of all, from my interest in the role multinational corporations play in the transmission of values across national boundaries. Almost all the literature on this topic has focused on the way MNCs have impacted on host-country cultures. This volume pays more attention to the inverse impact. The key question dealt with here is: has the experience of American business managers in Europe had any effect on the way they conduct labor relations in the United States?

This study was also stimulated by my interest in one of the less obvious, yet very crucial, problems facing persons living and working in democratic societies. The answer to this problem must have a very important effect on the overall success of such societies. That problem is: how can a person who is constantly being socialized to participate democratically in the politics of society be content to spend most of his energy and waking hours within the context of the hierarchical, authoritarian politics that characterizes so many industrial enterprises? Or posing the question from a different angle: how realistic is it to expect workers to be content and constructive in a non-democratic work process if they have been socialized to think of themselves as individuals whose ideas have value for society as well as for themselves?

My considerable appreciation of and preference for the academic style of work life, in which faculties have traditionally been given extensive opportunities to participate in the determination of certain university policies, have left me with the gnawing question of why others could not similarly experience dignity and individuality within their work environments. All arguments against the expansion of participatory opportunities given by either autocratic university administrators or by those who defend the sacred rights of property have never satisfied me. I, therefore, became understandably fascinated by what seemed to be happening in the workplaces of different West European countries. The experience there with worker participation did not necessarily provide me with the perfect solution to the dissonance problem or to the question of individuality and personal dignity. It did, nevertheless, indicate that governments, employers, and trade unionists were making an interesting attempt that was distinctly different from that pursued on this side of the Atlantic.

My two interests converged as American business investments in Europe increased dramatically and as an increasing number of Stateside newspapers, business periodicals, and academic journals began to speculate whether worker-participation practices might be imported to the United States. I decided that what was needed at this point was a study of the American experience in Europe that placed the subject in a broader context and that would particularly emphasize the relationship of that experience to American values and workplace-reform experiments.

This monograph is the product of original research as well as of a review of the existing literature. The original information was obtained by direct observation, personal interviews, and the examination of primary sources. This was done in various locations in Western Europe and at the International Labour Organisation headquarters in Geneva. Approximately sixty interviews were conducted with managerial personnel of American multinational companies in Europe, with U.S. Chamber of Commerce officials, with national and international trade unionists, with officials of national and international employer organizations, with high-ranking personnel of the European Commission, with national government officials, and with academicians. Some of these interviews were with delegates to the 1976 World Employment Conference of the International Labour Organisation.

No conscious attempt has been made to separate the information obtained through original research from that acquired from a review of the literature and public sources. This style of presentation was selected for two reasons. First, much of the original research was done to double-check for possible biases in the published materials. This seemed to be a necessary research strategy since a certain amount of the literature came from sources that had, rightly or wrongly, been accused of entertaining institutional or ideological loyalty to the interest groups that were contenders in this issue area. The second reason for writing in this manner was that the study was not designed to reach only academicians who specialize either in worker participation or in industrial relations. I am frankly much more interested in informing generalists and, even more particularly, those who have or expect to have managerial responsibilities in American industrial corporations. It is they who need to discover that the experiments with democracy in the workplace in Western Europe have not been as disastrous and irrelevant to American business interests as some people would suggest.

The structure of this book is rather simple. The first four chapters describe the American business community in Western Europe, its value commitments, its reputation, and its experiences with worker participation in the United States. The next two chapters deal with the West European trade-union movement and its responses to American multinationals, as well as with the general picture of worker participation in the various European Community countries. Subsequent chapters review how U.S. multinationals have responded to the European laws and practices and how much impact their experience seems to have already had, and will probably have, on the Stateside practices of these companies.

I would be distinctly amiss if no acknowledgment were made of the different kinds of support given me in this project. The Faculty Research and Development Council of Trinity University provided a large part of the necessary financial support. Extremely valuable logistical support was extended by many people from the ranks of employers and of labor. Special mention should be made, however, of the courtesies extended by Wilhelm E. Stoermann of the International Labour Office and by Albert Tévoédjrè and Hans Günter of the International Institute of Labour Studies. These three gentlemen and their staffs deserve considerable thanks. Numerous other persons graciously granted me interviews, made referrals, and provided me with materials, all of which has given me ample opportunity to present as accurate and complete an account as is humanly possible. My close friend and colleague Philip Detweiler, Willyn Cobb, Dorothea Grigsby, and a series of student assistants have made their own particular contributions. Each of them deserves my heartfelt thanks. The greatest contribution certainly was made by my wife, who not only endured all the extensive traveling and interviewing, but who was also most particularly helpful in getting me to express myself more clearly and directly.

The ultimate responsibility for what has been written here is, as usual, totally and irrevocably mine.

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# U.S. Multinationals and Worker Participation in Management

# 1

# AMERICAN INVESTMENT IN EUROPE

In 1967, Jean-Jacques Servan-Schreiber wrote: "Fifteen years from now it is quite possible that the world's largest industrial power, just after the United States and Russia, will not be Europe, but American industry in Europe.[1] With these words, he opened his stimulating discussion of what he perceived to be *The American Challenge (Le défi américain)*, a book that became a best-seller. It seemed that finally someone had taken the bold, analytical look that "Americanization," or the "American takeover of Europe," deserved.

What Servan-Schreiber projected for the 1980s, however, had been described numerous times before, most particularly at the turn of the century and again around 1930.[2] Thus, what to many lay persons in the sixties appeared to be a totally new phenomenon—that is, extensive direct investment by American multinational corporations in Western Europe—was really nothing new.

Already in 1801, American traders in cotton and other products had organized an American Chamber of Commerce in Liverpool, England, and manufacturing operations apparently began as early as 1810. In that year, Joseph Dyer and associates became involved in the manufacture of cotton spinners and other textile machinery in Manchester, an operation that was expanded into France some fifteen years later.

The most significant acceleration occurred after the Civil War, when the same men who had been successful at home began to apply their ingenuity to production and marketing overseas. They eagerly sought to capitalize on existing demand and to awaken the spirit of consumerism that has always been the prime stimulant of business expansion. While Isaac Singer peddled and manufactured his sewing machines, Alexander Graham Bell and Thomas Edison competed and merged—as opportunity and necessity required—to acquire a major share of the European telephone-equipment business. Edison made his light bulbs; Eastman, his photographic plates; Westinghouse, his brakes. Meanwhile, Rockefeller sold his oil products, and J. P. Morgan extended his banking business.

European outcries about American "commercial aggression" are also ironic because the accelerated growth of direct investment by American multinational corporations can be explained to a considerable degree as having resulted from European initiatives. Direct investment by American businesses became almost inevitable after national governments raised their tariffs and began to practice preferential purchasing of homeland products and local patent laws began to require the "working" of registered inventions. Given the imaginative and buoyant spirit of the American business community, the inevitable happened. Their reactive strategies were just as important as were the other motivations for direct investment: a desire to cut transportation costs, to warehouse materials and products closer to the market so that demand could be met more speedily and consistently, to develop products lines and designs more particularly suited for markets of different culture and language, and last but not least, to attack local competitors in their own backyards.

Table 1 shows the nature and location of some of the American firms that had built or bought controlling interests in manufacturing plants in Western Europe by 1914. Most striking is the preponderance of Great Britain and Germany as locations for these subsidiaries, a fact that undoubtedly reflects their more advanced stage of industrialization, the size of their markets, as well as a certain amount of cultural affinity. Both countries have continued to be prime investment areas. The list of firms also indicates the wide range of products involved.

Regardless of the degree of American business expansion into Europe, for most of the period from 1860 to 1914, the United States was mainly an importer rather than an exporter of capital; its total pre-World War I worldwide investments only amounted to some $3.5 billion.[3] Most of these investments were direct—that is, investments by multinational corporations in subsidiaries rather than purchases of noncontrolling segments of foreign corporate stocks (so-called portfolio investment). Also, only about one-fifth of total U.S. direct investment was in Europe, a figure that includes such countries as Russia and Austria, which are not members of the current European Communities.[4]

In contrast, in 1914, British investments overseas amounted to a book value of $8.3 billion; French, $8.7 billion; and German, $5.6 billion. In that year, even the foreign holdings of Belgian, Dutch, and Swiss investors exceeded those of American individuals and corporations.[5] The bulk of the European overseas investments tended to be more portfolio-oriented. Being more clearly designed for short-term profit, they were less visible and thus caused less turmoil and political backlash than the American presence, which, not only brought American products, but also American managers and American ways of merchandising.

Business expansion at home generally stimulates overseas expansion. Such was also the case in the twenties, when American direct investment in Europe virtually doubled; it increased from a book value of $694 million in 1919 to $1,353 million in 1929. (See Table 2.) This growth rate was essentially the same for all U.S. overseas investments, yet it was significantly lower than

**TABLE 1 Some U.S. MNCs Operating Manufacturing Plants in Europe, 1914**

| Name of Firm | GREAT BRITAIN | GERMANY | FRANCE | ITALY | BELGIUM | NETHERLANDS |
|---|---|---|---|---|---|---|
| Alcoa | | | x | | | |
| American Bicycle | | x | | | | |
| American Chicle | x | | | | | |
| American Cotton Oil | | | | | | x |
| American Gramophone | x | x | x | | | |
| American Radiator | x | x | x | x | | |
| American Tobacco | x | x | | | | |
| Carborundum | x | x | | | | |
| Chicago Pneumatic Tool | x | x | | | | |
| Colt | x | | | | | |
| Diamond Match | x | x | | | | |
| Eastman Kodak | x | | x | | | |
| Ford | x | | x | | | |
| General Electric* | x | x | x | | | |
| Gillette | x | x | x | | | |
| Heinz | x | | | | | |
| International Harvester | | x | x | | | |
| International Steam Pump | x | x | x | | | |
| International Telephone and Telegraph** | x | x | x | x | x | |
| Mergenthaler Linotype | x | x | | | | |
| National Cash Register | | x | | | | |
| Norton | | x | | | | |
| Otis Elevator | x | x | x | | | |
| Parke, Davis | x | | | | | |
| Quaker Oats | | x | | | | |
| Sherwin-Williams | x | | | | | |
| Singer | x | x | | | | |
| United Shoe Machinery | x | x | x | | | |
| Westinghouse Air Brake | x | x | x | | | |
| Westinghouse Electric | x | | x | | | |

*Sources:* Mira Wilkins, *The Emergence of Multinational Enterprise,* and Raymond Vernon, *Sovereignty at Bay,* who added some data to the Wilkins table. (Wilkins, pp. 212-13; Vernon, pp. 72-73.)

*General Electric in Germany, France, and Italy contracted with (and did not control) local manufacturing firms.

**ITT operated under a different name in that time period.

TABLE 2 U.S. Direct Investment in Europe, 1897-1940

| | Total | Manu-facturing | | Sales | | Petroleum | | Utilities | | Mining | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | mil.$ | mil.$ | % | mil.$ | % | mil.$ | % | mil.$ | % | mil.$ | % |
| 1897 | 131 | 35 | (26.7) | 25 | (19.1) | 55 | (42.0) | 10 | (7.8) | — | |
| 1908 | 369 | 100 | (27.1) | 30 | (8.1) | 99 | (26.8) | 13 | (3.5) | 3 | (0.8) |
| 1914 | 573 | 200 | (37.7) | 85 | (14.8) | 138 | (24.1) | 11 | (19.2) | 5 | (0.9) |
| 1919 | 694 | 280 | (40.3) | 95 | (13.7) | 158 | (22.8) | 5 | (0.7) | — | |
| 1929 | 1,353 | 637 | (47.1) | 133 | (9.8) | 239 | (17.7) | 138 | (10.2) | 37 | (2.7) |
| 1940 | 1,420 | 639 | (45.0) | 245 | (17.3) | 306 | (21.5) | 74 | (5.2) | 53 | (3.7) |

*Source:* Wilkins, *Emergence*, p. 110.

*Note:* The percentages do not total 100. Direct investments of insurance companies are not broken down, and Ms. Wilkins suggests that they may make up a large part of the difference.

those for South and Central America, which were 158.6 percent and 124.1 percent, respectively. Thus, the American presence in Europe remained substantially smaller than in Latin America ($3,706 billion) and not even as large as that in Canada ($1,657 billion).[6]

The Great Depression not only called for retrenchment or a holding pattern, it also brought a whole new array of government regulations in national economies in Europe as well as in the United States. Investigations into the causes of the depression as well as of World War I prompted a large number of questions about the free-enterprise system and business combinations, not least of all about business combinations that were international in operation.

Very few American firms were willing to run the financial and political risks that would flow from purchasing or establishing new subsidiaries in such a hostile climate. In addition, many felt that it would be much more patriotic to contribute to economic recovery at home than to become embroiled in European power politics. And, more importantly and practically, Europeans did not have the capability to purchase many American products. The only significant expansions in the thirties came in the area of sales and petroleum, the latter clearly reflecting the continuing growth of the automobile culture.

The most spectacular growth in American direct investment in Western Europe came in the late fifties and especially in the sixties. From a value of $6.7 billion in 1960, its book value had risen to $24.8 billion by the end of the decade. For the first time in the history of U.S. overseas investment, the total interests in Europe exceeded those in Canada and even those in Latin America. The bulk of this postwar investment again occurred in Great Britain. By 1960, the United Kingdom had in fact become the second most popular country for Americans to invest in, with a book value of

$3.194 billion which was still considerably below the $11,198 billion invested in Canada, its Commonwealth partner.[7]

However, the pattern of investments by American multinationals began to change during the sixties. When it became clear that Britain would not enter the Common Market, American multinationals began to jump the tariff wall. By 1970, American subsidiaries in the six Common Market countries had assets valued at $11,695 billion, an increase of $2,644 billion since the beginning of the decade, a growth of 342.3 percent. Direct investments in Britain increased only 150.9 percent; nevertheless, they remained a very significant element in the total American investment pattern in Europe. The book value of U.S. investments in the United Kingdom in 1970 was still $8,015 billion, an amount that almost equaled the investments in all Common Market countries combined.[8]

West Germany remained the most attractive investment target within the Common Market, a pattern that was undoubtedly related to the German people's reputation for industriousness as well as to the country's past technological accomplishments. However, other factors were as persuasive to investors: the size of the market; the comparative prosperity of its consumers; the stability of its labor relations system; and its commitment to free enterprise. By 1970, U.S. direct investment in the Federal Republic had a book value of $4,579 billion, almost twice the amount invested by American multinationals in France, and three times the amount for Italy, Belgium-Luxembourg, and the Netherlands.

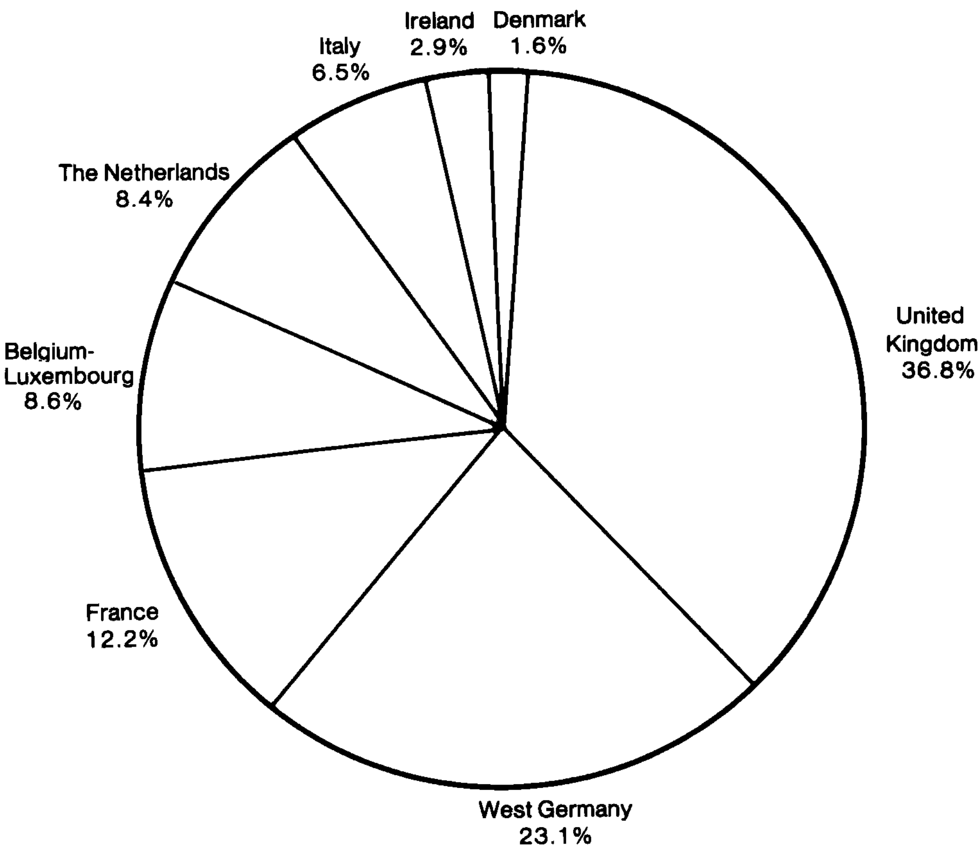
## *THE AMERICAN PRESENCE IN THE LATE SEVENTIES*

By the beginning of 1979, American direct investment in the then-expanded Common Market amounted to $55,283 billion, which was almost a third of worldwide total U.S. investment of $168.081 billion.This made Europe substantially more important to American multinationals than either Canada ($37.280 billion) or the combined Latin American countries ($37.509 billion).[9] Within the European Communities (as the Common Market had become known), direct investments were distributed as shown in Figure 1.

The United Kingdom remained the prime investment area in the European Communities, with Germany a somewhat distant second and France continuing to have a much smaller share than its relative size of population and per-capita GNP seemed to warrant. Even more disproportionate was Italy's share. The relative significance of these latter two countries to American multinationals stands out especially when direct investments there are compared with those in Belgium-Luxembourg and the Netherlands. Figure 2 traces this distribution pattern over time.

The pattern in which American multinationals have become distributed over the different European Community countries can be explained in a

**FIGURE 1** U.S. Direct Investment in EEC Countries, Year-End 1978




**Source:** Based on data from *Survey of Current Business*, August 1979, p. 27.