Between Market and Institutions

Is there leeway for local actors in shaping restructuring in Europe?[1]

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Abstract

Under international market pressure, companies increasingly tend to restructure their operations. The diverse outcomes of such restructurings have important employment implications, as Illustrated by recent examples from Belgium such as Opel, Carrefour, Arcelor-Mittal, Beckaert and AB-InBev. Comparative research has mainly studied the influence of different industrial relations systems on restructuring processes. This institutional literature has, however, been criticised for being overly deterministic. This article aims to accommodate such criticism by illustrating how market matters to the way restructuring is conducted. Although institutional settings restrain social actors' behaviour towards restructuring, they do not determine it. Social actors can use institutions with a view to pursue their interests and to shape restructuring within the context of the market in which they are embedded, which involves their exposure to international and global forces. The study is based on a Qualitative Comparative Analysis (QCA) of 12 case studies in seven countries. Data were gathered as part of a European research project supported by the social partners.

Keywords: Restructuring, Multinational companies, Institutions, Local actors, QCA.

Résumé

Entre le marché et les institutions. Quelle marge de manœuvre pour les acteurs locaux dans la gestion des restructurations en Europe ?

Sous la pression internationale des marchés, un certain nombre d'entreprises restructurent leurs activités. Le résultat de ces restructurations a des implications importantes pour l'emploi, comme on a pu le voir dans des cas récents de restructuration en Belgique : Opel, Carrefour, Arcelor-Mittal, Beckaert, AB-Inbev, pour ne citer que ceux-là. À ce jour, les recherches comparatives sur ce sujet se sont principalement intéressées à comprendre l'influence qu'ont différents systèmes de relations professionnelles sur les processus de restructuration. Ces approches institutionnalistes ont toutefois été critiquées pour leur caractère très déterministe. Cet article entend dépasser cette critique pour montrer en quoi le marché, les institutions de relations professionnelles et les acteurs locaux jouent un rôle dans la manière dont sont conduites les restructurations. En effet, même si le contexte institutionnel d'un pays donné restreint les marges de manœuvre des acteurs impliqués dans une restructuration d'entreprise, il ne détermine pas totalement leur action. Les acteurs sociaux peuvent, au contraire, utiliser les institutions en vue de poursuivre leurs propres intérêts et d'orienter la restructuration en fonction du marché dans lequel ils opèrent, et cela en tenant compte du degré d'exposition de leur activité à des pressions internationales, voire globales. L'étude présentée dans l'article s'appuie sur une analyse quali-quantitative comparée (AQQC) effectuée sur douze études de cas dans sept pays. Les données ont été récoltées dans le cadre d'un projet de recherche européen soutenu par les interlocuteurs sociaux.

Mots clés : restructuration, entreprises multinationales, institutions, acteurs locaux, AQQC.

Introduction

Company restructuring has gained a prominent place in both current affairs and scientific debates. Different studies have pointed out that differences in restructuring outcomes mostly relate to legal regulatory settings, particularly employment protection legislation, trade unions presence and employee representation and collective bargaining structures. Although we do not disregard the importance of institutional settings in affecting restructuring outcomes, the article claims for an integrated analytical framework in which the combination of different factors, such as institutions, markets and social actors are expected to systematically relate to restructuring outcomes.

The growing interest in restructuring coincides with a development of increasing international market pressures on multinational corporations (MNC), which has urged them to adapt to these changing environments. This has relevant consequences not only for the corporate as such but also for work and employment more generally. Some recent examples from Belgium for instance, such as the restructuring processes at AB-InBev, Opel Antwerp, Arcelor-Mittal, Beckaert and Carrefour, illustrate that the way in which restructuring is dealt with – and which role management and trade unions play in the process – can have an important impact on the employees, their working conditions and also on employment in general.

In this article, the outcomes of restructuring processes in MNCs in different European countries are studied. Specifically, a distinction is made between on the one hand restructuring through the external labour market, or in other words by collective dismissal or layoffs, and on the other hand restructuring through internal reorganisation by retraining employees or generating flexible working time and work organisation. Drawing on institutional differences, some studies illustrate how differences in regulatory settings impacts on restructuring processes and outcomes. However, recent research have questioned this determinacy and have argued for considering two alternative influences: 1) the pressure of the international economy, particularly the intensification of international competition on global markets, which implies a trend of liberalisation; and 2) the scope for action that social actors –

management and trade unions – have within their national institutional structures. The findings presented in this article suggest that an integration of institutions, market and social actors is indeed necessary to understand cross-national diversity in restructuring outcomes in Europe. On one hand, crucial differences in outcomes are found between so-called 'liberal' and 'coordinated' market economies. Within the former companies systematically rely on external restructuring, while the latter gives more incentives for internal adaptations. However, important variations also exist between companies within these ideal typical models. This shows that the extent to which employee representatives are involved in the restructuring process is important, but on the other hand the economic situation of the company within its market context is also equally crucial.

The data presented in this article are drawn from an international case study research, which was set up and performed with the support of the European Commission and the European social partners. A Qualitative Comparative Analysis (QCA) was performed on 12 cases from 7 different European countries. In these cases the restructuring process of a MNC subsidiary was described from both an employer and an employee perspective. The case study data were gathered between 2007 and 2009 by an international research team, of which the first author is a member. The article is structured as follows: first, the theoretical and analytical framework is outlined, subsequently addressing the definition of restructuring, the institutional approach to industrial relations and the recent criticisms to this approach. Based here on a number of hypotheses are drawn up for the QCA to test. Next, the data, the method of analysis and the operationalisation of the concepts are thoroughly discussed. The presentation of the main findings is followed by a discussion of the results in the light of the theoretical propositions. We conclude with some implications for theory and policy.

Literature review and theoretical framwork

Restructuring: an analytical distinction

Restructuring can take many different forms, such as the take-over or acquisition of a company, the closure of a plant, a reorientation of production or a reduction of the workforce. Also the reasons behind restructuring are potentially diverse: a shrinking product market, rising production costs and growing international competition are some possible examples. In general, however, restructuring can be presented as a mechanism of adaptation that allows companies to flexibly adjust themselves to changing circumstances.

With regard to the outcomes of restructuring and the consequences this entails for the employees, it is important to distinguish between two different forms of flexibility. On the one hand a company may draw flexibility from its internal labour market and on the other hand from the external labour market of the area where it is implemented (Cappelli, 2004, 1995; Cappelli and Neumark, 2004). In the former case, the capacity for adjustment is sought within the organisation and the existing workforce, whereas in the latter case the volume of the workforce is adjusted by dismissal or recruitment. Besides this typical example of ‘hire and fire’, temporary agency contracts and outplacement measures are increasingly used for achieving external flexibility (Keller and Seifert, 2004). Internal adaptations can be distinguished from external adjustment by the fact that they do not seek flexibility on the external labour market. Internally, flexibility may be enhanced through for instance the adjustment of employee skills by training and retraining. Another possibility is the flexibilisation of working hours, in order to accommodate changing circumstances with the existing volume of employees.

The institutional approach to restructuring

International comparative research on restructuring is closely connected with the institutional approach to industrial relations. This stream within the literature mainly seeks to explain differences in restructuring processes and outcomes by referring to the influence of national institutions, such as the regulation of employee representation and consultation. These nationally-specific institutions influence the way in which restructuring processes are lead and handled. Multinational companies are also affected by such institutions and are forced to adapt their management approach to the national context of their subsidiaries' host countries. This leads to persisting cross-national diversity in the processes and outcomes of company restructuring (Edwards et al., 2006; Ferner et al., 2004; Corteel and Le Blanc, 2002; Rosenzweig and Nohria, 1994).

The influence of national institutional contexts can be understood by highlighting the diverse ways in which a capitalist economy can be organised. According to Hall and Soskice (2001), two ideal types of such 'varieties of capitalism' (VoC) are distinguished: the liberal market economy (LME) and the coordinated market economy (CME). Both types differ fundamentally in the way in which companies solve coordination problems, which may emerge with suppliers, clients, financers and employees. LMEs are characterised by the primacy of the market mechanism for ensuring such coordination, whereas in CMEs organisation, regulation and hierarchy play a dominant role. The two ideal types offer alternative capitalist organisation models because their respective system logics give rise to distinct comparative advantages for companies. Short-term oriented and flexible market relations give LMEs a comparative advantage in markets where rapid change and radical innovation are crucial. Conversely, the stable and regulated market and labour relations in CMEs lead to a comparative advantage in markets where gradual change and innovation are an important asset (Hall and Thelen, 2009; Hancké, Rhodes and Thatcher, 2007; Hall and Soskice, 2001).

The difference in labour relations is typical for the contrast between LMEs and CMEs and has important implications for company restructuring as well. The coordinated model of capitalist market economy is understood to be more consensual than its liberal counterpart, since social peace and partnership between employers and employees are considered to be necessary for achieving the long-term innovations that characterise this model (Thelen, 2001). This implies that companies will restructure their operations gradually and in consultation and negotiation with employees and trade unions, with the aim of reaching long-term goals. Furthermore, differences in corporate governance are important to take into account. The liberal model is characterised by a fragmented company ownership structure between several financers, which have distant and short-term relations with management. This gives incentives to sudden and radical restructuring, as financers put pressure on managements to achieve short-term profits. These various influences stemming from institutional structures affecting restructuring processes and outcomes have been broadly confirmed empirically (Edwards, 2004; Jackson et al., 2004; Poutsma and Braam, 2004; Jurgens et al., 2000).

TABLE 1: CHARACTERISTIC OF IDEAL-TYPICAL MARKET ECONOMIES

	Liberal market economy (LME)	**Coordinated market economy (CME)**
General mechanism	Market relations	Coordination
Employees' skills	General	Firm-specific
Innovation	Radical	Incremental
Corporate governance	Shareholders	Stakeholders
Labour relations	Flexible	Stable

Source: own interpretation, based on Hall and Soskice (2001)

Two criticisms to the institutional paradigm: the role of social actors and the pressure of international markets

The institutional paradigm and the VoC approach in particular have recently been criticised from two different perspectives, both questioning the alleged influence of the institutional context. They reject the static picture of internally homogeneous and integrated systems painted by the VoC typology. Herewith these criticisms implicitly question the cross-national differences in restructuring and particularly their institutional explanations.

First, the VoC literature has been criticised because it would leave only little scope for voluntary action on the part of the social actors operating within a given institutional context. It is presumed that actors' behaviour is strongly guided by the institutional structures surrounding them and that divergent behaviour is non-efficient within these structures. According to some authors, however, divergent behaviour should not be dismissed as 'noise', but rather as an indication that within each institutional context alternative elements are present on which actors may draw for their actions. In this view, social actors are no longer seen as passive rule-takers but instead as 'institutional entrepreneurs' actively shaping their environment (Crouch, 2005; Crouch and Farrell, 2004). Following this argument, some empirical studies illustrate that important variations exist not only between institutional models but also between companies operating within the same model. Moreover, companies are found to deal with their institutional contexts creatively, amongst others by actively avoiding institutional constraints (Lange, 2009; Herrmann, 2008; Allen, 2004). Such scope for strategic action can also be presumed for trade unions. Empirically, differences between the reactions of trade unions to new challenges and their successes in reacting to them are not only found between but also within institutional structures (Shire et al., 2009; Doellgast, 2008; Holst, 2008). This refers to the potential importance of actions and negotiations at the level of the individual corporation.

A second critique reproaches the VoC literature to exclusively focus on cross-national diversity and on the continuity of these differences between regime types. The VoC approach is strongly opposed to convergence theses and argues that there exists more than one efficient way to organise a capitalist economy. Some authors believe, however, that this emphasis on continuing international differences leads to the neglect of some important global developments, which fail to attract researchers' attention. These scholars more specifically point at the dynamics of a developing capitalist logic, bringing about an increasing liberalisation, growing market pressures and a continuous 'marketisation' of the life world in both liberal and coordinated systems (Streeck, 2009; Sewell, 2008; Streeck and Thelen, 2005). Also this is a critique of the static and internally homogeneous character of the VoC typology. It urges the institutional literature to pay more attention to the increasing market pressure generated by the capitalist mode of production throughout institutional structures. Such criticism is closely connected to empirical research which illustrates how national institutional contexts can become 'porous' for the management practices of international firms, seeking to spread 'best practices' throughout their subsidiaries and in this way contribute to a certain degree of cross-national convergence (Edwards et al., 2007; Almond et al., 2005; Rubery and Grimshaw, 2003).

Hypotheses and an integrated framework

From the VoC approach the hypothesis can be deduced that in liberal regimes companies are inclined to rely strongly on external adjustment mechanisms in case of restructuring, whereas in coordinated regimes they are expected to rather search for internal solutions. The little regulated labour market and the voluntarist character of industrial relations in LMEs put few constraints on companies to restructure their operations through the external labour market. Conversely, in CMEs firms are confronted with stricter regulations of amongst others collective dismissal and information and consultation rights. Moreover, the coordinated model relies heavily on the firm-specific skills of employees, formed through training within the firm or industry. On the one hand this binds employees to a high level of job security within the company – since their skills are less easily marketable outside the firm – and on the other hand it makes employers strongly dependent on their specific skills. General skills, which are characteristic for the liberal model, are more easily marketable and do not give so many incentives to companies for investing in employee training (Iversen and Soskice, 2001; Estevez-Abe et al., 2001).

From the two above discussed criticisms to the institutional paradigm it can be generally concluded that no one-dimensional relation between the institutional context and the outcome of restructuring should be expected. More specifically, it can be hypothesised that besides the variation between regime types, important differences in outcomes will remain between individual companies. First, social actors – management and trade unions – are expected to be able to influence restructuring processes within the institutional boundaries provided by the national context. Differences in involvement of employee representatives in consultation and negotiation at the company level and their successes in these activities should therefore lead to variations in outcomes of restructuring between companies. Trade unions or employee representatives who are involved in the restructuring process as from an early stage are presumed to have a greater say in the process, which subsequently leads to a more acceptable solution for all parties involved (Frost, 2001). Secondly, the pressures stemming from heightened competition on international markets may be expected to blur the institutional differences between countries to a certain extent. According to this argument, economic and financial criteria should be essential for the outcomes of restructuring processes, giving rise to crucial differences between companies that cannot be traced back to institutional variety. This leads to formulate three hypotheses:

H1: Companies from coordinated regimes tend to use internal reorganisation and retraining to face restructuring.

H2: Active involvement of social actors tends to encourage companies to use internal reorganisation and retraining to face restructuring.

H3: Companies experiencing low levels of internationalization tend to use internal reorganisation and retraining to face restructuring.

In this article it is presumed that the aforementioned hypotheses are not mutually exclusive and that the different factors affecting restructuring outcomes do not operate strictly independently. Rather, we contend that institutional structures do not only pose constraints on actors but also provide opportunities and resources for them to pursue their respective interests. Their actions are thus influenced though not determined by their institutional context (Deeg and Jackson, 2007; Scharpf, 2000). Therefore, the interactions between actors and their environment are at the heart of our study. A coordinated market economy, (successful) involvement of social actors at the company level, a relatively prosperous economic situation of the firm and relatively low market pressures are expected to lead to internal adjustments. Nevertheless, diverse combinations of these factors may possibly generate divergent outcomes, caused by the interplay of institutions, markets and actors.

Research design

Case studies on Restructuring Processes in Multinational Companies

We make use of case studies in order to assess how restructuring processes evolve in diverse national contexts. Specific attention is paid to the way by which local social actors shape restructuring processes within given labour market regimes. The case studies that are used are part of a multiannual European project that focuses on the dynamics of restructuring in firms in Europe.

Data were collected mainly on the subsidiary level of the company. Access to these companies was assured as from the beginning of the research project because of the close participation of the European Social partners to this project. This ensured access to companies which we know, from previous research, as being problematic (see for example Ferner et al., 2004). Data gathering was organised between 2007 and 2009 and made use of four different data collection methods. First, per case, 10 to 15 semi-structured interviews were carried out with employee and employer representatives at both the local and the European level. The information from these interviews was complemented by a document analysis and information from non-participant observations. In the final stage of the project several national workshops were organised in which employee and employer representatives could discuss the reported cases further. These different methods allow for fully reconstructing the different restructuring processes. In this way, not only the situation of restructuring as such is highlighted but also the choices made during the processes and the motives underlying those choices.

The aim was to gain insight into restructuring processes through comparative case studies. Comparability among the cases is ensured by the similar industry characteristics and shareholder structure of the company. Although companies belong to different sectors, all of them are characterized by a similar degree of internationalization and are considered key for restructuring in Europe during the period of study. In addition, although the country of origin is different for the different subsidiaries studied, all companies have a rather centralized management structure. Finally, they are also similar because the workers in each of the cases are threatened by collective redundancies. The way to deal with this threat is to choose for an internal or external solution whose outcome variable is included in the analysis.

Given the use of QCA requires severe restrictions, two additional criteria were added. More specifically, the analysis in this article is based on the cases in Western European countries The attention goes to these countries since the path dependency presumed by the VoC literature is focused on capitalist regimes. This dependency is highly analogous for West-European countries but not for the countries from the first phase, as they were characterised by socialist/communist regimes up to several decades ago. A further selection was performed on the cases, since the method of analysis used (QCA) demands a strict demarcation of the population for which the causal relations apply (Schneider and Wagemann, 2010). The collected data contain some cases of liberalisation processes of public companies. These were not included in the analysis, as they are not strictly comparable with the other cases; this is due to the large role of the government in these cases. The selection of these cases, however, does not limit the variation in the cases used. Although several companies are characterized by a central management structure, based on the country (VoC typology) in which the companies are located, a different approach can be expected with respect to the trade unions different proposals for the negotiations. Moreover, within one country, two cases are selected in different sectors. There is variation both in the countries as well as in the sectors in which the companies are operational. Finally, this results in an analysis of 12 restructuring processes of MNC subsidiaries in 7 European countries (United Kingdom, Ireland, France, Italy, Denmark, Austria and the Netherlands). The cases are comparable since the employees involved have been threatened with collective dismissal in each of the cases. The way in which this threat has been handled (internal or external labour market solution) forms the outcome variable in our analysis.

QCA as a method of analysis

Qualitative Comparative Analysis (QCA) was used for analysing the cases. This method allows to, instead of predicting effects of ‘independent’ variables as in mainstream quantitative research, distinguishing combinations of different conditions that lead to a certain outcome (Grofman and Schneider, 2009).

QCA is believed to be appropriate for testing our hypotheses, since it can be presumed theoretically that the outcome of restructuring can be explained by configurations of different interdependent conditions (Rihoux and Ragin, 2009; Schneider and Wagemann, 2010).

The article aims to test the VoC typology and its two main critiques. QCA meets these requirements given the fact that it uses a limited number of well-thought conditions. From a scientific point of view, it is moreover not only the intention to describe cases, but also to achieve a certain degree of inference. The various possible combinations (results of the QCA analysis) must be completed by case material (Rihoux and Ragin, 2009). The proposed method has permitted to make statements about restructuring processes in MNCs based on case material that describe these processes in their entirety. This allows not only measuring the effects of different institutional contexts but also the role of actors and their strategic choices within these contexts and the financial situation of the company. The latter refers to the available resources for retraining and outplacement at the time of restructuring.

Conditions and outcome

The use of crisp set QCA (csQCA) presumes the demarcation of ‘membership’ for theoretically relevant conditions that may affect the outcome. In csQCA this membership is operationalised as a dichotomy: 1 represents the presence of a condition and 0 its absence (Schneider and Wagemann, 2010). Even though this is highly simplifying, these qualitative divides match the conditions used in this study particularly well. We also follow the conventions for the number of included conditions described in the specialised literature on QCA: four to five conditions for studies with less than fifteen cases (Rihoux and Ragin, 2009; Devillé et al., 2007). These conditions are expected to be drafted on the basis of theory in combination with information from case studies. Given the study intends to understand the interplay of actors and institutions for the outcome of restructuring, a condition was set up in accordance with each theoretical framework, a similar condition for the VoC literature (labor regime), the actor perspective and the internationalization perspective (financial situation). Based on the data, the actor perspective is divided into two conditions (social agreement and consultation between actors). The research has opted for a “crisp set” approach given the nature of the conditions and the outcome in this study. The crisp set is most applicable because they are 'different in kind as will be illustrated in the following descriptions of the case studies. Moreover, they are relatively easy to dichotomize empirically so the use of more than one category (multi-value QCA) therefore is not required. The different conditions and the outcome will be discussed below. Membership (code 1 or 0) is systematically coded conform to the related hypothesis (Rihoux and Ragin, 2009).

Conditions

Labour market regime: Ideal-typically two labour market regimes can be distinguished: the liberal market economy (LME) and the coordinated market economy (CME). Critics of this classification point at the variation within each of these types that is lost in the dichotomisation (Crouch, 2005). However, typologies are necessarily trade-offs between accuracy and parsimony (Przeworski and Teune, 1970). A further subdivision would thus lead to more description and less explanation. From the VoC perspective, liberal and coordinated regimes are associated with respectively external and internal adjustments in case of company restructuring. This means that a high degree of regulation coincides with a choice for the internal labour market as a restructuring solution. For the analysis a coordinated regime is therefore labelled as 1. Ireland and the United Kingdom are considered liberal regimes and other European countries coordinated regimes (see Hall and Soskice, 2001).

Consultation between local actors

An initial criticism, referring to the importance of actions of social actors, will also give rise to a first additional condition. This concerns the extent to which the involvement of trade unions and employee representatives in the management of company-level goes beyond what is foreseen by national law. This is for example illustrated by the two Dutch cases. Since both branches are located in the Netherlands, and therefore subject to the same Dutch regulations in case of restructuring, which means first of all the negotiation of a social plan. , it would be expected to have similar restructuring outcomes. However, whereas in N1 trade unions and local management negotiated a social plan this was not the case in N2. The result was that in N1 restructuring was accompanied by measures to promote employability. In particular, the company provided additional financial support for education and retraining programs for employees. Conversely, in N2 outplacement schemes and financial compensation for dismissed workers were the norm. To understand the cross-company difference we have to refer to the extent to which trade unions and employee representatives were involved in the restructuring process.

The restructuring process necessitated N1 to reorganize internally by downsizing its workforce. The good employee relations between local management and trade unions helped in managing the process of change. In particular the social plan established a special task force aimed at reallocating the employees at risk of layoffs to other jobs. Conversely, in N2, local management rejected the social plan proposed by the works councils. Rejection was based on the view that the broader European objectives were ignored. The Dutch trade unions argued that the decision to close was already taken by the French headquarter. This led the unions to mobilise their workforce while organising a strike to increase the pressure on management. This was supported by a European day of protest by workers of the various sites. Finally, a social plan was negotiated in 2006.

Social agreement.

A second condition is selected to measure the degree of involvement of the local actors in the management of change. More specifically, there must be a distinction between the existence of active consultation on the level of the subsidiary and the negotiation capacity that local actors have, in particular the trade unions, to conclude an agreement. The information from the cases indicates that consultation and negotiation do not necessarily complement each other. Consultation can be avoided or negotiation imposed without consultation. As indicated by Rihoux and Ragin within QCA preparing initial conditions is theoretically argued but adjusted by information from the case studies (Rihoux and Ragin, 2009).

In I1, O1 and N2 (as described in the paragraph above) a social plan was set up without consultation between actors. Between 2000 and 2004, I1, active in imaging technology, faced several restructuring processes and the threat of closure. The main reasons for the closure were high international competition, a significant decrease in demand and financial loss. In February 2004, the trade unions rejected the plan for collective redundancies, and the international management was asked to invoke "Prodi-bis", the law applicable to restructuring. At the same time the local unions organized 20 days strike. The action took place in parallel with the organization of meetings for the local community to raise awareness regarding the impact for employment a closure of the production site would have caused. On July 1, I1 was transferred to another Italian industrial group. The new owner assured continuity of production. Trade unions and local authorities reached a social and industrial agreement, which meant no layoffs, no downsizing of the workforce and guarantee of income security. Both agreements resulted in the preservation of jobs and the revitalization of the plant without the active involvement of trade unions in the process of acquisition to the other group. Similarly, at O1 - the second largest provider of mobile communications services in Austria - major reorganizations took place to improve market competitiveness. Social dialogue, information and consultation, and negotiation of social plans followed the rules of the Austrian Labor Law ("Arbeitsverfassungsgesetz) with regard to collective redundancies and business transfers ("AVRAG Arbeitsvertragsrecht-Anpassungsgesetz"). This led to social plans in which employees had the opportunity to receive financial compensation (severance pay under Austrian law) or to obtain paid leave for a certain period. Redundant workers also had the possibility to join the Fund Vienna (Wiener ArbeitnehmerInnen Förderungsfonds, WAFF) and received further support and training for a period of three years. In contrast, in O2, there was consultation, but there was no social plan. O2 distributes leading brands for plumbing and heating in Austria. Founded in the '60s as a typical family business it was characterized by strong growth in the 90s.

This resulted in more than a doubling in turnover. However, there were structural problems, particularly with regard to falling shares. At the end of the century, the company needed capital for growth and later to finance the operational costs. Eventually the company was sold to a Dutch investor who wanted to develop a European network of sanitary wholesalers in order to benefit from economies of scale. Only two years later the company went into a serious crisis that risked putting 660 employees redundant. In this situation, management decided to initiate a turn around and to strengthen the competitive position of the company. This decision was taken because of good figures on sales and market share, highly motivated workforce, investors who were interested in the company and banks that were in favour of the continuation of the establishment. This however would include a reduction in personnel costs (-10%). The works council was at a very early stage informed about the crisis and was closely involved in the turnaround process concerning staff reduction. Local management and trade unions planned to not set up social plan in order to not harm the reputation of the company.

The presence of the involvement of works councils, employee representatives and trade unions in the process of management of restructuring, followed by negotiation, is coded as 1.

Financial situation.

The pressure of international markets is expected to have an impact on the outcomes of restructuring. In particular, companies that put increased competitive pressure in international markets are supposed to tend to external flexibility. This pressure is captured in the financial situation. The time when the organization acts to restructure may indeed be important for the available funds or resources for the restructuring. This is shown in case O3. The company is characterized by good social dialogue and social plan which is developed in a coordinated market regime, but it cannot provide internal solutions such as retraining or reorganization regarding working hours as in D1, F2, F1 and N1. The difference with these four cases lies in the financial situation at the time of restructuring.

O3 is a leading company in the Austrian airline industry with over 8,500 employees in 2006. At the beginning of this decade, the company had debts due an acquisition and excessive loss-making destinations. When oil prices increased dramatically, the company found itself in a precarious financial position because the company was not insured against sudden price increases. There were thus two initiatives taken by management, a capital increase and a reduction in the workforce. Approximately one third of the total capital increase was earmarked for social measures that were recorded in a social plan negotiated with the federation GPA ("Gewerkschaft of Privatangestellten") and a social package in consultation with the works councils. The whole package included severance payments for those who left the company, early retirement measures, ability to work part time and deploying staff in other airlines.

The social plan also included the possibility of internal reorganizations, such as the transfer of employees from one department to another supported by reclassification. For organizing this an external organization - Steyr ("Stiftung Steyr Offene Arbeit") - will support individual employees to search for a new job.

Therefore, a distinction is made between companies whose autonomous existence is threatened by their financial situation and businesses, and companies for which this is not the case. The absence of a bad financial situation gets, according to the hypothesis of an internal solution, a code 1

Outcome

Restructuring outcome: the analytical division that is used in this study with regard to the outcome of restructuring distinguishes between internal and external adjustments. The former make use of the internal labour market of the firm and are operationalised as (re)training of employees and flexibilisation of working time. The latter refer to the variation of the workforce by relying on the external labour market. This is operationalised as dismissal of employees, possibly compensated in financial terms or by outplacement measures. We narrowly interpret the internal solution, meaning that it only prevails if no recourse is taken to dismissal through the external labour market. Internal restructuring receives code 1 and external restructuring code 0.

The dichotomisation of the conditions is initially based on theoretical argumentation. Nevertheless, the operationalisation also needs to comply with four empirical criteria prior to the analysis (Rihoux and Ragin, 2009). Two of them are concerned with the necessary variation. First, both cases with a positive and cases with a negative outcome value need to be present. Second, sufficient variance needs to be provided per condition, meaning that within each condition a minimum of one third of the cases have to be coded 0 and similarly for code 1. Third, it is not advisable to include two conditions for which the scores show strong overlap. The fourth criterion points at the consistency between the cases. It states that one and the same combination cannot possibly lead to a 0 as well as a 1 outcome. Based on the description of the cases in table 1 we conclude that only the condition *social plan* is problematic in the light of these criteria. However, theoretically no other sensible division can be argued for. Moreover, in the cases no qualitative difference can be found on which a different construction of this condition may be based (Schneider and Wagemann, 2010).

Findings

Outcome = 1

In QCA we search for the conditions that are necessary and sufficient for a certain outcome. In this respect, QCA allows to generate a more general and systematic picture than mere case description, by using inference. This implies that non-observed combinations can be taken into account in order to achieve a parsimonious result. However, in presenting the findings the results obtained with and without including these non-observed combinations (logical remainders) have to be distinguished, in order to illustrate the difference in parsimony (Rihoux and Ragin, 2009). The analysis gives the following result when logical remainders are not included:

Outcome=1 (without logical remainders)

Labour market regime(1)*local social dialogue(1)*financial situation(1)*social plan(1)

Outcome=0 (without logical remainders)

Labour market regime(1)*local social dialogue(0)*social plan(1)
+Labour market regime(1)*Financial situation(0)*local social dialogue(1)
+Labour market regime(0)*Financial situation(1)*local social dialogue(1)*social plan(1) +Labour market regime(0)*Financial situation(0)*local social dialogue(0)*social plan(0)

Before discussing the minimal formula, it is also necessary to reflect on the use of the logical remainders and the related *simplifying assumptions* in the light of the studied topic. The condition that has to be respected in this regard is that the different combinations of conditions have to be realistic. This exercise can be found in table 4 in appendix. It illustrates that the combinations and assumptions that were introduced are realistic scenarios for restructuring processes.

TABLE 2: CONFIGURATIONS OF CONDITIONS

Labour market regime	Financial situation	Local social dialogue	Social plan	Outcome	Cases
0	1	1	1	0	GB1, IR1
0	0	0	0	0	IR 2
1	1	1	1	1	D1,F2, F1, N1
1	0	0	1	0	I1
1	0	1	1	0	O3
1	1	0	1	0	O1, N2
1	0	1	0	0	O2

Outcome=1 (with logical remainders)

Based on the analysis we can claim that the use of internal restructuring solutions is fostered by three necessary conditions, namely: a) a coordinated labour market regime; b) the involvement of the social partners at the subsidiary level; and c) a relatively comfortable financial situation. This implies that none of the three conditions is sufficient in itself for guarantying internal, qualitative measures for the employees in case of restructuring. Concretely, we achieve the following minimum formula for the use of internal adjustment mechanisms in restructuring processes:

Labour market regime(1)*local social dialogue(1)*financial situation(1)→restructuring outcome(1)
D1,F2, F1, N1

Table 2 below shows that four cases comply with this minimum formula. These cases can be described as *best practice* cases in which a climate of social dialogue at company-level, a coordinated national setting and a relatively favourable financial situation lead to an internal adjustment solution. Case F1 illustrates this combination of the three conditions. F1 is a company which operates in the digital industry and which is confronted with a fast-changing market environment. This context forced the company to restructure its operations. The entire process of restructuring was characterised by a strong focus on continuous employment. This claim for employment continuity was also put into practice. The company invested in the construction of a new site to attract firms where their employees could be employed, as well as in training of new skills that might be of future importance. There was not only a constructive social dialogue between management and trade unions but also between management and employees directly. This was achieved by setting up working groups in which both parties could cooperate in the restructuring process. All parties involved therefore saw the process of dialogue as transparent, showing a high degree of trust and mutual respect.

Outcome 0 (with logical remainders)

Companies do not address the internal labour market for restructuring solutions in three possible situations: a) when they operate within a liberal market environment; b) when there is no social dialogue at the plant level; and c) when the financial situation is particularly unstable. Complementary to the 1 outcome, we can claim that the absence of one the three conditions suffices for a company not to make use of internal adjustment strategies. Contrary to the 1 outcome, however, we now deal with sufficient conditions. This means that the absence of one of the three conditions, a coordinated regime, a relatively good financial situation or social dialogue at the local level, implies the impossibility to restructure via internal, qualitative methods instead of through workforce reduction. This is reflected in the minimum formula below:

Labour market regime(0)+local social dialogue(0)+financial situation(0)→restructuring outcome(0)

GB1,IR1+ O1,N2,IR2+O2,O3,I1

Liberal market regime: A liberal market regime is thus a sufficient condition for the emergence of an external restructuring solution. The cases IR1, IR2 and GB1, for which this condition applies, do differ with regard to their conditions, as can be seen in table 1. Even though the presence of a liberal regime suffices for an external restructuring strategy, two different mechanisms operate in these cases. In case IR1 and GB1 social partners start negotiations in a climate of relatively favourable financial parameters. This mechanism refers to the scope for social actors to shape the restructuring process within a given institutional context. This finally resulted in a social plan in which financial compensation for the employees was foreseen to offset the redundancies brought about by the restructuring. On the other hand, the absence of these conditions can also lead to an external adjustment. The case IR2 refers to a company in which continuous restructuring was considered necessary for remaining competitive. New working conditions were introduced based on a benchmark study initiated by the management. However, no agreement could be reached between the local social partners, because there was a lack of transparency about the study according to the trade unions and/or a lack of will to negotiate according to the management. This unstable situation of company-level social dialogue made it necessary for the labour court to intervene and lay down the framework for future negotiations. This caused the failure to negotiate a social plan in which financial compensation or other measures could have been provided in order to offset the redundancies.

Coordinated market regime: As described by the minimum formula, the labour market regime is not a sufficient condition for internal, qualitative measures in case of company restructuring. The absence of one of two characteristics, namely a constructive social dialogue between local social partners and a relatively favourable financial situation, hinders the possible emergence of an internal adjustment solution. This implies that an unfavourable financial situation of the firm rules out the possibility for an internal solution, even when the company is operating within a coordinated regime and local actors are effectively negotiating the restructuring. This reflects the situation in case O3. This company operates in the aerospace industry and suffered severe financial losses due to the oil crisis. Moreover, contrary to its main competitors, this aerospace company was not well protected to such developments. Therefore, the company found itself in a situation in which a restructuring was unavoidable. It did manage to obtain to attract additional financial resources but these were mainly foreseen for new investments. This context finally resulted in a financial compensation for 800 employees that were made redundant, which was negotiated between employer and employees. Besides this compensation, it was proposed to rely on an external consultancy for retraining, since there was no room for implementing this internally.

A final condition hindering the use of internal adjustment mechanisms is a lack of social dialogue at the local level. This is reflected by the cases N2 and O1. The mother corporation of N2 was confronted with a rising overcapacity, because of which it decided to close several of its subsidiaries. One of them was the plant in N2. This subsidiary was characterised by a strong trade union presence, which proposed an alternative plan in which it wanted to reduce the number of redundancies with 60% and which contained an invitation for dialogue. The demand for negotiation was underlined by several subsequent strikes. However, the structure of the mother corporation and the exclusion of trade unions on a European level lead to a restructuring process which developed without the involvement of employee representatives. Finally, management proposed a social plan in which financial compensation for the 135 job losses was foreseen. Although the plant was situated within a coordinated national context and the financial situation of the company was not particularly worrisome, was a lack of local social dialogue caused by the distance between the mother company and the subsidiary. A similar development of the restructuring process can be found in case O1.

When taking the cases within coordinated regimes into consideration, there is one that attracts our attention because of the absence of a social plan for restructuring, case O2. This case can be described as an a-typical development of social dialogue. The company in O2 was confronted with an adverse financial situation due to the failure of a recent take-over. The investments that were made did not bring the expected positive returns. Despite the bad financial situation in which the company found itself, a transparent relationship between management and trade unions was built from the start. Hence, the company did have a constructive social dialogue between the local actors. This led them to an agreement in which the reduction in personnel costs and the restructuring of functions within the organisation was accepted without drawing up a social plan for the employees. In other words, it was agreed between management and unions not to agree on a social plan, in order to avoid negative publicity and, consequently, an even worse market position for the company.

A final, more general remark needs to be made concerning the cases for which the outcome can be explained by two alternative paths. In such a case, the literature prescribes choosing one path as the most relevant for the outcome based on case information (Rihoux and Ragin, 2009). This applies to cases IR2 and I1. The information from case IR2 mainly points at the lack of social dialogue. As described above, an external party, the labour court, was necessary in order to set out the lines along which negotiations between the parties should be carried out. Whereas the company restructured its operations to accommodate increasing financial losses, the lack of a social dialogue is more prominent as an explanatory factor for the abstinence from internal adjustment measures. Conversely, case information suggests that I1 should rather be seen as a restructuring process driven by an adverse financial situation. Not only was its market context highly competitive, but the organisation was also confronted with a steep decline in the demand for its products, leading to a growing financial deficit. This made the position of the company unstable as it actually threatened its existence.

Discussion

Institutions, market pressures and the influence of local actors

It appears from the analysis that the conditions drawing upon the three distinct theoretical perspectives are important for explaining restructuring outcomes. These conditions – a coordinated market economy, a relatively favourable financial situation and the involvement of the local social actors – are necessary though non-sufficient conditions for obtaining an internal restructuring outcome. This means that coordinated market economies do indeed distinguish themselves in important respects from their liberal counterparts. However, there also remain essential differences between companies within the respective institutional models. Notably, in a coordinated regime a combination of social dialogue within the corporation and a financial context that provides opportunities are necessary to achieve an internal restructuring outcome, mainly based on retraining of employees and a reorientation of activities. This implies that there are three links in the chain that, in combining these characteristics, gives support to such an internal adjustment.

First, a coordinated market economy gives incentives to companies to strive for a consensus-oriented solution with employees. Several cases underline the fact that companies are indeed dependent on the skills of their employees and that because of this dependence it is sensible for them to further invest in these skills through (re)training. Employers point out that more attention needs to be paid to employability issues and that more investments in human capital are needed. Moreover, the institutional framework in several countries obliges companies to consult employee representatives or works councils, to set up a social plan for restructuring or to consider alternative proposals from employee initiatives. Secondly, a constructive social dialogue within the firm and an active involvement of trade unions and employees in the restructuring process makes it possible to attain a negotiated solution. In the cases where this has succeeded, there generally appears to be a corporate history of dialogue and mutual trust. Furthermore, trade unions in these cases are conscious of the need for the company to restructure in order to remain competitive, while management realises that it is crucial to involve trade unions in the restructuring process. Unions are therefore included in the negotiation process from an early stage on. Third, the financial situation of the firm has to allow the time and space for searching consensual solutions with a long-term perspective. In the cases where actors anticipate changing market circumstances and the company has not yet been financially affected, such a long-term plan can be developed through joint consultation of the local actors.

The conditions leading to an external restructuring outcome, relying on the external labour market and collective dismissal in particular, are the mirror image of the former. The three conditions are in this case non-necessary though sufficient conditions for obtaining such an external outcome. In other words, the absence of one of these three conditions leads to a situation in which the company takes recourse to the external labour market for restructuring. Hence, whereas there is only one path leading to an internal outcome, three distinct paths lead to an external outcome: a liberal market economy, the absence of social dialogue at local level and an adverse financial situation of the company. First, a liberal regime gives few incentives for companies to strive for an internal restructuring solution. The voluntarist character of industrial relations lacks an institutional framework that guides or forces the social actors in a certain direction. This allows companies to aim at a reduction of the workforce through redundancies and at the same time it incites trade unions to direct their demands towards financial compensation. When the financial situation of the companies allows it, an agreement between the parties can be reached on these terms, but in the case of a less favourable situation this may lead to a confrontation between management and unions. It is of course likely that also within a liberal market context internal restructuring solutions may be found. Nevertheless, the case analysis clearly points at the way in which such an institutional context influences restructuring processes and outcomes. Secondly, also within coordinated regimes the search for internal adjustments appears to be doomed to fail if no constructive social dialogue can be organised at the local level. The cases in which the employee representation was not sufficiently involved in the restructuring process illustrate that in these circumstances a mutual long-term vision and an internal restructuring outcome are hard to obtain. Third, the pressure to seek recourse to external adjustment mechanisms is strong when the competitive pressure is high and when, as a consequence, the firm has come in bad financial weather. Even the institutional framework of the coordinated regime type cannot prevent external restructuring and collective dismissals from arising in such circumstances.

Implications for theory and policy

The findings suggest a two-folded implication for the theoretical framework that we have adopted. On the one hand the results underscore the importance and relevance of the ideal-typical distinction between liberal and coordinated models. The analyses show that there are (still) clear differences between both types of market economies. More specifically, the respective systems give substantially different incentives to social actors in case of a restructuring situation. CMEs give institutional incentives to search for a consensual, negotiated long-term solution, whereas LMEs provide opportunities to both parties to opt for defending their interests in case of an external restructuring. The institutional structure of CMEs poses constraints on companies, which incites them to look out for constructive adjustments by negotiating with trade unions and by searching for mutual interests. In this respect, institutional constraints can indeed be unconsciously beneficial, not only for employees but also for companies (Streeck, 1997). In LMEs such institutional ‘rigidity’ does not exist, which steers social actors in the direction of restructuring characterised by workforce reduction and financial compensation for dismissal. These different system logics justify the analytical dichotomisation and underline the importance of this distinction in comparative research.

The coordinated market economy is, however, no guarantee for reaching agreement on internal adjustment restructuring. Two conditions at the level of the firm stand out as crucial within this model. First, the social partners need to be well organised at the local level and the employee representation has to be involved timely and effectively in the restructuring process. Only then can the consensus-oriented path of social dialogue be taken, potentially leading to an internal solution for restructuring. Secondly, an adverse financial situation – which may threaten the survival of the plant concerned – appears to be detrimental for these attempts. An extensive pressure on the profitability and sustainability of the subsidiary thus impedes the attempt to restructure through the internal labour market. This implies that the coordinated model is internally heterogeneous and that important differences exist between companies within this ideal-typical model. Hence, company level factors play an essential role in the way the institutional context affects concrete restructuring situations. The lack of effective employee voice within the firm or high competitive pressures may break the internal system logic of CMEs and undermine its expected employment outcomes. When this happens, companies fall back on the external labour market through collective dismissal, possibly offset by financial or employability-oriented compensation. The question whether this may in the long run also undermine the specificity of the coordinated model as such cannot be answered without appropriate longitudinal data. The findings do provide evidence for the importance of both the behaviour of the local social actors and the market environment or competitive pressure, which can cause ‘path-diverging’ outcomes within CMEs.

These findings are potentially not only relevant from a theoretical point of view but also for policy matters. For coordinated market economies with an organised system of collective industrial relations, such as most continental-European countries, the analyses point at two distinct issues of concern. First, the institutional logic of coordinated systems does not appear to be resistant to high competitive market pressures, which cause serious financial problems for some companies. Restructuring that focuses on adjustment via the internal labour market, such as the investment in (re)training of employees, instead of dismissals thus seems to be highly dependent on a relatively favourable economic climate. In an increasingly competitive international market environment this raises the question to what extent companies will be able to afford the time and space needed for investing in consensus-oriented long-term solutions through local social dialogue. The fact that such investment may also be economically beneficial to companies still seems to hold true, but under high market pressures this might be difficult to achieve in practice. Secondly, an internal restructuring solution can only prevail in case of an active involvement of the social actors – and particularly trade unions and employees – at the local level. Most CME-countries provide solid institutional structures for ensuring the representation of employees within the company. However, the declining trends in trade union membership and trade unions density throughout European countries (Eurofound 2009) do not appear to be particularly favourable developments in this respect. When no constructive social dialogue can be pursued, both parties are easily inclined to defend their interests in external restructuring, being respectively workforce reduction and dismissal compensation. If an internal adjustment is preferable, because of employment as well as corporate sustainability considerations, then a systematic involvement of employee representatives and trade unions in restructuring processes appears crucial.

The use of QCA as a method of analysis implies not only a systematic comparison between cases but it also restricts the number of cases that can be included in the analysis. Because of this, only theoretically relevant conditions are considered for explaining the outcome. However, it is likely that, in accordance to critiques of the VoC approach, other factors contribute to the variation between institutional models. Diverse characteristics of subsidiaries could be interesting in this respect, such as the composition of the workforce (e.g. age, educational and skill levels), cross-national dialogue structures such as European works councils, or the role of intervening authorities influencing the restructuring process (e.g. financial intervention by public bodies). In the light of the dynamics between as well as within labour market regimes, as demonstrated in this study, future research should focus on additional factors that potentially have an important influence on such differences in restructuring processes and outcomes.

Conclusion

This article has examined the divergent patterns of enterprise restructuring in multinational companies in Europe. It has shown that the institutional settings, the market context and the social actors' behaviour equally and interactively matters in shaping diversity in the outcomes of restructuring within internationalised businesses in Europe. The diversity in the responses of the local social actors to company change is indicative of this integrated influence. More specifically, it has been demonstrated that the dynamic integration between market, institutions and actors leads to cross- (and within) country variation with regard to the patterns of restructuring outcomes. On one hand, restructuring is managed in the company cases through recurring to the external labour market, or in other words by mostly enforcing collective dismissals and layoffs solutions. On the other hand, restructuring led to internal reorganisation by which employees are retrained and labour force used in a flexible way by using forms of internal flexibility such as working time flexible schemes and functional flexibility via work organisation.

Hence, to explain how diverse restructuring processes across (and within) diverse national settings develop, the article has highlighted the utility of a national institutional approach, but it has also pointed out the necessity of complementing it by including diversity in social actors and market (company-based) features. The firm-based case studies illustrate that the local social actors in the companies we have investigated have often managed restructuring in different ways in accordance to the market pressures. However, the analysis has also contributed to point out that local management, trade unions and works councils in local negotiations have exploited the institutional diversity within the limits imposed by the market or the financial situation of the economic context where the multinational company operates.

The qualitative and comparative case study method (QCA) adopted has demonstrated its utility in both identifying and testing some conditions for the existence of specific outcomes of restructuring, and therefore it helped methodologically rejecting the hypothesis of a rigid typology or dichotomy of institutions and in detecting cross- and intra-country variations, while conversely pointing out for an integrated analytical framework.

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