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*Martin Franz und Sebastian Henn\**

## Multinationals from the BRIC-countries investing in German firms: Impacts on industrial relations\*\*

### Abstract

Often, investments from emerging economies in firms in industrialized countries evoke concerns among the employees in the targeted firms. Many of them are afraid of losing their jobs, or fear that the new owners could undermine existing social standards. Up to now, little is known about how such investments affect industrial relations in targeted countries. Using the example of investments from the BRIC-countries (Brazil, Russia, India and China) in German firms, this paper analyses whether employees' fears are well founded. To this end, four different factors are considered. These include: (1) the situation of the target firms in the run-up to an acquisition and the employees' reactions to the takeover, (2) the investors' knowledge of the current system of industrial relations, (3) the day-to-day interactions with the new owners, and (4) the patterns of communication between works council representatives and the new owners. The empirical part of the article is based on an analysis of quantitative data as well as the application of problem-centered interviews with members of work councils, trade union representatives as well as managers.

Keywords: Foreign Direct Investments, Acquisitions, BRIC, Germany, Industrial relations. JEL: F23, F66, J53

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## Multinationale Unternehmen aus den BRIC-Staaten investieren in deutsche Firmen: Auswirkungen auf die industriellen Beziehungen

### Zusammenfassung

Investitionen aus aufstrebenden Ökonomien in Unternehmen in Industriestaaten stoßen oftmals auf Bedenken aufseiten der Beschäftigten des Zielunternehmens. Viele von ihnen befürchten den Verlust ihres Arbeitsplatzes oder die Absenkung von Sozialstandards in ihrem Unternehmen. Bislang ist nur wenig über die tatsächlichen Auswirkungen solcher Investitionen auf die in den Unternehmen bestehenden industriellen Beziehungen bekannt. Vor diesem Hintergrund analysiert der vorliegende Artikel anhand des Beispiels von Investitionen aus den BRIC-Staaten (Brasilien, Russland, Indien und China) in Deutschland, ob die Sorgen der Arbeitnehmer eine reale Grundlage haben. Dabei werden vier verschiedene Faktoren beachtet: (1) die Situation des Zielunternehmens vor der Akquisition und die Reaktionen der Beschäftigten auf die Akquisition, (2) das Wissen des Investors über das bestehende System der industriellen Beziehungen, (3) die alltäglichen Interaktionen zwischen dem Betriebsrat und den neuen Eigentümern sowie (4) die Formen der Kommunikation zwischen den Vertreterinnen und Vertretern des Betriebsrats und den neuen Eigentümern. Der empirische Teil des Artikels basiert auf der Analyse sowohl von quantitativen Daten als auch von problemzentrierten Interviews mit Vertreterinnen und Vertretern von Management, Betriebsräten und Gewerkschaften.

Schlagwörter: Ausländische Direktinvestitionen, Firmenübernahmen, BRIC-Staaten, Deutschland, Industrielle Beziehungen

### Introduction

When the management of Putzmeister, a German manufacturer of concrete pumps founded in the 1950s, announced in 2012 that the firm had been sold to the Chinese corporation Sany Heavy Industry Co. Ltd., this came as a surprise for the company's workforce. About 700 employees took to the streets to express their collective disapproval to sell the company. Likewise, when it became public knowledge that the German automotive supplier ZF Friedrichshafen AG (ZF) intended to sell its rubber and plastics division to China-based Zhuzhou Times New Material Technology Co., Ltd. (TMT) in 2013, 22.000 employees signed a petition against the sell off and German works councilors refused to approve overtime on weekends to show their solidarity with the rubber and plastics division. These examples refer to only two of the many cases in which foreign takeovers of German firms resulted in the workforce expressing their concerns or, in extreme cases, major opposition.

While there is a huge body of literature on the *investors'* perspectives relating to mergers and acquisitions (M&A), even in the specific case of Chinese investments (e. g. Boateng, Qian, & Tianle, 2008; Chen & Young, 2010), only a few studies explicitly consider the perspective of other actors, such as employees or the members of works councils. Pre-millennial studies focused on so-called 'poison pill strategies' pursued by managers and shareholders to avoid hostile takeovers (Malatesta & Walkling, 1988; Mallette & Fowler, 1992; Duggal & Millar, 1994). This literature is problematic in that it regards the respective employees as passive victims unable to voice their concerns (Graebner & Eisenhardt, 2004). Furthermore, it tends to view the acquired company as "unimportant, unsuccessful,

and reluctant” (Graebner & Eisenhardt, 2004, p. 367). To overcome this problem, recent research focusses on the sellers’ aims, strategies, and the possibility to actively shape the acquisition processes (e. g. Graebner, 2004; Graebner & Eisenhardt, 2004; Dalziel, 2008; Graebner, Eisenhardt, & Roundy, 2010; Knoerich, 2010). Once again apart from a few exceptions (e. g. Teerikangas, 2012; Bollhorn & Franz, 2016; Jansen & Weingarten, 2017), the role of workers and their collective agents has largely been neglected. Further, as Teerikangas (2012) states, many of the existing studies “can be criticized for having placed the weight of emphasis on (...) mergers versus acquisitions and on domestic versus cross-border deals” (Teerikangas, 2012, p. 610) – a deficiency that will be addressed by our study. In addition, studies of the *employees’* perspectives concerning transnational acquisitions and the role of labor in such endeavors have focused on single cases (e. g. Bollhorn & Franz, 2016) or analyzed investments that originate from countries home to highly-developed labor legislation but which invest in countries with inferior labour standards (e. g. Bluhm, 2001; Tholen, 2007), such as transition economies. To date, there exists a lack of research into FDI from countries with limited industrial relations standards compared to countries with robust ones. One reason for this neglect is that investments from the Global South, in particular China and India, did not play any role for a long time. They have increasingly targeted Western countries only in the last two decades. Due to the fact that investments are always linked to established practices, routines and standards the investor is acquainted with, we could be forgiven in assuming that these investors are a threat to existing standards in highly developed countries – in fact such a view has some empirical foundation (e. g. Kochan & Weinstein, 1994; Slomp, 1995).

In addition to the academic interest, there is also an increasing need from a practical perspective to understand if and how firms from emerging markets, particularly from China and India, that invest in North America and Europe, modify existing industrial relations. By analyzing how industrial relations in Germany are affected by investors from the BRIC-countries this paper aims to close this research gap. Its empirical part is based on a standardized survey completed by 136 respondents as well as 110 problem-centered interviews with firm representatives, works councilors, trade unions and experts. The interviews were conducted between 2013 and 2014.

The first part of the paper deals with questions about how employees perceive such acquisitions and how such investments can affect industrial relations. Next, we provide background information on the German system of co-determination. This is followed by an explanation of our methodological framework. We then consider in detail our empirical results, with special emphasis on the following factors. These involve, the situation of the target firms in the run-up to the acquisition and the employees’ reaction to the takeover, the investors’ knowledge of the current system of industrial relations, the day-to-day interactions with the new owners and finally the patterns of communication between representatives of the works councils and the new owners. The paper concludes, by offering a summary of the most important findings and some understanding of what future research in this area should focus on.

## Distance and proximity in transnational labor investor relations

For a long time research on acquisitions underestimated the importance of reciprocity in the negotiation processes, often viewing buyers as the dominant party in the buyer-seller relationship (Graebner & Eisenhardt, 2004). Since the arrival of a new Millennium, an increasing number of studies has questioned this perspective (e. g. Graebner, 2004; Graebner & Eisenhardt, 2004; Knoerich, 2010). These studies adopt a courtship perspective on acquisitions, an approach that views sellers as an active and crucial player in the acquisition process. From this perspective, “acquisition is a process of mutual agreement between buyer and seller and encompasses timing and strategic and emotional factors, not just price” (Graebner & Eisenhardt, 2004, p. 367). Going even further, some studies argue that such courtship can even involve employees (Bollhorn & Franz, 2016). This seems particularly important when the buyer’s main goal is to acquire the employees’ specialized knowledge as is typically the case in high-technology sectors. If an investor does not meet the employees’ needs, the “core human assets will quit rather than be acquired” (Coff, 2003, p. 77) and the decisive factor for the acquisition will be lost (Inkpen, Sundaram, & Rockwood, 2000; Coff, 2003; Graebner & Eisenhardt, 2004). As such, there is a very good reason for the investor to comply with management (Graebner & Eisenhardt, 2004), the employees and the work councils involved.

The risk of losing qualified employees during the acquisition process seems particularly high when the investor comes from an emerging economy. The reason for this, is because attempts to acquire companies in industrialized countries can often result in skepticism on the part management and the employees within the targeted firms. Such reactions can be attributed to the belief that investors from the Global South “lack inherent firm capabilities and international competitiveness” (Knoerich, 2010, p. 178) and thus factors considered important to successfully manage a company in an industrialized country. Furthermore, “distance in the cultural and institutional environment of the target and acquiring firms, and worries about the real intentions of an acquiring firm” (Knoerich, 2010, p. 178) are further factors that can trigger potential skepticism (cf. Golinski & Henn, 2015).

It is not only the buyer, however, who has an interest in satisfying the employees’ demands. In their study of sellers’ motives why they chose a particular investor, Graebner and Eisenhardt (2004) show that managers not only considered the investors offering the highest price but that other criteria including economic, strategic and emotional factors also played an important role. It seems that many sellers have a specific inclination to “protect their employees from layoffs and relocations” (Graebner, Eisenhardt, & Roundy, 2010, p. 77). For example, the seller wants to be reassured that the buyer will respect the employees of the acquired company and provide them with an adequate work environment (Graebner & Eisenhardt, 2004, p. 390). Further, in a study about how sellers view the success of an acquisition, Dalziel (2008, p. 179) found that “the strategic and social factor was a significant predictor of the seller’s appraisal of acquisition success, while the financial factor was not”. In cases like the ones described by Graebner and Eisenhardt (2004) or Dalziel (2008), employees and works councils were in a favorable position because the sellers considered their needs during the courtship period with the investor. Of course, in contrast there are also cases whereby sellers only act in their own interests (Davis, Schoorman, & Donaldson,

1997). Our work, though, suggests there are good reasons to assume differences in social standards and industrial relations, that is, the employment conditions, could become an important subject in negotiations between potential buyers and management. In fact, employees often fear, for example, that the investor will not accept established standards but rather try to undermine them. Such concerns are usually based on the fact that the employees and their representatives, works council and trade unions where these exist, tend to elaborate and emphasize either alleged or real differences between domestic firms and the foreign investors.

While distances may thus become a major fear trigger, they can also be an important foundation of self-identity – a process of self-constituting the “Other” (Reuter, 2002; see also Franz, Fuchs, & Henn, 2018). Different categories of proximity and distance are relevant in analyzing these kinds of relationships. In the following, we apply a classification of proximities developed by Boschma (2005) to characterize the relations between the investors and the workforce in the acquired firm. According to this concept, five different types of proximity can be distinguished: (1) cognitive proximity, i. e. proximity in terms of concepts and mental models, (2) institutional proximity, i. e. proximity in terms of norms and rules, (3) organizational proximity, i. e. the level of shared relations between or within organizations, (4) geographic proximity, i. e. physical distance, and (5) social proximity, i. e. socially embedded relations between agents at the micro-level. Our article centers around the term “cultural proximity” which is usually considered as a part of institutional proximity. According to our understanding, this term refers to values, beliefs, and traditions that are assigned to ‘others’ (Gertler, 1995; Knoblen, & Oerlemans, 2006, p. 76).

The stakeholders involved in the acquisition process and subsequent activities are embedded in different local, national or even transnational social networks and institutional frameworks (e. g. Cumbers, Nativel, & Routledge, 2008; Franz, 2010). According to our understanding, these differences have a crucial impact on how the different parties perceive cultural proximity. Furthermore, they also inform how protagonists act. The investor’s perception can be influenced by factors that do not necessarily concern management-related aspects, like, for example a potential lack of knowledge about ongoing processes and their impacts or about the investor and his reputation, aims, values and strategies. All these factors have the potential to enforce othering processes on the basis of ascribed cultural distances. At the same time, the management of the acquiring company may not have sufficient knowledge about the corporate culture in the target company and the institutional contexts in which it is embedded. It is this distance that can result in unrealistic expectations and misunderstandings that may affect corporate decisions.

## Co-determination rights in Germany

Co-determination at the plant and board level is an essential aspect of German industrial relations. It is based on a system of indirect participation and formalized institutions. The Works Constitution Act (Betriebsverfassungsgesetz – BetrVG) and the Co-determination Act (Mitbestimmungsgesetz), define the rights and duties of both firms as well as those of employee representatives. This includes both the promotion of cooperation between works

council representatives and management at the site and supervisory board (Aufsichtsrat) levels. Even though the the BetrVG surpasses comparable regulations in other European countries and emerging economies like the BRIC countries, the impact of these regulations has been widely debated. While some authors have criticized the system as being inefficient and even potentially harming the respective firms and the overall economy (e. g. Jensen & Meckling, 1979), others state that the current regulation can be considered an important determinant underpinning a strong German economy (Jirjahn, 2011; Reisenbacher & Morgan, 2012).

In Germany, existing wages and employment conditions are guaranteed when a firm is acquired. If the new owner wants to change pre-existing employment relationships they have to enter into negotiations with the responsible works councils, of course where these exist (Edwards, Collier, Ortiz, Rees, & Wortmann, 2006). Royle (1998, p. 1043) argues that corporations can fulfill these legal obligations without conceding to labour as there is “an increasing number of options or ‘avoidance strategies’ which large companies can utilize to avoid or undermine the value of the institutions in place.” However, stance overlooks the fact that undermining co-determination can result in major conflicts, conflicts that are not in the investor’s interest. Furthermore, due to the fact that the German system of industrial relations is historically deeply rooted in German society, whose values deem that certain expectations are fulfilled, investors are required to have sufficient knowledge of co-determination rights if they wish to avoid such conflicts. Foreign investors acquiring German firms either in possession of existing codetermination structures or covered by such laws, have to abide by such legal requirements so as to avoid what we have referred to in earlier sections of this article as cultural and institutional distance.

Compared to German co-determination the BRIC countries have virtually no equivalent. Even the presence of trade unions is relatively small in these countries. This raises the question as to how investors from these countries respond to a system of co-determination like in Germany. In China, the All China Federation of Trade Unions (ACFTU) is influenced and controlled by the government, with independent unions either forbidden or oppressed (Liu 2010). In India, more than 90 percent of the employees work in sectors in which industrial relations institutions are almost absent (Ahsan & Pagés, 2007, p. 2). In India's formal economy, trade unions are strongly influenced by party politics. Since the liberalization of the Indian economy, beginning in 1991, attempts to organize workers in the private sector are increasingly met with resistance, with unions being further marginalized (Sinha, 2004). In the case of Russia, unions are organized either under the Federation of Independent Trade Unions of Russia (FMPR) umbrella, a body with close ties to the Kremlin, or the much smaller Confederation of Labor in Russia (KTR). Although extensive labor legislation prevails in Russia, trade union rights are often violated. In the main, the scope for action compared to Western trade unions is significantly limited (IG Metall, 2013). Further, Russian labor law does not allow for codetermination rights as practiced in Germany. Although establishing representative bodies is not banned, evidence of German firms investing in Russia demonstrates the severe difficulties faced when trying to export German co-determination (Mählmeyer, 2015). Finally, in Brazil, there are numerous trade unions and associations (sindicatos) that are organized according to aspects of regional and vertical industries. However, co-determination rights in the German sense do not exist. Although trade union rights and the binding nature collective bargaining prevail, works councils remain an anomaly (Rödl & Partner, 2013).

## Methods

Various sources provide data on foreign investors in Germany. They differ considerably in terms of the scope, though (cf. Bollhorn, Franz, & Henn, 2014). The MARKUS database, provided by Bureau van Dijk was selected to identify firms investing in Germany due to its comparably high data quality. These included either direct or indirect institutional shareholders and/or parent companies that are institutional shareholders with headquarters in one of the BRIC countries. This selection was based on the OECD-Benchmark Definition of Foreign Direct Investment (OECD, 2008), in which the direct shareholder holds at least 10 percent of the shares or a global parent company controls a minimum of 50 percent of the shares within the targeted company. This definition ensures that only those investments are taken into account in which the shareholder exerts significant influence on the acquired firm. A total of 1,069 companies were identified on the basis of the above criteria. Of these firms, 3.2 percent (34 companies) had at least one Brazilian shareholder, whereas 18.9 percent (203 companies) had a Russian shareholder, 28.3 percent (302 companies) an Indian shareholder and 49.6 percent (530) a Chinese shareholder.

Based on the data set generated, the identified companies in Germany were contacted by phone and surveyed in a standardized way. The aim of the survey was to generate more detailed information about the firms and their employee structure. In the telephone interviews, information on the industry and the origin of the firms, their ownership structures, investment types, numbers of employees, existence of a works council, etc. were collected. The results of the surveys were combined and evaluated with the aid of statistical software. The questionnaire was sent to top- or second-level management of the company (in a few cases a spokesman provided information). A total of 136 fully standardized interviews (12.7 percent response rate) was recorded, of which five (response rate: 14.7 percent) were conducted with Brazilian investors, 57 with Chinese investors (response rate: 10.7 percent), 51 with Indian investors (response rate: 16.9 percent) and 23 with Russian investors (response rate: 11.3 percent). In addition, 110 face-to-face qualitative interviews were carried out with company representatives, works councils, trade unions and other relevant experts.

Based on the results of the quantitative analysis, companies from each BRIC country were selected according to specific criteria (e. g. industry and size) and contacted for interview purposes. Problem-centered interviews were also conducted with industry experts and trade union representatives. The interview guidelines followed a uniform structure, but were adapted to the different groups of actors for specific questions. Interviews were recorded electronically and measures were taken to ensure the respondents anonymity.

Altogether 44 guided interviews were conducted with firm representatives. In general, we sought to survey a high share of firms in those sectors that have experienced particularly frequent investment. In the case of firms with shareholders from China, for example, we aimed at including Chinese mechanical engineering firms, while in the case of India, a special focus was put on IT firms. In the case of Russian investment, the number of potential firms was more limited and interviews made more difficult due to changed political and macroeconomic conditions (mutual economic sanctions in the wake of the Crimean crisis). In case of the Brazilian firms, a deliberate selection was not effective because of the very small number of FDI cases. Another twenty interviews were conducted with representatives

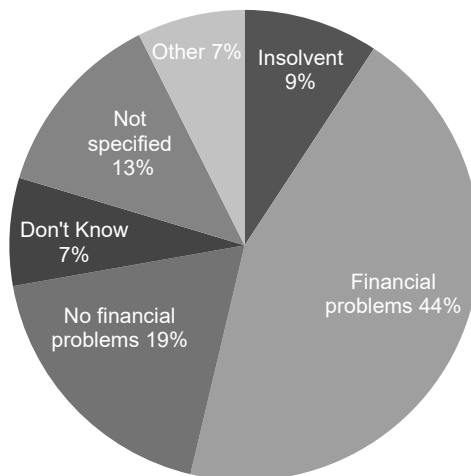


from supporting institutions in order to evaluate the statements made by firm representatives with regard to regional and industrial specificities. Finally, a total of 32 interviews were conducted with representatives of co-determination bodies and 16 interviews with union company/group supervisors. The interviews were subsequently transcribed and analyzed by applying methods of qualitative content analysis. Interviews carried out in German were translated into English for the purpose of this article.

## Pre-acquisition situation and employees' reactions

Our empirical analysis suggests that in many cases German firms had faced with economic problems before they were acquired by BRIC-investors. In fact, 53 percent of them had financial problems or were even insolvent. Actually, a mere 19 percent of the sample had no financial problems (see Fig. 1). In many other cases, the management had to deal with “strategic hurdles” (Graebner & Eisenhardt, 2004, p. 373), e. g. financial problems or emerging competitors, which had led them to look for strong partners to overcome these. In both cases, German management typically perceived the foreign investors as saviors rather than hostile hunters. Many employees, however, did not share this perspective. In particular, in cases where employees were unaware of existing financial problems or strategic hurdles the acquisition was deemed a surprise, this resulting in insecurity or even resistance.

*Figure 1:* The financial situation of the German firm in the run-up to an acquisition (own data) (N=54)



In 26 % of the cases analyzed (N=50), managers stated that the investment had caused feelings of insecurity among the employees. By contrast, the interviews with the works council members revealed that employees in nearly all affected firms felt insecure. In only two of the analyzed cases did employees demonstrate a considerable level of resistance. In these cases, the employees did not see any need for their firm to be sold to an investor either because as they were unaware of the strategic hurdles or were convinced that the German owner was in a better position to overcome them. A closer look at both cases suggests, that the situation preceding the acquisition had been characterized by a clear lack of communication between management and employees. In both cases where employees had shown a considerable level of resistance, they had found out about the acquisition through newspaper articles – this resulting in a lack of understanding and annoyance. In one case, the responsible works council had been informed earlier but at the same time was bound to secrecy. Because of this, the works council was unable to mobilize the workforce against the takeover. We also found cases, however, that showed transparent communication patterns prevailed and that this resulted in a dialogue between managers and labor representatives without any direct resistance being exerted by the employees. A works council representative illustrates this point in the following quote (WC10):

*“There was actually a wave of information from the works council and the [labor representatives in the] board of directors to all stakeholders to accomplish the deal in a clean way. Why is it like this? Since the IG Metall [the metalworkers’ trade union] was on the supervisory board already in the preliminary phase [...] and connected to it. And this was a kind of quality seal that allowed us to say to the employees: ‘We recommend you to comply with this deal [...].’ There was no rebellion, there was really nothing. [...] This was surely also due to the common communication with the company.”*

## Investors’ knowledge on German Co-determination

According to German interviewees, most investors had no or only limited knowledge of the German system of industrial relations and co-determination before they acquired the German target company. Alluding to this point, one representative of a works council stated in an interview (WC12): *“They do not know anything about co-determination. We observed this the first time we had contact with them. [...] In the acquisition negotiations, nobody told them anything about co-determination culture or trade unions in Germany; thus they were presented with a fait accompli after the acquisition.”*

This lack of knowledge about the German system of co-determination can be a source of misunderstanding and conflicts as was highlighted in a different interview: *“It is really another world, it is too regulated and this is difficult to understand for the Brazilians. They cannot easily dismiss someone. This is not easy for them”* (interview with expert, E5).

In a few cases, the investors had a rudimentary understanding of co-determination practices before they invested in Germany. The overall low number of investors having in-depth knowledge about labor-related issues does not really surprise given the fact that managers from emerging economies in general tend to have only little experience with the societal contexts of investments in industrialized countries. In cases where they had little understanding of the subject matter, and especially where they had already gained first experience with other acquisitions, the investors often tried to get more information about the la-

bor regulations and their implementation in the respective firm during the initial negotiations with the seller. In some cases, business consultancies accompanying the negotiations provided the relevant knowledge about the German system of co-determination. In fact, we found it quite surprising that not every consultancy or previous owner of a company ascribed importance to this topic.

The investors made no attempt to contact works councils or trade unions: only in some exceptional cases did they directly contact the works councils during the negotiation process. In most cases, however, the investors did not establish any direct links to the work councils or trade unions involved – either during the negotiations or after the acquisition.

## Day-to-day business with the investor

The analysis of works councils' experience, suggests that BRIC-investors typically did not try to abolish or change the existing industrial relations in the target companies but rather accepted the BetrVG as a basis for industrial relations in the firm. In most cases, the investors acted neutrally not only towards the existing system of co-determination but also with respect to pre-existing internal agreements and practices of industrial relations, like internal site agreements and collective bargaining agreements. In a few exceptional cases, the investors even agreed to an increase or an improvement (from the employees' perspective) of pre-existing agreements. As the following statement offered by a works council in an Indian firm suggests, this caught some works councils by surprise: *“Yes, then we put forward our demands in the same way we had done with the prior owner. We then had a presentation and the investor looked at the paper and said: ‘Yes, I will do that’. It was unbelievable”* (WC21). A different works council representative stated, *“the investor supports company co-determination. We even got new employment agreements in domains where we had not had any regulation before. Examples include work time accounts, break agreements and other things”*. In sum, it appears that in most cases institutional distances and the (ascribed) cultural distances did not lead the investors to challenge the existing sets of industrial relations, in fact in some cases they even changed them for the better. One works council representative, for example, stated (WC5): *“Today we are much more involved than we were when it was a family-owned company as they [...] only did what they were obliged to do by law and even then we had to fight. It was not better before [the acquisition], it was worse than it is now.”* Similar statements were also made by members of the German management of acquired firms (M9): *“Our new shareholders financially supported the plans we had made with the works councils as they were not interested in trouble.”* In fact, it appears that both avoiding trouble and gaining public acceptance were amongst the most important reasons why investors accepted industrial relation's practices. By contrast, there were also cases where the investor was not afraid of conflicts. One manager of a German firm recalled a lack of understanding on the part of a Brazilian investor regarding joint-decision-making (M13): *“This was a red rag to him. He says ‘[...] Why do others want to decide together with me? It is my company: I pay, I bring the money, and others want to decide what happens with my money’?”* In other cases, however, the new owner only accepted the legally binding basis as a minimum standard while trying to cut back on everything that went

beyond that. Typically, in such cases, salaries, working time regulations and other agreements were subject to renegotiation. Such strategies clearly have the potential to reinforce the distinction between ‘we’ and ‘the others’ and can thus result in conflicts. One manager, for example, stated (M4) that management had had to contend with “*strong industrial action last summer. At that time, the labor agreement needed to be renegotiated for the next five years. There was a one-month long strike*”. Such critical attitudes towards industrial relations can be regarded as a proof of existing cognitive as well as institutional distances between the new foreign owners and German employee representatives. While such cognitive and ascribed cultural distances may persist in most cases, most investors seem to accept the pre-existing industrial relations arrangements sooner or later, primarily because of their legally binding character. Limiting everything to the level that is legally mandatory was primarily found in the case of Russian investors, although a few investors from other countries also showed similar patterns of behavior. One German manager illustrated this by stating in an interview (M18): “*We often had conflicts where the Indian investor was shocked and said ‘I do not understand why you Germans scare off the investors.’ [...] So he is still against it, but because it is like it is and works, he more or less agrees to it.*” This example demonstrates that attitudes towards industrial relations may vary due to different processes of socialization between German managers and Indian investors. At an individual level, such differences can be viewed as an expression of cultural distance. Following this line of reasoning, a “bridging of distance” takes place when an investor with a particular cultural background is willing to engage with the new cultural environment. In this context, two types of adaptation can be distinguished: On the one hand, bridging might only occur because of existing norms and rules. We refer to this process as “obliged bridging”. On the other hand, firms might adapt to their new environments on their own account and in some cases even go beyond what is expected of them. This is what we refer to as “voluntary bridging”.

## Communication between new owners and labor representatives

In general, the BRIC-investors and the works councils and trade unions do not always directly communicate with one another; rather, “*the communication with the investor is only happening through [...] [the] manager*”, as one representative of a works council (WC30) put it in an interview. Our analysis suggests that the actual level of communication between the parties depends on the individual attitudes’ of both sides. It was only in a few cases that the investors built up direct contacts to the works councils during the negotiation process. In many cases where communication took place at this stage of the process, the level of communication between the new owner and the representatives of labor typically decreased during the following day-to-day running of activities. Because of this sporadic communication, (perceived) cultural, cognitive and institutional distances could not be bridged. It would be misleading, though, to believe communication deficiencies are merely the fault of investors. In fact, some works councils did not even undertake any effort to get in touch directly with the investor or maintain a direct link with them. Our analysis suggests that such behavior can be traced back to three factors:

1. After an acquisition, German management typically continues to play an essential role in day-to-day running of the business. As such, *German management also remains the central contact point* for the works council. A representative of a works council (WC2) referred to this issue by saying *"It is not his [the investors'] understanding. He has managers here who administer it. It is their task and they have to do it. It is definitely their task to talk to the works council"*. Whether the works council has any opportunity to be in touch with the investor depends on the size of the investing company: often, the new owners are large corporations that do not usually develop direct links with works councils.
2. When works councils tried to have direct contact with the investor, *language barriers* often hindered communication. One representative of a works council (WC13) referred to this as follows: *"Ultimately, language is the basis of a works council's work. And if you have to speak a lot of English, a lot gets lost in translation unfortunately. [...] In some circumstances you talk at cross-purposes"*. Language barriers thus often turn out to be quite frustrating for the works council members, which is also another reason why they often drop the idea of establishing direct contacts. In such cases intermediaries become important for developing contacts, as was illustrated, for instance, in an interview with a representative of a works council (WC32): *"I do not speak English, I do not speak Indian [sic!], and then he is there with his broken German. We ended up in a communication over three degrees of separation"*. Strategies to overcome language barriers include the use of interpreters or the recruitment of bilingual or even so-called bicultural persons. Surprisingly, such solutions were only applied in one case.
3. *Finally, reserved or even negative feelings towards the foreign owner* are triggered by perceived cultural distances. One representative of a works council referred to this aspect in an interview stating (WC7): *"We do not have any contact. Not one bit. Zero. We do not want to get in touch."* It is difficult to distinguish this effect from the above mentioned ones. This is because the important role played by German management allows the works councils to argue the low level of contact with the investors was due to language reasons rather than undisclosed resentments.

## Conclusion

Although there is a huge body of literature on transnational acquisitions, the number of studies that consider the labor perspective in such endeavors is very limited. Often, acquisitions are not a one-way process but rather a courtship in which the employees' perspectives play a crucial role. This holds particularly true for the high-tech sector where acquiring the employees' knowledge stocks is the most important driver. In cases where an investor is not well received by employees, resignation or conflicts (and potentially strikes) may occur, these having an effect on the firm's productivity.

Institutional distances in the sense of varying industrial relations and social standards between an investor's home-country and the target country can be a source of resentment, too. In such cases, the employees of the target company may fear that the new owner is unwilling to accept established industrial relations and social standards. They may also be

afraid that they will try to undermine such standards by trying to align them with regulations in the investor's home country. Such resentment typically rests upon perceived organizational, cultural and institutional distances between the investors and the employees of the targeted company and their collective agents.

The intensity of the resentment and its manifestation in insecurity felt by the employees, or in forms of resistance, seem to correlate with what the employees knew about the strategic hurdles of their company, especially in terms of the financial situation prior to the acquisition. According to our analysis, the majority of acquired companies had been financially vulnerable before the acquisition. As a consequence of this, the employees often perceived the investor as a savior rather than an aggressor.

We identified language barriers as a determinant that negatively impacts the level of communication. This holds true, in particular, for Chinese acquisitions: firstly, because the English skills of Chinese managers were reported to be relatively poor and secondly due to the fact that German employees usually do not speak Chinese. This negative effect is independent of the spatial distances to the investor – although this must be considered as a major hurdle in communication: in other words, it does not matter if the investor is located in Germany or in his country of origin. However, the language problem is not the only reason for insufficient communication between investors and works councils. In many transnational corporations direct contact between the owner and the representatives of labor in the acquired firm is rather unusual. However, the lack of communication clearly prevents perceived cultural, cognitive and institutional distances being bridged between the investors and the targeted firms.

Finally, our analysis showed that information about the investor's origin alone does not help to predict whether they will accept existing regulations concerning industrial relations in newly acquired firms. In fact, different attitudes towards labor and established industrial relations practices could be observed irrespective of the investor's nationality. It also appeared that a conflict-oriented approach was the exception to the rule.

The perceived contrast between the employees of a target company as 'we' and the foreign investor as the 'other' is – in most cases – not justified and not supportive to the employees' interests. We also showed that many investors make efforts to bridge the cognitive, cultural, institutional and organizational distances. In this context, we identified two different kinds of bridging distances: (1) the obliged bridging which solely includes the acceptance of those elements of the system of industrial relations that are legally binding, and (2) the voluntary bridging that goes beyond the level defined by law.

Currently, we are not in a position to judge whether the investors' accommodating approach towards the German co-determination is only a temporary phenomenon that rests, for example, on their lack of familiarity with German practices, or whether it is the result of a deliberate corporate strategy. Our observations, however, suggest that the investors tend to stay out of day-to-day business operations, leaving it to German management, even in those cases where they are quite familiar with the German business environment.

We would also like to state that it would be of great benefit to analyze the actions of BRIC investors according to their origins in future studies. Finding an answer to this question was not a concern of our project and seems problematic when considering the qualitative research design that we applied for this paper. However, we would like to mention that

any understanding of why a small number of companies adopt a less accommodating perspective would require a closer look at the personalities involved in the M&A processes instead of focusing solely on alleged differences between the countries. In fact, there is good reason to believe that an owner-managed company from India acts quite similar to an owner-managed company from Russia whilst at the same time being quite different when compared to an Indian firm that is state-owned or listed on the stock exchange.

While our study has analyzed the perspective of employee representatives, the views of single employees and their actions was not considered. This is definitely one aspect future research should take into account. The growing importance of FDI from emerging countries will offer plenty of opportunities to further elaborate this area of research.

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