



**Diskussionspapiere**

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**Company Relocation: The Consequences for Employees**  
—An Analysis of the WSI Works Council Survey—

**Elke Ahlers  
Fikret Oez  
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**WSI-Diskussionspapier Nr. 151**

März 2007

Wirtschafts- und Sozialwissenschaftliches Institut  
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## 1. Introduction

AEG and Continental are just two recent examples that have placed the debate on business relocation firmly back on the political agenda in Germany. Although both companies work profitably at their German locations, shareholders have received high dividends, and employees have accepted massive cuts both in terms of incomes and working time, production lines are being closed in Germany and moved to cheaper locations abroad. In the public perception, these are not exceptions: There is an impression among many that the majority of German businesses are ready to leave Germany sooner rather than later because, with its high wage costs and inflexible labour market, the country is no longer competitive as an industrial and business location given the conditions imposed by globalisation. This, in the public view, has most recently been underscored by the consequences of the EU's eastern enlargement and direct competition with Central and Eastern European locations; moreover, given their close geographical proximity to Germany, these new EU member states seem increasingly attractive for German businesses.

This theory is supported by, among others, followers of so-called "bazar economy" (Sinn, 2005), who see Germany's future as a goods reloading point for cheap imports from low-wage countries. According to this theory, therefore, Germany would soon simply trade products produced in other countries. The counter-argument, meanwhile, points out that, on the whole, the German labour market would benefit from globalisation and eastern EU enlargement and that it was now paramount to put in place the necessary "structural change", for if companies failed in competition at the European level, jobs would also be lost in Eastern Europe.

For quite a number of years, regional economic research on company location<sup>1</sup> has focused on business establishment and insolvency activity in Germany; interest in research on company relocation, particularly relocation abroad, has been fairly recent. In the regional economic debate, the activity of German companies abroad has frequently been considered from an economic policy viewpoint, in which the ramifications for employees do not, as a rule, play a central role. The German Chamber of Commerce and Industry (DIHK), for example, surveys German industrial businesses on their intended foreign activity on an annual basis.

According to the most recent DIHK survey (DIHK, 2006), German industrial companies' foreign investment remain high. Although the ratio of companies wishing to invest abroad declined between 2004 and 2005, this was in contrast with increased investment volume in foreign locations.

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<sup>1</sup> In addition to research focused on regional economic policy, there are, of course, further specialised disciplines that look at issues of location, company restructuring processes, etc. This is true in particular for social science research (cf. Behrens/Kädtler, 2006).

The main problem in the debate on the consequences of relocation is that such relocations have both winners and losers. Many consider firms to be the winners and employees the losers of globalisation. Given the liberalisation of international economic relationships, companies are better positioned to make use of the advantages of the free movement of goods and production, and will identify and select their business location in the place that will provide the lowest costs and highest profits—regardless of the consequences at home.

The situation is different for employees. Given Germany's massive labour market problems, for employees, job losses resulting from a company's change of location imply unemployment. However, even if an announced relocation does not ultimately take place, employees still find themselves under pressure, as considerable concessions with regard to pay and working conditions are still all too often demanded of them.

From an employee viewpoint, therefore, a critical review of this debate is long overdue. And until now, an examination focusing on the employee view of company relocation has been sorely lacking. This is what this publication sets out to achieve.

This study<sup>2</sup>, based on the 2005 WSI Works Council Survey, aims to highlight the ramifications of company relocations on employees as well as the role of company relocation in the work of the works councils. The study is rounded off with an analysis of the policy framework, which looks at how policy has reacted to the public debate on company relocations. Concluding comments complete the study.

## **2. Findings of the WSI Works Council Survey**

### **2.1 The WSI Works Council Survey**

Since 1998, the WSI has conducted representative nationwide surveys of works and staff councils. Every two years since then, some 2,000 works councils are surveyed on company developments, wage policy, and employee representation. The survey includes companies with works council representation, includes all industrial sectors and size ranges, from a minimum of 20 employees.<sup>3</sup> The aim of the survey is to obtain representative data on company trends and developments from a works council viewpoint (Schäfer, 2005). The findings are therefore particularly relevant for companies with works council representation but, given that about half of all employees in Germany are employed in companies with works council representation, the WSI Survey covers a large proportion of the employed workforce.

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<sup>2</sup> This study presents central project findings; the long version is published in Ahlers et al., 2007.

<sup>3</sup> In the analysis, data was weighted by companies' size range, industrial sector as well as location (i.e., East or West Germany), so that they could be representative for the basic totality of all businesses with works councils.

The 2005 Survey was the first to include the topic of relocation. Questions here sought to gather information and experience on the relocation debate in German businesses from the view of works councils. After gathering general information on the debate in companies, e.g., whether a company had held relocation talks or whether a change of location had already taken place, additional questions sought to obtain information on changing working conditions in the context of relocation negotiations.

The questions in the section of the Survey on company relocation can be found in Box 1.

**Box 1:**

**Extracts from the questionnaire of the 2004/2005 WSI Works Council Survey on restructuring/relocation**

- **Has your company undergone any operational restructuring since the beginning of 2003?**
- **Is relocation an issue in your company?**
- **Have any parts of the company been relocated since the beginning of 2003?**
- **Did the relocation ....take place within Germany or move abroad?**
- **Which business areas were affected by the relocation?**  
(production, research and development, sales and distribution, or other areas)
- **Is production or any other part of the company likely to change location within the next two years?**
- **Will the relocation of the company's production, or other company areas, ...take place within Germany or move abroad?**
- **Are talks on relocation currently being held?**
- **If so, is relocation to take place... within Germany or to move to a location abroad?**
- **Is the effected or threatened relocation having a negative effect on working conditions?**
- **For example, has company working time been extended, or will it be extended?**
- **By how many hours/week has working time been extended/will it be extended?**
- **Has the works council had to make other concessions with regard to working time?**
- **What were these?**
- **For example, have concessions been made or agreed with regard to wages and salaries?**
- **Were these cuts in... current wages/salaries, allowances, annual bonuses, holiday pay, premiums, bonus payments or any others?**
- **Has relocation been reversed to return to your company's original location?**

The findings of the WSI Survey are presented in two sections. The first examines the types of companies that have been confronted with relocation during the survey period. Based on the Survey's results, the second section looks at the ramifications of relocation



for the company. Our aim was to see the effects of relocation on employment and working conditions.

## **2.2 Empirical findings on relocation by company criteria**

Since 2003, 50% of all of the companies surveyed have experienced restructuring. A change in location—i.e., the relocation of an entire company or individual parts of a company elsewhere—is one facet of the operational restructuring process.

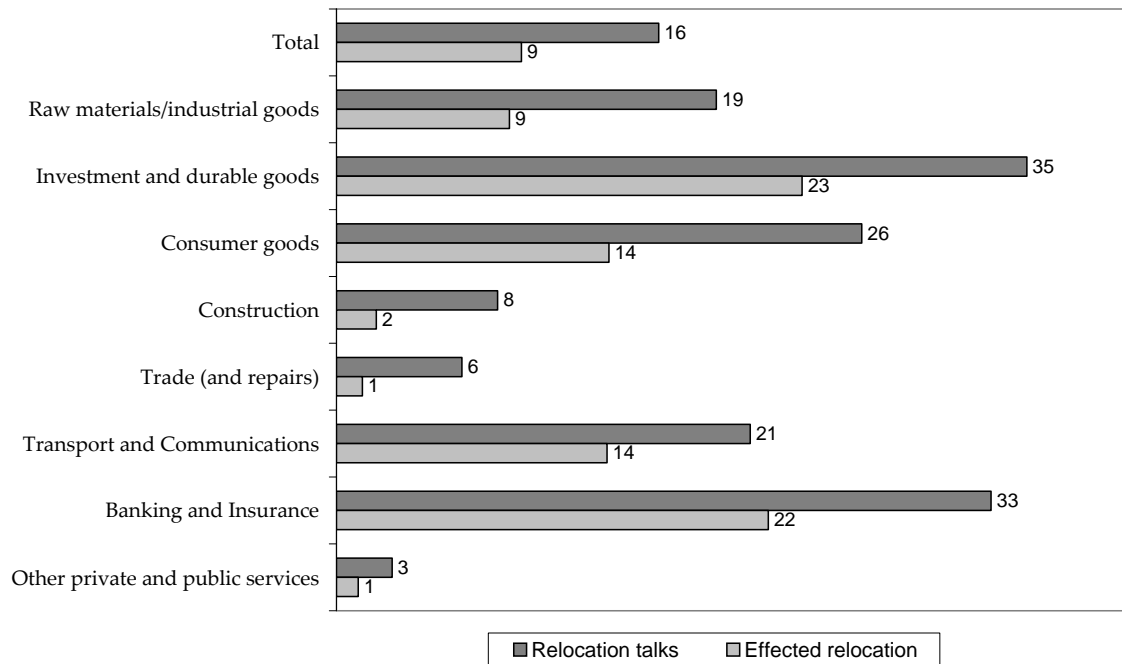
In 16.2% of the surveyed companies with works council representation, “relocation” is an issue. It is important to note that this figure includes both internal company talks on the possibility of relocating as well as relocations that have been carried out. However, it is necessary to separate out whether the possibility of relocating has been merely discussed in a company or whether it has actually taken place: Of all the companies that have held talks on relocation (i.e., 16.2%, or  $n = 324$ ), about half did relocate (57.4%, or 9.2% in total; see Figure 1). In the remaining companies, relocation has remained a subject for debate, implying that internal company talks on relocation do not necessarily lead to relocation. It is assumed that, in announcing relocation, employers also pursue other goals (cf. also 2.3).

It is useful to consider the incidence of relocation talks and actual relocations from a differentiated empirical angle. An initial assumption would be that there are differences between East and West Germany. The consideration that West German companies manufacture economically well-positioned export goods would suggest that relocations in West Germany are more discussed and implemented more readily. Indeed, the empirical findings confirm this assumption: there is greater emphasis on relocation talks in West Germany than in East Germany (17% and 12%, respectively), and relocations are implemented slightly more rapidly than in East Germany (58% and 52%, respectively).

In a sectoral comparison, there are also considerable differences between relocation talks and effected relocations. Thus one might assume that manufacturing industry—a labour-(cost)-intensive industrial sector—is likely to be keen to find cost-effective production locations; moreover, such companies will also be keen to tap new markets abroad (cf. also Kinkel et al., 2004). In the trade and construction sectors, meanwhile, companies will want to keep their location close to their markets, and are therefore unlikely to contemplate a long-distance relocation or a move abroad.

As Figure 1 shows, talks on whether to relocate vary very strongly within the various economic sectors. As assumed, investment and consumer goods firms top the list, with some 35% affected by talks on relocation. Companies in the banking and insurance companies sector come a very close second (33%). Nevertheless, there are also sectors in which there has been virtually no relocation debate or implementation, such as, for instance, in trade (6%) or construction (8%).

Figure 1:  
**Is relocation an issue in your company?**  
 Works council responses, in %



Source: WSI Works Council Survey, 2004/2005

Further aspects, such as company size or economic position, also influence decisions on company location.

Kinkel et al. (2004) show that, in the area of manufacturing, the proportion of businesses that relocate production rises with increasing business size; nevertheless, current studies point to the fact that a considerable share of the most recent relocation activity has come from small and medium-sized enterprises (SMEs) (e.g., Meardi, 2006). According to Lungwitz et al. (2007), German SMEs have systematically expanded their cooperative relationships into Central and Eastern Europe since 1990. Especially “furniture and clothing businesses, very typical SME branches, represent the classic example of cooperation between German SMEs and Central and Eastern European partner companies with a view to lowering costs” (ibid).

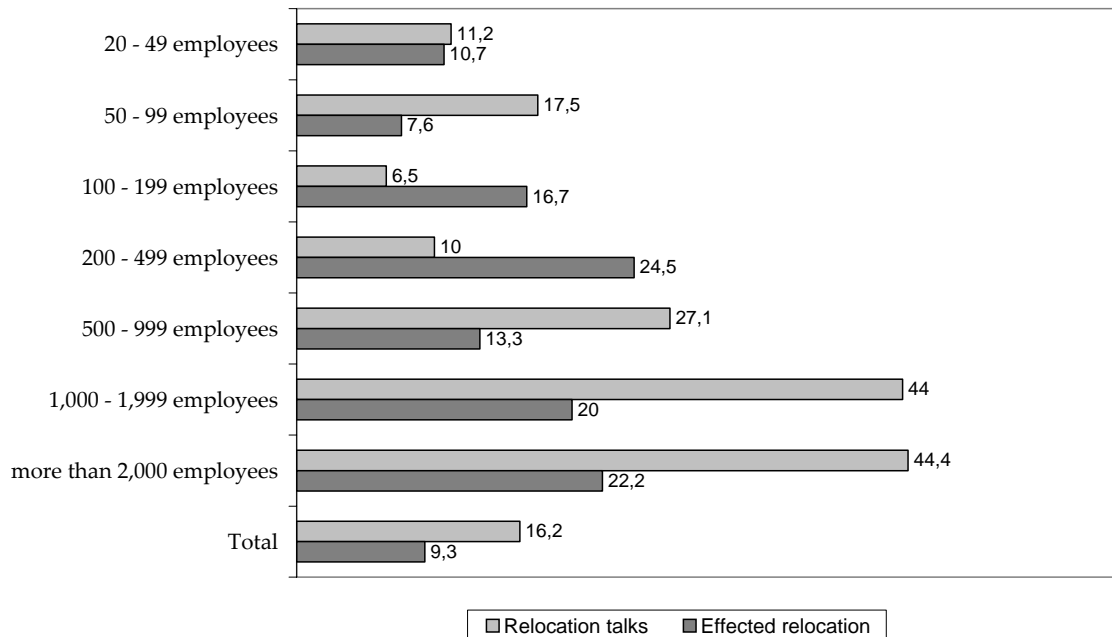
The empirical findings of the WSI Works Council Survey confirm these trends (Figure 2): although relocation is considered and discussed in both small and large companies, large enterprises—especially those with more than 1,000 employees—make up the greater share (44%). The discrepancy between relocation talks and actual relocations is wide in all company size ranges. Noticeable, however, is the higher-than-average share of effected relocations in small businesses: during the surveyed period, 11.2% had

contemplated relocation—and virtually all had also undertaken it. In the case of large companies, about half of all businesses had relocated.

Figure 2:

**Extent of relocation talks and effected relocations**

Works council responses, a comparison



Source: WSI Works Council Survey, 2004/2005

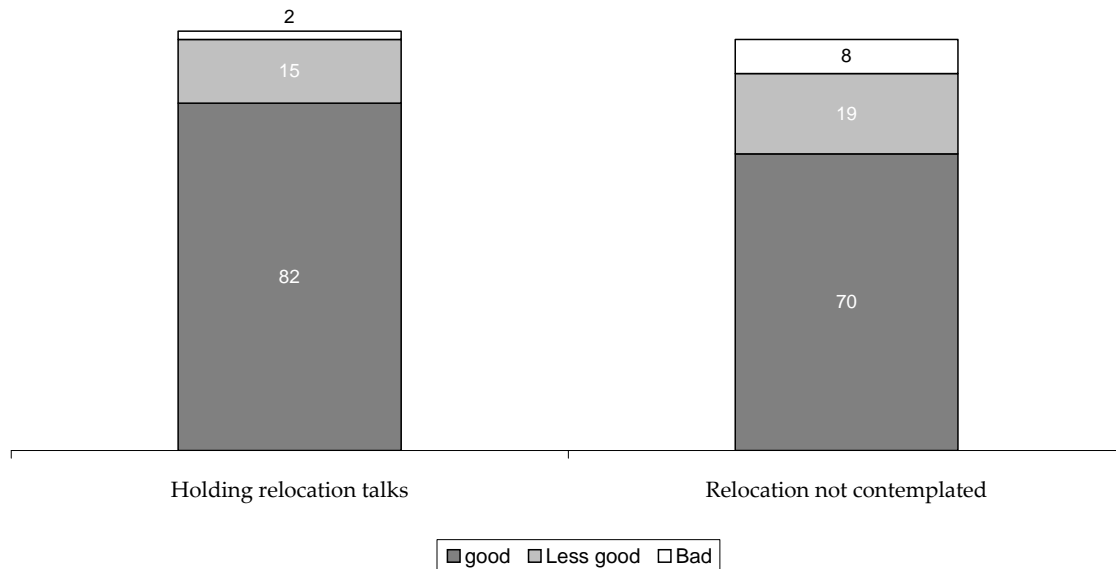
The economic position of relocating companies is also highly significant. This is true both for companies that relocate to save costs as well as for those that relocate to open up new markets as sufficient capital is required to relocate in both scenarios. This would imply that businesses with a less-than-positive economic position might not be in a position to “afford” to relocate.

The Survey results show that businesses contemplating relocation do tend to be well-placed economically speaking (Figure 3). Eighty-two percent of the surveyed companies considering relocation describe their economic situation as “good” or even as “very good”. They are comparatively better off than those companies not envisaging relocation. Only 17% (of which 15% consider their economic situation to be “less good” situation and 2% consider it to be “bad”) of all companies contemplating relocation are not well-placed economically. It therefore seems that German companies do not move abroad out of economic necessity but, rather, one assumes, to further secure, or even improve, their economic position.

Figure 3:

**Economic position of companies in relocation talks and those not contemplating relocation – A Comparison**

Works Council responses, in %



Source: WSI Works Council Survey, 2004/2005

Only in the rarest cases are entire companies closed down in one place and re-built elsewhere. Based on the WSI Works Council Survey, the chart below (Figure 4) illustrates those parts of companies that have relocated since the beginning of 2003. As expected, production was the business area relocated in most companies, whereas research and development capacity is least affected by relocation. A sectoral comparison, however, shows up considerable differences. Industrial companies are most likely to move their production, but in nearly all economic sectors, companies' sales and distribution departments are also relocated. Here it is striking to note that, in addition to companies in the transport and communications sectors, those in banking and insurance also demonstrate a massive outsourcing of sales and distribution services.

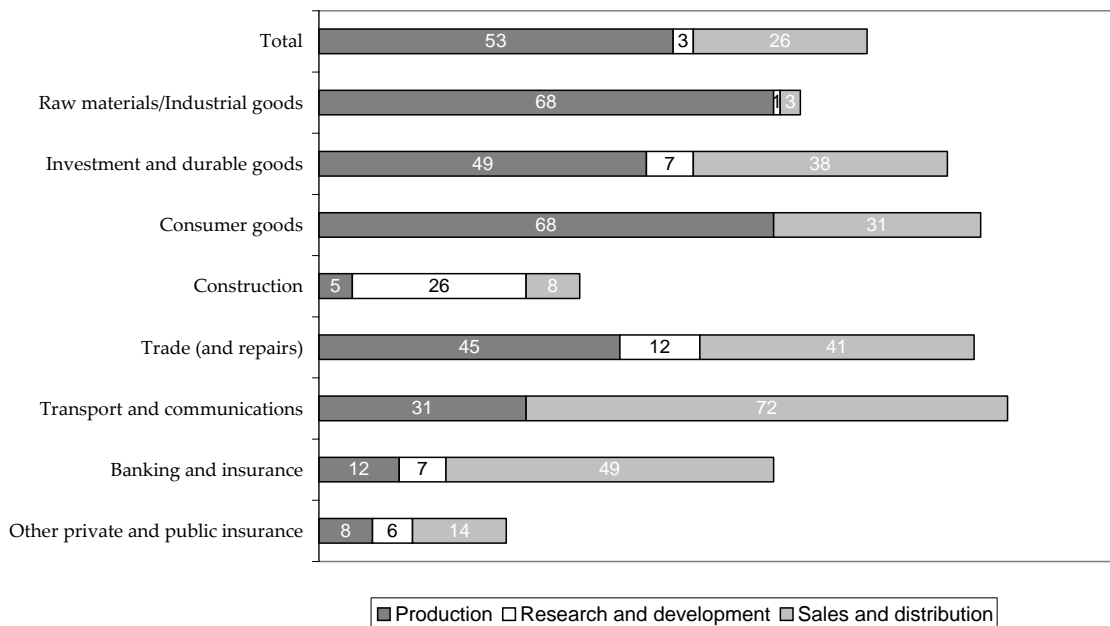
In the public debate, relocation is frequently equated with the relocation of German businesses abroad. The WSI Survey findings make clear that relocation abroad is, in fact, limited, since (only) 28% of the companies surveyed who had relocated, had moved their operations abroad. Indeed, 72% of the firms surveyed had relocated domestically. In his study on the distribution, background and economic effects of company relocations, Maaß (2004) comes to a very similar conclusion. Based on the Statistics of business notifications, he shows that, in the case of companies in North-Rhine

Westphalia, a growing, but until now only a small proportion, of companies has moved abroad.

Figure 4:

**Which company areas are affected by relocation?**

(multiple answers provided by works councils, in %)



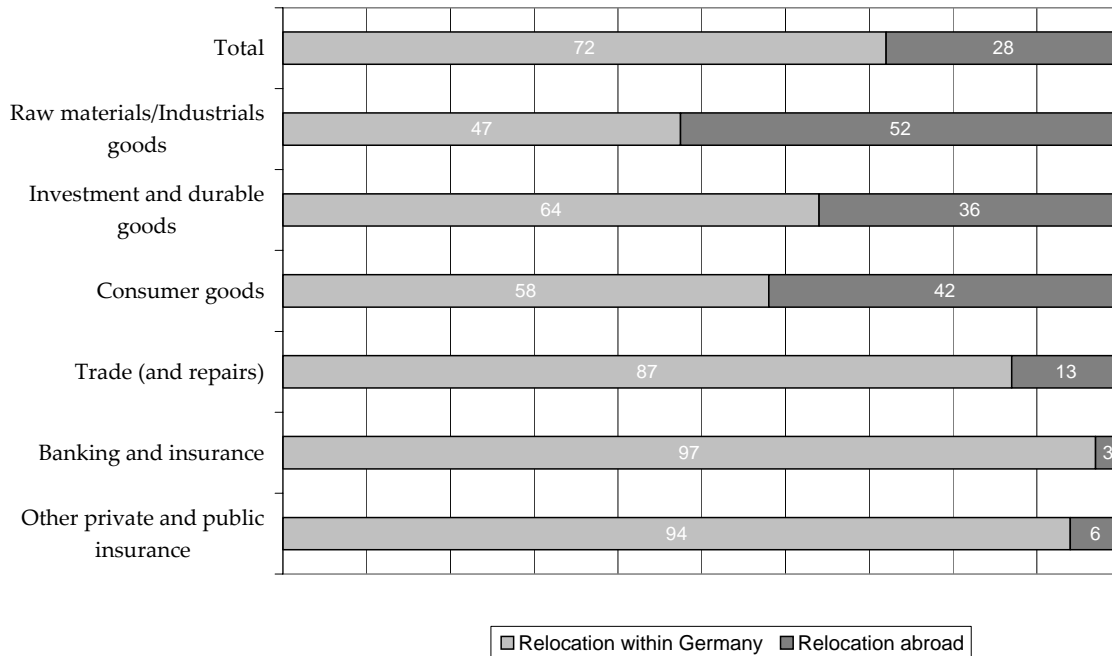
Source: WSI Works Council Survey, 2004/2005

Nevertheless, in a sectoral comparison the WSI Survey does show considerable differences. While companies in the raw materials and production goods industries prefer to move abroad (52%), and with consumer goods, investment and durable goods companies also showing a tendency to relocate outside Germany, companies in all other sectors prefer to relocate domestically (see Figure 5). It could be said that, overall, industrial companies relocate abroad to a much greater degree than services companies, although the data provides no information on the extent of the regional radius (both in terms of international and domestic relocations). The WSI Survey did not, in fact, ask whether, in the case of international relocation, companies moved to the new Central and Eastern European EU member states, or as far afield as China and India, or whether companies relocated to the region immediately surrounding them or to another federal state.

The relocation ratios, separated out for domestic and foreign relocations, vary markedly between company size and situation. In East Germany, at 78% of all planned relocations, the trend to relocate within Germany is considerably higher than in West Germany, so

that it would be feasible to assume that domestic relocations tend to be between cities and surrounding areas.

Figure 5:  
**Effected Relocations, domestic and international**  
(Works Council responses, in %)



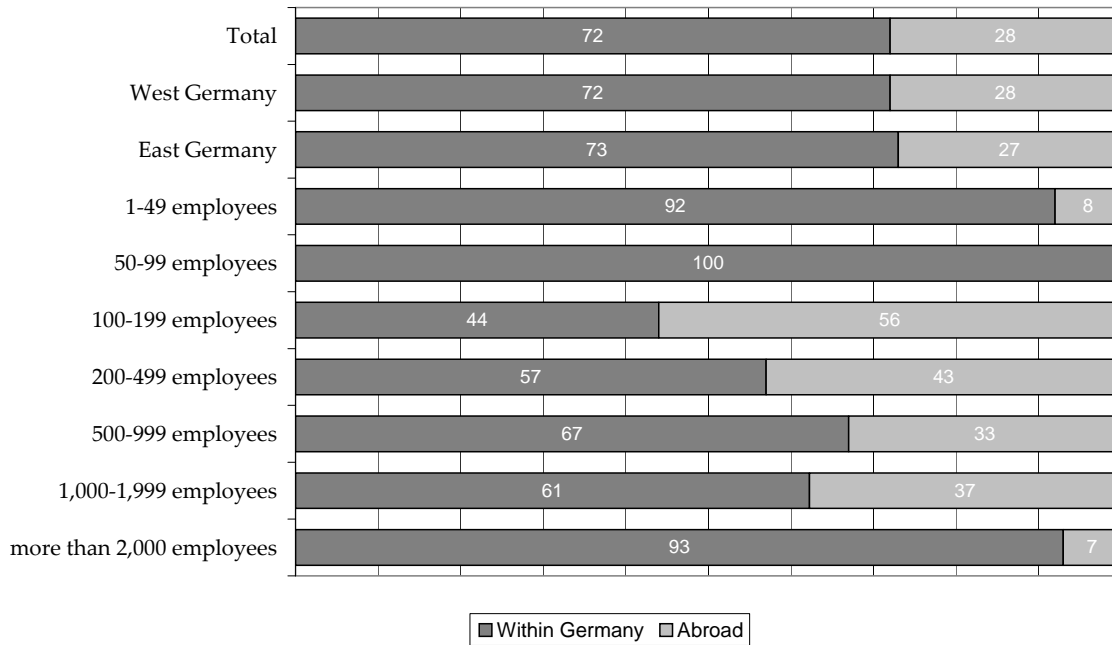
Source: WSI Works Council Survey, 2004/2005

The company size comparison makes clear that the trend to relocate abroad does not necessarily increase with company size, as stated above. In fact, medium-sized business, with between 100 and 199 employees, tend to be drawn abroad (see figure 6).

In terms of relocated company areas, there are considerable differences between relocations abroad and those within Germany. International relocations seem to be favoured for inexpensive production (see Figure 7), given that 86% of all international changes of location involve production.

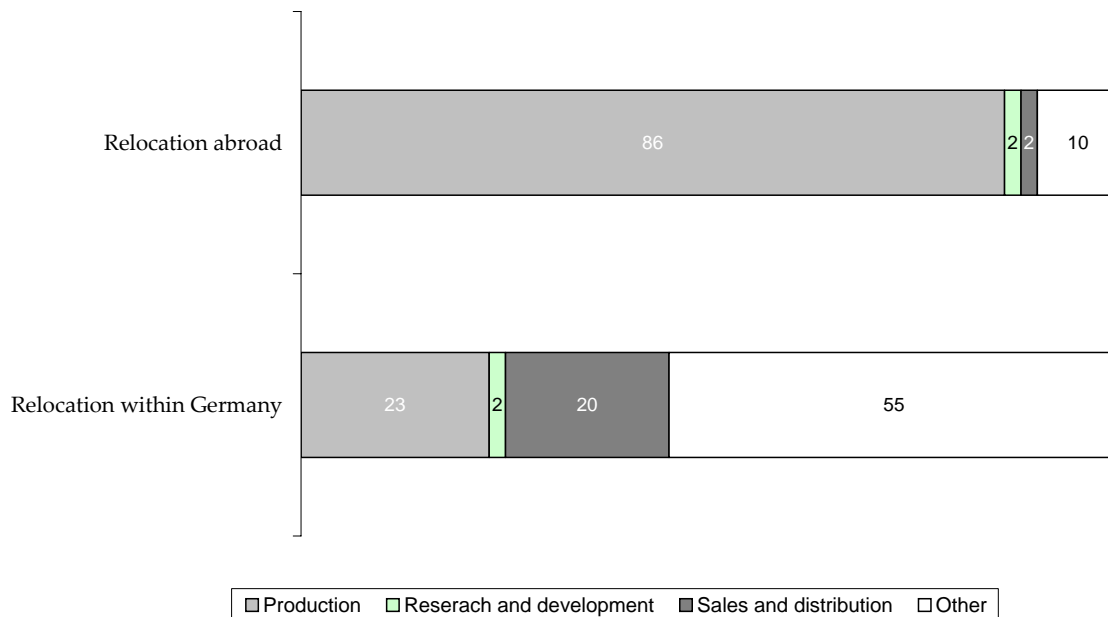
However, relocation is not always the right decision—or a lasting one. Thus 7% of surveyed companies holding talks on relocation have reversed an already implemented relocation. However, in general such a return to the original location tends to take place if the original relocation had occurred within Germany.

Figure 6:  
**Relocation – where?** Works Council responses, in %



Source: WSI Works Council Survey, 2004/2005

Figure 7:  
**Relocated Company Areas**, Works Council responses, in %



Source: WSI Works Council Survey, 2004/2005

Having outlined the most important survey findings on the extent of relocation, and before outlining the consequences of the relocation debate for companies, here is a brief summary of the main points:

- There are major differences with regard to the extent of envisaged (threatened) and actually effected relocations.
- In manufacturing industry—particularly in investment and durable goods companies—the extent of relocation talks, and implemented relocations, is higher than average.
- Most relocation takes place within Germany. Twenty-eight percent of the companies that relocated between 2003 and 2005 went abroad.
- The economic position of those companies that have held relocation talks has shown itself to be extremely stable, so that the WSI's empirical findings on relocation presented here provide a differentiated view.

### **2.3 Company relocation and the ramifications for employment and working conditions in the company**

Company changes of location tend to go hand-in-hand with consequences for their employees. The precise consequences depend on the reasons for which a company has changed location. Fewer drastic ramifications are likely in those companies that relocate to develop new markets because, in such cases, the prime concern is a question of finding new markets—and in an ideal scenario, the consequence of that might be a stabilisation of both the company and the location. If relocation is implemented for reasons of cost, it is feasible to assume serious cutbacks in employment and working conditions, since the main aim is to cut costs in the home location. Talks on relocation conducted with a view to cutting costs primarily serve to exert pressure on employees. The company's threat potential is, above all, that of cutting jobs. Employees tend to react to such pressure by agreeing to concessions in terms of working time and pay.

Company relocation can therefore have both positive as well as negative consequences for employees, an ambivalence confirmed by the WSI Survey. Indeed, in most of the companies with threatened or implemented relocation, employment has been both increased and cut back. This is illustrated by works council responses to the question on employment trends in the period 2003-2005 (see Figure 8). Sixty-one percent of the works councils concerned indicate a fall in employment in their companies during relocation talks (in comparison: during the same period, employee numbers fell in 49% of those businesses that conducted no relocation talks).

This implies that relocation talks—regardless of whether these are then transformed into relocation or not—often go hand in hand with employment cutbacks within the firm. Of those companies that implemented a change of location, 68% cut employment.

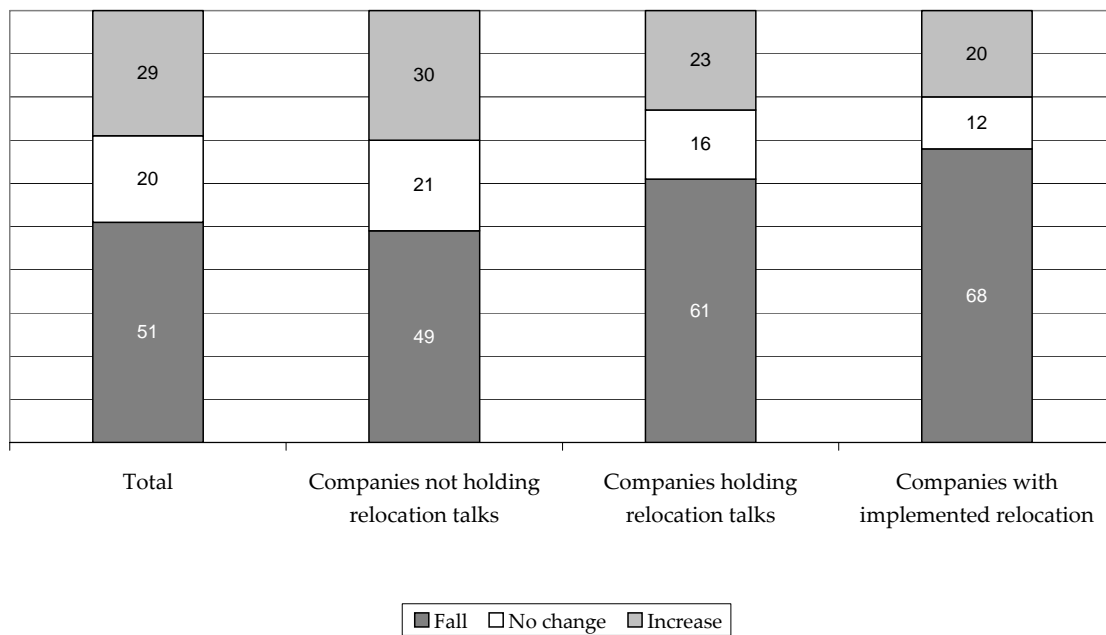


According to a study by the European Foundation for the Improvement of Living and Working Conditions (2006) employees with lower qualifications tend to be most affected by job cuts resulting from relocation. Since the business areas that are relocated tend to be people-intensive, competition for remaining jobs is intense. As a result, in light of relocation, jobs previously considered safe may become increasingly precarious and unsafe. And this could intensify pressure on working conditions.

Figure 8:

**Employment trends in company talks on relocation—A Comparison**

Works council responses, in %



Source: WSI Works Council Survey, 2004/2005

In a sectoral comparison, the fall in employment—in instances where discussions on relocation were conducted—is not uniform. Developments in companies in the raw materials and manufacturing industries (37.5%) and trade (45.3%) are comparatively positive. A stronger fall in employment is evident in businesses in the transport and communications sector (67.7%) as well as in banking and insurance (69.2%).

On the whole, jobs were cut in 68% of companies that did relocate. This ratio is more or less applicable across all economic sectors—sector-specific subtleties are not discussed here given the low number of those surveyed.

As already mentioned, 28% of companies that changed location moved abroad. In most companies, this relocation went hand in hand with a reduction in employment (71.2%). Thus, these companies demonstrate a more frequent fall in employment (see Table 1).

Overall, the data shows that, in most cases, relocation (both threatened and effected) goes hand in hand with job cuts. The quantitative extent of such job losses remains unclear, however, since the WSI Survey does not provide information on redundancies and employment.

Table 1:

**How has employment developed since the beginning of 2003?**

(Works Council responses, in %)

	Total (all companies with effected relocation)	Relocation within Germany	Relocation abroad
Employment has risen	19.5	23.1	10.3
No change	12.4	10.1	18.5
Employment has fallen	67.9	66.6	71.2

Source: WSI Works Council Survey, 2004/2005

Not only does a company's change of location lead to job losses, it may also influence working conditions within the company. The WSI Survey findings clearly indicate that employees' working conditions have deteriorated both in many companies that have carried out relocation as well as in those that have threatened to do so (see Table 2): in almost 47.8% of all businesses that held talks on relocation, working conditions deteriorated during the course of the "negotiations". In cases where the relocation did then take place, working conditions deteriorated in 48.9% of all businesses—and in those cases in which, ultimately, relocation either did not occur, or had not (yet) been implemented at the time of the survey, this figure stood at 46.4%. In a sectoral comparison, the works councils in consumer goods, transport and communication companies indicated a higher-than-average deterioration of working conditions. This implies that the threat of relocation has almost the same effect on working conditions as the actual relocation itself.

Working conditions deteriorate primarily in terms of working time and pay (see Table 3). Thus 20.5% of all works councils who, in the course of relocation talks, had to accept worsening working conditions for their employees, report cuts in wages and salaries, while 17% report extended working time. If one breaks this down by firms that have relocated and those that have not yet done so, it becomes evident that employers have even pushed through wage cuts and extended working time in cases where relocation was "merely" threatened. This implies that, ultimately, implemented relocation worsened working conditions less frequently than the mere threat of one.

In terms of cuts in salaries and wages, this primarily concerns cuts in allowances and supplementary pay (e.g., premiums, bonus payments (= 44%); allowances (=37%), etc. In

29% of affected businesses, however, cuts have also been made in regular salaries and wages. With regard to working time, most of the works councils (46% in West Germany, 59% in East Germany) noted an extension of weekly company working time by two hours.

Table 2:

**Have working conditions deteriorated?**

Works council responses, in %<sup>4</sup>

	Share of all works councils surveyed	Yes	No
Share of companies <b>whose works councils were involved with the issue of relocation...</b>	16.2	47.8	41.4
...of this, the share of companies that have not relocated...	42.5	46.4	43.5
...the share of companies <b>that have relocated...</b>	57.5 = (100%)	48.9	39.9
▪ <i>Of this, the share of companies that relocated <b>domestically...</b></i>	72.1	52.9	31.6
▪ <i>...and the share of companies that relocated <b>abroad.</b></i>	27.8 = (100%)	38.5	61.5

Source: WSI Works Council Survey, 2004/2005

Table 3:

**The deterioration of working conditions—salaries, wages and working time—in the case of threatened and/or effected relocation:**

(Works council responses, in %)

		...of which: salary and wage concessions	...of which: extension of company's working time
Total	47.8%	20.5%	17.0%
... of which: <b>relocation of parts of company has taken place</b>	58,7%	15.0%	6.9%
... of which: <b>relocation of parts of company has not taken place</b>	41,3%	28.5%	31.4%

Source: WSI Works Council Survey, 2004/2005

It is possible to surmise that, in these companies, more company-level agreements to secure employment would have been agreed or that opt-out clauses in the collective

<sup>4</sup> Where percentages do not add up to 100, the differential can be explained by "No Answer" or "Don't know" answers in the questionnaire.

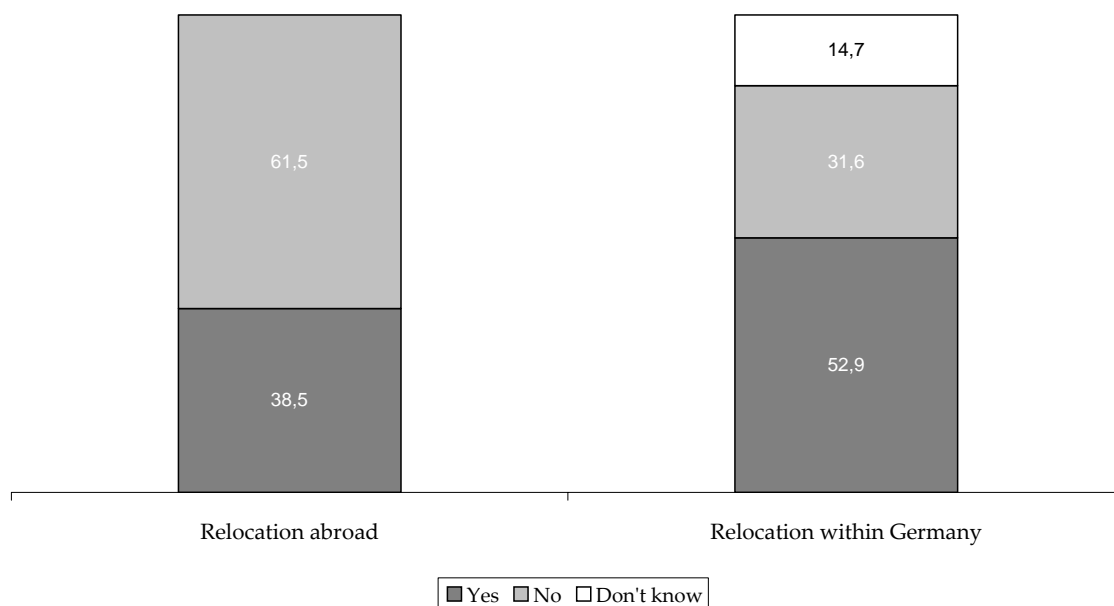
wage agreement were applied. This would mean that, with the agreement of employers and works councils, possible concessions with regard to employee working conditions (wages, working time) would have been agreed, in return for which the employer would provide a location or employment guarantee. In fact, about 35% of all companies affected by relocation talks did conclude agreements on securing employment. This proportion therefore exceeds—by 10 percentage point—the average proportion of all companies with such agreements (approximately 25%).

As has already been mentioned, most of the effected relocations took place within Germany. It would be possible to speculate that pressure would most likely be exerted on working conditions in the case of companies wanting to move to a cheaper country abroad. However, the findings of the WSI Survey show a different scenario. Working conditions have worsened in over half of the companies that have relocated within Germany (see Table 2 above and Figure 9), whereas this was the case in only 38.5% of all companies relocating abroad. This finding could indicate that a large proportion of foreign company relocation is intended to tap new markets. It is also possible to assume, however, that German working standards are not compromised if, for example, the company merely transfers production abroad but continues to manage other parts of the company unchanged.

Figure 9:

**Has the actual or threatened change of location led to a deterioration in working conditions?**

(Works council responses, in %)



Source: WSI Works Council Survey, 2004/2005

Therefore, contrary to assumptions, it is not so much the relocation abroad that leads to deteriorating working conditions in Germany, but, rather, changes of location within Germany (52.9%).

When businesses outsource, relocate parts of the company and focus on their core business in Germany, this has an effect on many parts of the company. Within the scope of this report, we have so far focused on company changes that affect the employment situation and the deterioration in working conditions. A further important aspect is the change in employer-employee relationships. This will be discussed below, as will the question of whether industrial relations change in companies threatened with relocation.

It is assumed that the (company) pressure behind relocation will have an effect on the work of works councils as well as on the relationships between employers and company works council representatives. Company talks on possible relocation are often highly charged given the insecure future for the company and its employees. Employees often criticise management for its lack of loyalty and “betrayal” of its employees when talks centre around relocating certain parts of a business to optimise costs and make permanent employees redundant in the process. In such situations, works councils are between a rock and a hard place, having to mediate between employers and employees and try to safeguard employment in the company to the best of their abilities.

The subject areas with which works councils are confronted in company relocation talks, or after relocation has taken place, are illustrated in Table 4, this groups all companies conducting relocation talks and those that have conducted relocation. The table highlights substantial differences in many areas. Although works council work tends to focus on safeguarding jobs in general, this aspect of their work intensifies dramatically as soon as relocation talks are underway – all issues concerning staff cuts in a company rising by about 20 percent. Work in related areas to make such job cuts as acceptable as possible, e.g., part-time work for older people or redundancy programmes, also increases.

It has already been mentioned that works councils report pressure with regard to working time. However, this goes hand in hand with the issue of overtime and extension of working time, which requires employees often also work on Saturdays, Sundays and public holidays. Another aspect of works councils’ work is a focus on fundamentally new forms of working time, as well as the increase in agreements on objectives. However, change is evident not only with regard to working time but also salaries and wages. Here, the areas of works council activity gaining in significance indicate that starting salaries for newly employed persons are lowered, social benefits are cut and that employers exert pressure on remuneration below the agreed rate. The specific pressure on working conditions (working time, salaries and wages) worsens the company climate or noticeably hardens the employer position in dealings with works councils. While 38.5% of the works councils surveyed say that their relationship with

Table 4:

**Areas of Works Council activity in companies engaged in relocation talks or involved in relocation – A comparison, in %**

Company-specific problem areas	Total, in %	Companies conducting relocation talks	Companies that have conducted relocation
Employment Security	58.8	65.1	65.7
Partial retirement	53.4	67.1	64.1
Redundancies	52.7	72.3	78.5
Protection against dismissal	46.4	48.3	43.6
Redundancy plan	37.2	56.7	70.4
Outsourcing of parts of company	29.9	53.4	66.3
Closure of parts of company	23.0	36.3	49.2
Fusion with other companies	13.5	33.0	34.0
Occupational health & safety, workplace health promotion	73.9	84.8	83.5
Further training/vocational training	66.4	73.1	65.6
Change in work organisation	57.2	65.8	67.4
Agreements on objectives	55.9	60.7	67.3
New forms of work	46.1	53.1	50.6
Introduction of new techniques	43.9	55.9	52.7
Retirement benefits/"Riester" pension	61.9	72.5	73.3
Increased overtime	52.2	56.7	59.7
Deterioration of company climate	52.1	56.4	55.1
Hardening of employer position towards works council	38.5	44.5	49.7
Lack of support for works council from workforce	26.1	21.1	16.7
Increased Saturday working	22.7	31.6	25.1
Restrictions on benefits	22.0	29.5	28.2
Low entry-level wages for new employees	20.5	25.8	24.2
Withdrawal of employer from employer association, or change of association	17.2	17.2	18.8
Restrictions on education & training	16.9	22.2	22.6
Increased Sunday/public holiday working	16.2	18.8	17.1
Employer pressure for below-tariff wages	13.6	18.1	13.5

Source: WSI Works Council Survey, 2004/2005

the employer has become tougher, among works councils who have been involved in relocation talks, this figure rises to 44.5% and, in the case of companies where a change of location has already taken place, to almost half—49.7%. At the same time, however, the figures also indicate that works councils are receiving better support from the workforce.

The overall impression is that companies' works council representation is highly challenged by the pressure that relocation talks exert on job numbers and working conditions. Works councils accompany turbulent restructuring processes, have to salvage labour standards and, at the same time, are often confronted with a hardened employer position.

## **2.4 The Significance of the Survey Findings—The Scope for Generalisation**

These survey findings are the very first nationally representative company data on the subject of company relocation from an employee perspective. Across all economic sectors, the WSI surveyed more than 2,000 works councils in West and East Germany on their actual experience with relocation talks in their enterprises. The consequences for both employment and working conditions in companies have been collected and evaluated based on these responses.

The findings can be summarised as follows: Of the more than 2,000 surveyed companies, about 16% conducted relocation talks, with only 9% actually implementing a change of location. Most companies did not relocate abroad but within Germany. Across economic sectors, the extent of company-level talks on relocation has been found to be very diverse. While approximately one in three companies in the investment and consumer goods industries—as well as in banking and insurance—contemplates relocation, this is much less pronounced in other economic sectors. As such, the WSI data shows a significantly low level of relocation talks and activity in German companies, thereby contradicting the image conveyed in the media and a number of previous studies. Nevertheless, in the context of relocation, the WSI confirms the frequently analysed high relocation ratio in investment and durable goods industries. While this indicates that “relocation” is high on the agenda in some sectors, it does not imply that other sectors will not also be affected by changes of location in the future.

There is a marked discrepancy across all sectors between threatened and effected relocation. This means that while a change of location is contemplated and discussed in many companies, actual relocation has been effected in only some of these companies. The by far largest proportion of businesses holding relocation talks are economically secure and well-placed. And in those instances in which companies did relocate, this primarily concerned production—particularly in industrial sectors. Moreover, production operations are also the principal parts of a company to have been relocated abroad.

The debate on relocation shows some very evident consequences for employment levels and working conditions in companies. Most of the firms considering relocation have seen a fall in employment over time, regardless of whether relocation was implemented or merely threatened. In fact, company relocation talks seem to have a great impact on working conditions in German companies; findings indicate that it is here that the threat (!) of relocation is felt most acutely. While 48.9% of all companies that have relocated report a deterioration of working conditions, so do another 46.4% of companies who do not ultimately relocate. In addition, it is not so much relocation abroad that triggers worsening working conditions at home; rather, domestic relocations, such as outsourcing sales and marketing functions, can have a negative effect on employment standards.

Overall, the works councils' responses make clear that, in many respects, negotiations on relocation have an "extortionary" effect. Most employees in these enterprises feel highly pressured—for them, it is more than a matter of keeping their job; it is also one of maintaining their existence. The WSI findings further show that works councils also work very hard to safeguard jobs as much as possible as soon as there is the slightest doubt about the firm's location.

### **3. The Political Framework**

Economic structural change is not a recent phenomenon; shifts in national economic structures (sectors, regions, company sizes) are part and parcel of a market economy, and companies' changes of location are an expression of this market process. The direction and speed of economic structural change in no way follow rigid rules but, rather, are influenced by economic and social policy conditions. With the help of structural policy instruments, the state can intervene in this structural change and help to structure the social aspects that accompany economic developments. Current mainstream thinking in economic policy and scientific research is ruled by the belief that free market forces will ultimately align economic and social trends in a national economy. As such, structural policy, as a component of economic policy, should be restricted to creating favourable framework conditions. Nevertheless, current economic policy thinking does also recognise that there are situations in which additional government activity is economically necessary and useful. Cushioning the effects of company relocation now forms part of this.

#### **3.1 What have been the policy reactions?**

As the German examples of AEG and Continental show, company relocation is currently debated against the backdrop of specific cases. This is due to the fact that no set of comprehensive statistics is available—neither in Germany nor at the European level—to provide a detailed overview of the extent of company relocation and its effects on regions, sectors and employees. Although no one can be precise about the extent of



company relocations in Europe, policy makers have come under pressure as a result of such spectacular relocations as in the case of AEG and Continental. Under the guidance of the European Commission, a number of different steps have been introduced, in recent months in particular, to intercept the asymmetry between globalisation's winners and losers—particularly in connection with the negative effects of company relocation. This includes the following strategies and financial instruments:

- *Financial obligations in the case of state subsidies*

A five-year time period imposed on companies receiving subsidies was in place already prior to growing public criticism of unfair subsidy competition within the EU. This means that companies receiving EU funding must maintain agreed job numbers and not relocate any part of the company within a period of five years from the time at which funding is approved. This period is monitored by specially appointed organisations—in Germany, this is the development agency, which operates in the federal states. Approved funds must be repaid if the five-year time period is not upheld. In recent years, during negotiations on re-conceptualising the EU's competition policy, the European Parliament called for this period to be raised to seven years. The European Council of Ministers did not follow up this recommendation.

- *Exclusion from EU funding in the case of company relocation*

At Germany's initiative, the European Council of Ministers decided on 5 May 2006 that company relocations may no longer be funded with EU funds from 2007 onwards. The European Commission must ensure that financial support, particularly from the European Structural Funds, is not used for relocation investment. Companies are only eligible for state subsidies if additional jobs are created in those countries.

- *The European Commission's Transparency Initiative*

In addition to the concrete measures outlined above against unfair subsidy competition between the new and the old member states, the European Commission has launched a proposal for a transparency directive (European Commission, 2006). Under this, the Commission would, from 2007, list the names of companies who receive funding from the EU's structural and agricultural support funds and the individual member states, who generally co-finance EU support, as well as the amount of funding they receive. The intention is to make this information available to all citizens via publication on the EU website. This directive would make company subsidies more transparent, render misuse of funds more difficult, and expose support for dumping companies. The consultation procedure ended in August 2006, with Germany, Spain and Ireland rejecting the European Commission's proposal to publicise individual beneficiaries' names and amounts of funding received. For the time being, the European Commission will publish the names of those who have received EU funds directly from Brussels on its website. Given the Bundesrat's rejection of the transparency initiative last summer, Germany will not follow the European Commission's example in the near future.

- ***The European Globalisation Adjustment Fund***

In December 2005, at their European Council meeting, the European heads of state and government agreed to establish a European Globalisation Adjustment Fund (EAGF) to provide additional support for employees who have lost their jobs in the wake of large-scale worldwide structural change, by supporting re-training and the search for new employment. Funding is subject to strict criteria in terms of the extent of economic relocation and its effects on the national economies at local, regional and national levels. From 2007, the EAGF will initially provide 500 million euros per year to assist almost 50,000 employees. Member states can apply to the Fund if they can prove that job losses are due to production being relocated to third countries.

### **3.2 An evaluation of the introduced measures**

This brief overview shows that the European Commission has not implemented far-reaching measures to

- 1) contain unfair tax and subsidy competition.
  - (a) There is political consensus that state subsidies, regardless of whether they originate from the EU member states or from the European Commission, may not be used to create employment for which jobs are lost elsewhere in the Union, since relocating jobs only to benefit from the different conditions of EU subsidy advantages, is counterproductive and has been partly excluded by banning subsidies in company relocations. However, it is extremely difficult to identify which (part-) closures are connected with a move to a different location—and a complete disclosure of all subsidy procedures this is almost impossible to discern. The measures adopted by the European Commission do not make clear who controls these procedures and implements sanctions—and when. After all, location policy forms part of the standard repertoire of any form of economic support. Company settlements, regardless of whether they cost jobs in another place, are considered a success of one's own work.

We think that it is worth considering whether works councils and their unions could not also be involved in the monitoring process. In this case, a procedure would need to be developed that commits

- every European company to inform their works councils or employee representatives about intended subsidies at all of its locations,
  - those issuing subsidies to consult employee representatives—through the unions—before approving subsidies.
- (b) Individual member states react to tax competition between old and new member states by lowering taxes. They will not be able to maintain the pressure to cut taxes in the long term, however, since this leads to governments earning less, which means that, ultimately, they will lack the means to provide companies

with public services they require (such as infrastructure, education and training, etc.). A unified European tax policy would therefore be required; however, concrete steps towards harmonising taxes in Europe have thus far failed due to a lack of will in the individual member states (Schratzstaller, 2004).

2) Soften the consequences for affected employees

If companies reposition themselves at the European or international level as a result of new competitive conditions, relocate production and businesses, and cut jobs, this is partly due to a dominance of new company strategies (including shareholder value, decentralisation, network formation) and/or an insufficient regional and social management of structural shifts. For many years, the European Commission has used the European Structural Funds to assist with regional and employment policy organisation. Together with the structural policy financial instruments of the German government and the individual federal states, these directly target people's working and living conditions and aim to develop employment prospects. The European Structural Funds, and in particular the European Social Fund (ESF), aim to minimise employment policy shifts for employees as much as possible. Against this backdrop it is feasible to ask what the European Commission aims to achieve with its new Globalisation Fund, established alongside the Structural Funds. The ESF already covers the planned measures: the new ESF regulation specifically targets support to help overcome the consequences of company and sectoral shifts on employees in connection with a shift in jobs (Official Journal of the European Union, 2006). Furthermore, the new fund is not financially secure, since it is to be funded with Structural Fund support that has not been allocated. As yet, it is not possible to say whether the anticipated amount of funding for this will actually flow back from the member states to the European Commission. If the funds do not revert to the Commission, question will soon be asked as to which financial source will feed the new Globalisation Fund.

In March 2006, in addition to these EU-level measures, IG Metall called for a "relocation charge" to be levied and paid by companies for the societal consequences and costs arising from company relocation. In the view of IG Metall (IG Metall, 2006: 1), a relocation or compensation charge should

- Ensure that companies share in the societal costs of relocation and compensate the "relocation losers"
- not be added towards the redundancy plan and interest compensation services, but should above all be made available to inter-company job and employment support measures,
- be combined with local, regional and labour market policy support measures and be implemented to create new employment and qualifications, as well as co-finance inter-company job creation companies and regional development concepts, and

- be geared to the societal costs of unemployment and those for job creation companies.”

IG Metall is aware that a relocation charge will not solve the pressures on employees when relocation plans are announced. For such cases, IG Metall<sup>5</sup> encourages its employee representatives to demand a full breakdown of costs from the company, including hidden costs (such as risk allowances, redundancy plans, currency securities, quality security measures, etc.). Quite often, such calculations show that a relocation or outsourcing is not viable for the company concerned.

#### 4. The Relocation Debate—Conclusions

In terms of a scientific evaluation of business relocation, there are diverging opinions. As the WSI Works Council Survey shows, there is, on the one hand, tremendous pressure on employees to accept cuts in working conditions, working time and salaries and wages—as well as to live with the uncertainty that, in difficult times of employment, their jobs, cut due of relocation, cannot be replaced quickly and adequately at home. On the other hand, macro-economic analyses (e.g., SVR, 2004) show that, in recent years, German firms in particular have been able to improve their competitiveness. This is reflected not only in rising exports, but also in increasing export-oriented added value and, consequently, in securing domestic jobs—and all of this despite Germany’s apparently less-than-optimal location conditions when considered in an international comparison.

In the public view, the issue of company relocation is reduced to one of cost, i.e., companies abandon their location partly or completely because they can produce more cost-effectively elsewhere, and they are always on the look-out for “cheaper” production locations distinguished, in particular, by low labour costs. A high-wage country like Germany should—if companies take a location decision on this premise alone—lose out in the long run. Seemingly, German companies do not leave Germany for cost reasons alone: as German and international studies show, it is just as important—sometimes even more so—to develop new markets through their foreign activity.

Given all of these different facets of the relocation debate, it is important to stress that no two relocations are the same. Each specific case must be evaluated differently, in light of its effect on the country or origin and target country<sup>6</sup>, depending on the actual way in which it has been designed and carried out. Defensive company strategies that focus on wage cuts and/or increases in working time or intensity need to be evaluated more negatively than innovative company strategies that pursue a sustainable development

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<sup>5</sup> <http://dialog.igmetall.de/Ansicht.73+M57f4360fa68.0.html>

<sup>6</sup> This study has excluded effects on target countries. In the case of target countries, the relocations provide an important contribution to sustainable regional development.

perspectives and future opportunity with regard to labour organisation, working time and employee involvement.

The WSI Works Council Survey 2004/2005 represents the first data collection and analysis of the employee perspective with regard to assessment and experience on relocation. The Survey findings made clear that, in Germany, the threat of relocation is more widespread than actual relocation. But even threatened relocation creates immense pressure on local/domestic working conditions within companies, which places added pressure on works councils. Not only are they responsible for safeguarding jobs within the company—which they do with ardour—but they must also weigh up whether management may be using the threat of relocation to lower labour standards or whether there really the company location really is under threat.

The previous explanations about policy responses make it clear that far-reaching action at either national or European level is not likely in the foreseeable future, although, from an employment policy perspective, action at this level needs to be undertaken to allow at-risk jobs to be identified early on and to be able to make the most of employment opportunities. Policy action in the sense of harmonious and balanced economic development in Europe, which benefits the highest possible number of people, is still some way off.

This makes it all the more important for employees to actively participate in the company relocation process. Works councils and unions are challenged in a three-pronged chronological respect:

1. Since economic internationalisation is set to continue, they will, in the future, be challenged—even before company-level relocation talks commence—to develop counter-strategies to emphasize that there are alternatives to cutting costs by extended working time, axing employee rights or doing away with collective agreements, all of which would not be the right way forward. A company's ability to look and work towards the future requires investment in research and development, qualifications, new products and new production processes. Trade union projects such as IG Metall's "Besser-statt-billiger" initiative (i.e., "better-instead-of-cheaper"; see also: [www.besser-statt-billiger.de](http://www.besser-statt-billiger.de)) highlight that such strategies are promising.
2. Should relocation nevertheless become an issue, works council action is required. On the one hand, works councils should evaluate both the potential locations and the home location and, using these findings, actively participate in the company's decision-making process. Standardised evaluation methods are now available for such purposes (Kinkel/Zanker, 2007). This is the only way to ensure that the German location is also considered in this decision-making process, a vital factor since—as

pertinent studies have shown (ibid.)—the German location is often excluded in internal pre-decision-making on alternative locations.

3. Even if relocation does take place, this does not necessarily mean that there may not be other further internal company changes that will affect employees. For example, integrating the new location into the company's overall activities, new transport, production and communications patterns will have ramifications for the old location. Even after a company's relocation, works councils will still be confronted with internal change processes that they must see through.

Foreign relocation is not a temporary phenomenon, but one that has acquired a firm place in economic structural change and is an expression of the increasing internationalisation of economic relationships. In Germany, important industrial sectors which continue to support Germany as an economic location, are particularly affected by this trend. Research in this area suggests that business relocation will, in the future, encompass additional company areas, sectors and/or companies. Trade unions and works councils must therefore prepare for this development and develop appropriate strategic responses to it.

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