

Transnational Firms and their Corporate Labor Policy
Case Studies on Philips and ING in the Netherlands and the United States, 1980–2010

Transnationale ondernemingen en hun arbeidsbeleid
Case studies over Philips en ING in Nederland en de Verenigde Staten, 1980–2010

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their corporate labor policy**

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Sander Quak

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In early March 2006, I received a text message from my parents on my return from a two-day camel trip in the Rajasthan desert, India. I was invited to an interview for a PhD position and they asked me whether I would be back in time. Even though this was the case, returning from a four-month stay in India meant that I had to readjust to life at home and did not have time to properly prepare myself for the interview. Unsurprisingly, the interview did not go well; I had not convinced the entire application committee. Fortunately, though, I was invited to a second interview with two of its members. I thoroughly prepared myself and one month later I started the research that resulted in this dissertation. As at the start of this project, in the years following I have been fortunate enough to receive help and support from various people without whom I would not have been able to complete this project and whom I would like to thank sincerely.

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Rotterdam, April 2012

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Part I

A sociological approach to transnational firms

Chapter 1: Introduction

Economic activity across national borders increased dramatically between 1980s and the beginning of the twenty-first century. Financial, product, and service markets transnationalized, and companies¹ expanded their operations abroad through acquisitions, mergers, and autonomous growth. They increased their sales and profits and became better equipped to compete in the transnational marketplace (Harzing, 2004; Morgan, 2005; Scharpf, 1999; Sluyterman, 2003; Streeck, 2001). During this period, foreign direct investment increased twelvefold, while the number of firms operating across national borders increased eightfold² (Cooke, 2007; Gabel and Bruner, 2003). Nowadays, many companies no longer realize their revenues and profits in a single country; instead, the sources of their revenues and profits have become dispersed across the globe. Also, these transnational corporations have significant numbers of employees in multiple countries; their work force has become dispersed as well. Finally, a significant number of these firms have experienced the internationalization of top management and shareholders.

Together, these developments have resulted in *a decreasing national and an increasing transnational dependence of transnational corporations*. Transnational corporations' dependence on individual countries and their national markets has diminished. At the same time, their dependence on the transnational marketplace has increased. As a result, the relationships – and with that the balance of power – between the various actors and institutional arrangements within these national and transnational environments have changed. More precisely, transnational corporations have experienced a decreasing dependence on the actors and institutional arrangements in individual nations, including labor markets, labor legislation, (collective) labor agreements, national governments, social security systems, industrial relations systems, employee relations systems, and employees' representatives, the trade unions. And the significance of, and with that transnational corporations' dependence on, trans- and supranational organizations and institutions, such as transnational financial, product, and service

¹ In this study, the term 'companies' is used interchangeably with the terms 'firms' and 'corporations.'

² At the beginning of the 1970s, around 7,000 companies operated across national borders. This number had grown to around 30,000 at the beginning of the 1990s and around 63,000 at the beginning of the 2000s.

markets and various inter- and supranational organizations, have increased.³ In this study, I pose the question as to what the consequences of these changing national and transnational dependencies have been for one aspect of the transnational firm that still has a clear national character: labor.

Firms develop, implement, and execute their corporate labor policy, but under specific conditions. In most Western countries, labor is regulated through a wide variety of institutional arrangements. Consequently, labor cannot be independently organized by transnational firms in line with their other corporate policies, as some of the management literature prescribes (e.g. Chandler, 1962, 1977). Because institutional arrangements concerning labor differ across countries, transnational firms are forced to adapt their labor policies to the conditions in the various countries in which they operate (Rubery and Grimshaw, 2003; Sorge, 2004). This research on the consequences of transnational companies' changing national and transnational dependencies is, therefore, of interest not only for the study of these firms' corporate labor policy, but also for the study of transnational firms and the organization of labor within Western capitalist societies in general.

On the basis of these first observations, I formulate the following preliminary central question: *what have been the consequences of the changing national and transnational dependencies of transnational firms since 1980 for their corporate labor policy, given that the institutional arrangements concerning labor differ across countries, and how can these consequences be explained?*

Before providing a somewhat more detailed introduction to the restructuring of Western capitalist economies and its consequences for labor, I first briefly explain two of this study's central concepts as well as the chosen time period.

Since the 1980s, the management of the employment relationship or the work force is increasingly referred to as human resource management (HRM). HRM focuses on aligning the corporate labor policy with the general corporate strategies of the

³ Naturally, the type of organization will determine which national, international, and/or supranational organizations and institutional arrangements are of importance. In other words, different transnational corporations are dependent on different national, international, and/or supranational organizations and institutional arrangements.

company, promising a win-win situation for the organization and its employees (Legge, 1995). Because, as I would argue, this is a rather normative description of employee management, I use the more neutral term corporate labor policy. What exactly this term entails will be clarified in the next chapter (see section 2.5).

In this study, I use the term ‘transnational’ instead of more common terms such as ‘multinational’ or ‘global’ to refer to organizations and processes that are organized or take place above the national level. I do so, because, in line with Hannerz (1996), I argue that this is a more accurate term to refer to these types of processes. In Chapter 2, I elaborate on this choice (see section 2.3).

As stated in the preliminary central question, this study focuses on the period from 1980 to the late 2000s. I chose 1980 as a starting point because the 1970s can be seen as an economic and political turning point in the development of many Western countries (Fligstein, 2001a; Harvey, 2005; Veen, 1999; Wilterdink, 1993; Zanden, 1997). In response to the economic crises of the 1970s, Western governments started a process of deregulation and privatization. They started dismantling restrictions on international trade, many state-owned companies were privatized, and labor, product, service, and financial markets experienced a process of deregulation. These developments constituted a fundamental change in the economic and political agenda of most Western countries and have been referred to as a change from organized capitalism to disorganized capitalism (Lash and Urry, 1987) or from embedded liberalism (Ruggie, 1982) to neoliberalism (Harvey, 2005), or even a strive for a neoliberal utopia (Achterhuis, 2010). Instead of national governments controlling economic activities and restricting economic activities across national borders, they deregulated their economies and started to actively stimulate the cross-border flow of products, capital, services, and labor. Companies grew in size, national markets started to integrate to form a global market, and, as a result, became “less regulated by nationally based corporations” (Lash and Urry, 1987: 5). The number of cartels declined, and national bargaining procedures were slowly being replaced by sector- and company-level bargaining. This was accompanied by an increase of the number of white-collar workers, the decline of the working class, and a “shift from Taylorist to ‘flexible’ forms of work organization” (Lash and Urry, 1987: 5).⁴

⁴ See sections 1.1, 1.2, 2.3, and 2.5 for a more elaborate discussion of these developments.

1.1 The restructuring of Western capitalist economies...

The development of the economic system has not been simply one of increasing openness. Rather, periods of extensive trade and economic activities across national borders have been followed by periods of economic restrictions and, as a result, economic activities being largely contained within specific geographical locations. Over the course of the past five centuries, economic trade and activities across national borders have experienced various cycles of expansion and decline (Wallerstein, 1983).

The twentieth century was characterized by at least two significant shifts. With the rise of large firms in the second half of the nineteenth century, economic trade and economic activities expanded across national borders, and economies around the globe became more integrated. At the beginning of the twentieth century, this process reached a highpoint, but it came to a halt with the outbreak of the First World War, the communist revolution in 1917, the stock market crash of 1929, and the following deep economic crisis of the 1930s. The laissez-faire capitalism of the nineteenth century was seen in many countries as one of the fundamental causes of the economic depression of the 1930s and the resulting human suffering. In response, national governments resorted to extensive restrictive measures to protect their population, their firms, and their home markets (Polanyi, 2001; Zanden, 1997).

These policies remained in place for several decades and helped many countries to rebuild their economies. The first three decades after the Second World War were economically prosperous for most Western countries. Their economies grew rapidly and the standard of living increased dramatically. During these years, a relatively large number of economic activities took place within national borders, especially compared to the period of laissez-faire capitalism at the end of the nineteenth century; the “integration of the capitalist world economy had reached a low point following the rampant protectionism of the 1930s and the Second World War while domestic economies were expanding rapidly” (Scharpf and Schmidt, 2000a: 1). By introducing trade barriers and controlling capital exchange and exchange rates, national governments were able to protect their firms from international competition. We cannot speak of closed national economies operating independently of the developments in their economic environment,

but “national states were (...) able to control their own economic boundaries and the conditions under which transnational economic transactions would take place” (Scharpf, 1999: 2). During these three decades, economic actors were largely dependent on other economic actors within the same national borders. Economic relationships or networks of economic dependencies were, to a large extent, constrained by national borders. This period can be characterized as a period of organized capitalism or embedded liberalism.

The second dramatic shift in the organization of Western capitalist economies was provoked by the economic crises of the 1970s. The end of the Bretton-Woods agreement,⁵ two oil crises, and increasing competition from Asian – primarily Japanese – companies shook the foundations of many Western economies (Bourdieu, 2005; Scharpf and Schmidt, 2000a, 2000b; Streeck, 2001). Economic development came to a halt, while inflation reached the highest levels in decades, and unemployment rose dramatically.⁶ Faced with these severe economic problems, national governments were forced to rethink their economic and social policies. In the following decades, driven by a neoliberal ideology and facilitated by technical innovations in, amongst other things, the communication and transport sector, product, service, financial, and labor markets were deregulated, trade barriers were broken down, and welfare states were reformed.⁷ As a result, economic relationships or networks of economic dependencies became increasingly transnational in character. This period can be characterized as a period of disorganized capitalism or neoliberalism.

Companies reacted to these developments in the past three decades by expanding their operations abroad, causing a transnational dispersion of revenues, profits, employees, and top management. In order to control their foreign subsidiaries, they implemented new organizational structures, such as Bartlett and Ghoshal’s (1989) international, multinational, global, and transnational structures. These are four different ways of dealing with the conflicting pressures of local adaptation and global standardization (see also section 2.1). Although these types of distinctions have a rather

⁵ The Bretton-Woods agreement was a set of rules and procedures set up to regulate the monetary system and included fixed exchange rates. It also included the establishment of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (later part of the World Bank). The agreement was signed in 1944.

⁶ A process also known as stagflation.

⁷ The degree and timing of these reforms differ across countries (see, for instance, Scharpf and Schmidt, 2000a, 2000b).

normative character, they do tell us that in the past three decades companies have increasingly developed and implemented organizational structures and policies that transcend national borders.

Some claim that as a result of their expansion across national borders these firms are no longer attached to a single country. Instead, they have become footloose, disembedded from the nation states in which they were founded, and stateless. Rather than deriving their identity from the particular national or local environment in which they were founded, they are now said to operate in the global marketplace, a space that is detached from national influences (see, for instance, Friedman, 2005). Whether this is the case can be debated, but it is interesting to study this claim in light of the importance of national institutional arrangements for the corporate labor policy of transnational firms.

1.2 ...and its consequences for labor

Labor is organized on the national level through a wide range of institutional arrangements that differ across countries and that result in a particular distribution of risks and responsibilities across the actors concerned – employers, employees, and the state. The distribution of risks and responsibilities in a particular country is the result of the historical development of that country and (co-)dependent on the interdependencies of the various actors involved. As a result of the transnational restructuring of Western economies and firms between the 1980s and the first decade of the twenty-first century, the interdependencies among these actors have changed. The transnational restructuring of firms can therefore be expected to have consequences for both the corporate labor policy of these companies and the institutional arrangements in which these companies operate. In this study, I focus on the consequences for these companies' corporate labor policy, but, as I have already stated, this study also relates to institutional arrangements because a corporate labor policy is developed and implemented against the background of the development of these institutional arrangements. Therefore, I now briefly discuss the development of these arrangements in the past few decades.

The conditions prevailing during the first three decades after the Second World War meant that economic actors were largely dependent on other economic actors within the same national borders. It was within these networks of national relationships that

states and organized labor were able to expand their roles. They assured “not only civic and political rights but also rights of social citizenship” (Scharpf and Schmidt, 2000a: 1). In many Western countries, the state became committed to ensuring high levels of employment, good working conditions, social insurance for the sick, disabled, and unemployed, universal access to healthcare and education, and social assistance to those who would otherwise end up in poverty. The level and type of state intervention and agreements between employers and trade unions differed from one country to another, but most Western countries were successful in combining these welfare arrangements with economic development (Scharpf and Schmidt, 2000a, 2000b). The network of national economic dependencies enabled the introduction and institutionalization of various arrangements leading to the redistribution of income, risks, and responsibilities concerning labor.

After the economic crisis of the 1970s, Western governments started a policy of deregulation and privatization. This resulted in increased economic activities and trade across national borders and decreased the strength of the network of national economic dependencies. In the past two decades, the consequences of this transnational restructuring of economic activities have been fiercely debated by politicians, journalists, trade union leaders, within the business world, within the academic world, by religious leaders, by self-proclaimed gurus, and by many, many other people across the globe. This has resulted in an enormous number of analyses, academic and non-academic writings, opinions, predictions, and warnings on what these consequences might be. Loosely interpreting these discussions, we could conclude that, at one extreme, globalization will result in policies around the world converging and the world becoming flat (Freidman, 2005); and at the other extreme, regional, national, and local differences will continue to exist and may even become more important again, provoking neo-nationalist movements of renewed protectionism or, on a global level, even a ‘clash of civilizations’ (Huntington, 1996).

If we focus on the consequences for the level and sustainability of advanced welfare states, which were established at a time of national networks of economic dependencies, some authors predict “a downward convergence resulting from regulatory and tax competition among national governments in internationalized capital and product

markets”, whereas “others assert the continuing viability of divergent policy choices on the national level” (Scharpf and Schmidt, 2000a: 2). Research by Scharpf and Schmidt (2000a, 2000b) at the end of the 1990s, for instance, revealed that Western governments responded differently to these common challenges; but these studies have in common that the transnational restructuring of economic activities threatens the sustainability of national redistribution mechanisms, such as social security systems.

This sustainability is based upon the interdependencies of different economic actors within a certain geographical context, in this case, nations. If one of these actors experiences a decreasing national dependence, this means that this actor becomes less dependent on the other actors within this national context and can therefore be expected to be less willing to contribute to the redistribution mechanisms of that specific geographical context. In other words, because companies are becoming less dependent on employees within individual Western countries, it can be expected that these companies will be less willing to contribute to, for instance, the social security systems of these countries.

Globalization is said to have undermined the capability of national governments to strive for economic growth and full employment because they can no longer control the economic activities within their national borders. This has resulted in a shift in the balance of power between states, (organized) labor, and firms towards the latter and consequently undermines the negotiations between these three parties, resulting in pressure on national governments to lower their spending on social protection. Globalization is said to have resulted in rising income inequality and deteriorating working conditions within individual Western nation states and across the globe as a result of capital’s international mobility and worldwide competition (Mishra, 1999). A ‘race to the bottom’ in regulation, levels of spending on social benefits, working conditions within companies, and wages is the probable outcome.

In recent years, various technological (e.g. the rapid development of information and communication technology), political (e.g. the rise of neo-liberalism and the fall of the Berlin Wall), and economic (e.g. the increasingly dominant position of shareholders) developments have been used to explain the development of the economic system in general, and the behavior of large firms in particular. I argue that, even though all these

developments have been of great importance, the transnational restructuring of the economic system is the defining structural economic development of the past three decades. I examine empirically how transnational corporations have responded to this development and, in particular, how they have adapted their corporate labor policy to the new conditions under which they operate.

1.3 Objectives of this study

Before I start this endeavor, I want to make clear what one should and should not expect from this study. The objective of this study is threefold: (1) to contribute to a sociological approach to transnational firms, which, I argue, does more justice to the complexity of both transnational corporations themselves and the complexity of the multiple environments in which these firms operate than other, especially economic, approaches to the firm; (2) to improve our understanding of the development of transnational firms between the 1980s and the first decade of the twenty-first century using this approach; and (3) to improve our understanding of the consequences of this development for such firms' corporate labor policy.

So, after building on a sociological approach to transnational firms, I intend to use this approach to provide a historical overview of the development of these firms and their corporate labor policy between 1980 and 2010. It is not my intention to provide a detailed study of one or a few specific components of this policy, such as the pension system, employee participation, or the reasoning behind the reward system. Therefore, one should not expect a detailed historical overview of individual components of such firms' corporate labor policy and the institutional arrangements concerning these individual components. Nor do I intend to argue in favor or against one of the many contributions to the globalization of labor debate by discussing the consequences for the position of employees, their representatives, and governments vis-à-vis transnational firms. So, one should not expect a largely theoretical debate on the globalization of labor either. By providing a historical overview of the general development of transnational firms and their corporate labor policy, one could say that I position myself half way between those scholars studying specific components of the corporate labor policy of transnational firms and those scholars discussing the consequences of globalization for labor.

In Chapter 2, I present a sociological approach to transnational firms and, building on the HRM literature, explain what the term ‘corporate labor policy’ entails in this study (section 2.5). In the remainder of Part I, I elaborate on the national and transnational environments in which these firms are operating (Chapter 3) and explain how I studied their corporate labor policy (Chapter 4). Using this sociological approach, I present two case studies (Royal Philips Electronics and ING Group) in Part II of this study (Chapters 5–8). Finally, in Part III, I summarize this study and discuss its results.

Chapter 2: Towards a sociology of transnational firms

In the past two decades, the academic debate on transnational corporations has been dominated by economic and political approaches to the firm. Various scholars have questioned whether, as a result of the transnational restructuring of economies, companies around the globe are starting to look alike, and have debated the consequences of their expansion across national borders for the balance of power between national governments, (organized) labor, and transnational companies' corporate labor policy. In this study, I argue that these approaches display an oversimplified picture of the corporate world and are not sufficient to explain the historical development of transnational firms in the past three decades, especially regarding the development of their corporate labor policy.

In this chapter, I start working on the first goal of this study, to contribute to a sociological approach to transnational firms. I argue that the common economic and political approaches are not sufficient, and we therefore need a more realistic theoretical approach to transnational firms that does justice to the complexity of these firms and the environments in which they operate. In this chapter, I first explore economic and political approaches to the firm (section 2.1). In response to these approaches, I contribute to a sociological approach to transnational firms (sections 2.2 and 2.3). I use this approach to demonstrate the opposing forces that transnational corporations face operating across national borders (section 2.4). I explain what corporate labor policy entails (section 2.5), and, finally, I briefly summarize this chapter and explain how I will proceed (section 2.6).

2.1 Economic and political approaches to transnational firms

The present-day literature on transnational corporations can be “divided into two camps: those who seek to explain their existence by applying an economic logic to corporate development and foreign direct investment and those who apply instead a political/power logic to the internationalization process” (Morgan, 2005: 560). However, although these economic and political approaches offer relevant explanations for firm behavior, they do not provide a convincing overarching framework that does justice to the complexity of transnational corporations and the multiple environments in which they

operate. Economic approaches display an “atomized, undersocialized conception of (...) action” (Granovetter, 1985: 483), but the same can be said of political approaches displaying a narrow focus on power struggles between companies, organized labor, and national governments, thereby implicitly assuming that under the same circumstances various actors act alike. Furthermore, neither of these two approaches takes into account constraints other than those resulting from direct interaction with other actors.

As the dominant discipline on economic relationships, economics has provided various approaches that demonstrate a rational, utility-maximizing view on firms’ behavior. Coase’s (1937) transaction cost approach explains corporations’ existence and growth by arguing that the market mechanism is not always the most efficient way of organizing economic activity. In some cases, a hierarchical relationship (a corporation) is more efficient.

Whereas Coase tries to explain the existence and growth of corporations in general, Dunning argues that it is possible to understand their international expansion “by reference to three assets: ownership, location, and internalization assets” (Morgan, 2005: 560). Ownership assets refer to core competences (see also Hamel and Prahalad, 1990) developed by companies to achieve a competitive advantage when entering new markets. Corporations possess “certain specific competences and skills (ownership assets) which are reflected in their goods and services” (Morgan, 2001: 4) and which other companies do not possess. As a result of these competences and skills, companies are able to compete more efficiently. The decision on how a firm tries to take advantage of these competitive advantages is answered by the third element, internalization assets. On the basis of transaction cost reasoning, corporations decide either to externalize through a relationship with another company or to internalize and set up their own operations. Finally, locational advantages can be achieved by locating near customers or other corporations with specific knowledge about the sector. This is in line with cluster reasoning as developed by Porter (1988).

Another economic approach to the firm rose to prominence during the 1980s. It is based on contingency thinking and argues that a firm’s strategy depends on the market in which it operates. Its organizational structure, in turn, is dependent on its strategy

(Bartlett and Ghoshal, 1989; Morgan, 2005). This structure-follows-strategy theory is in line with the reasoning of influential business historian Chandler, who made this point in his 1962 book *Strategy and Structure*. In this approach, corporations are considered to be rational actors following market demands and adapting their corporate structure to these demands. It thereby ignores “internal or external politics” of the firm and “the idea that there might be different interests with different objectives inside the corporation” (Morgan, 2005: 563).

On the basis of contingency thinking, Prahalad and Doz (1987) developed the integration-responsiveness model that suggests that corporations operating across national borders experience a tension between achieving economies of scale through standardization and the integration of the various subsidiaries across the globe and adapting to the differences of various local markets. Bartlett and Ghoshal (1989) distinguished four organizational types –multinational, international, global, and transnational⁸ – that adapt to various external demands. Depending on the demands of the market, companies opt for one of these organizational forms. The multinational corporation, consisting of independently operating subsidiaries, is well suited to markets that demand a high degree of local adaptation. An international corporation would also adapt to local markets, but some important aspects of the parent company, such as technology, would be transferred to all foreign subsidiaries. In a global corporation, decisions are taken by the corporate headquarters, and processes and procedures are centrally designed in order to sell standardized products and services across the globe. Finally, Bartlett and Ghoshal’s “transnational solution” consists of companies functioning as “an integrated network of interdependent subsidiaries.” They try simultaneously to achieve “local responsiveness and economies of scale” (Morgan, 2005: 564), which are “necessary for every company that operates in an international environment” (Bartlett and Ghoshal, 1989: 20), thereby revealing the somewhat normative character of these types of typologies.

Even though these economic approaches to the firm provide interesting explanations for the existence and behavior of transnational corporations, they ignore

⁸ Bartlett and Ghoshal’s definition of a transnational corporation differs from the one used in this study (see section 2.3).

differences in the different environments in which they operate leading to various and sometimes conflicting demands. They also suffer from a decontextualized notion of rationality, assuming that firms' only concern is to maximize their profits and that under similar circumstances different firms act alike. Finally, these approaches treat companies as single unified actors, thereby ignoring their internal complexity consisting of various departments pursuing their own interests.

During the 1970s, companies' profitability decreased drastically. In order to restore it, in the following decades many firms moved production capacity to areas with cheap, unorganized labor and relatively weak states. These developments became important themes within the critical political perspective on transnational firms. The more radical version of this approach focuses on these companies' power struggles with (organized) labor and national governments. It argues that transnational corporations threaten to move their standardized production sites to areas with a relatively well-educated and cheap work force and a stable government in order to force workers and trade unions in their home country to accept lower wages. Although this threat may be real in some sectors, most production systems are not easily relocated halfway across the globe to low cost countries. Most foreign direct investment still takes place between industrialized countries; and especially corporations in the service sector, such as banking, finance, and consultancy, concentrate in areas with a highly educated work force and high demand. So, standardized processes might be relocated to low wage countries, but more complicated tasks are concentrated in industrial districts of expertise.

These developments have resulted in complex organizations. Firms' activities have to be managed across countries, within different institutional settings. In the struggle between national governments and transnational corporations, national governments are said to be in a relatively weak position. In order to encourage these companies to continue investing in local employment, national governments may therefore be forced to grant tax breaks and subsidies. But national governments' weakness is often overstated. Locations in most industrialized countries possess capabilities that are attractive to companies. Once they have invested in these regions, they are not likely to move production elsewhere (Morgan, 2005). In research on the corporate income tax of twelve

Western countries, Scharpf (1999), for instance, did not find any support for this ‘race to the bottom’ claim.

Like economic approaches, political approaches offer relevant explanations for certain aspects of transnational corporations’ behavior, but they also suffer from some of the same problems. They treat firms as single unified actors and assume that under the same circumstances different companies respond alike, thereby ignoring individual differences between firms. In order to overcome these problems and do justice to the complexity of these types of firms and the environments in which they operate, I use institutional approaches to contribute to a sociological approach to the transnational firm.

2.2 Building blocks of a sociology of transnational firms

As argued in section 2.1, an important shortcoming of economic approaches to the firm – and to a lesser degree of political approaches – is that they do not sufficiently take into account the complexity of the environments in which these organizations operate. Firms’ environment is of central concern to institutional approaches, such as Hall and Soskice’s (2001a) varieties of capitalism and Whitley’s (1999) national business systems. These approaches try to understand different forms of economic organization through “a path-dependent process of institution building” (Morgan, 2005: 566). Corporations are founded and developed within a certain economic system with a specific institutional setting. Through their growth, they sustain these institutions and the economic system. Corporations are therefore seen as representations of various forms of capitalist organization. The development of this approach has gone through three stages: hegemonic, hybridization, and transnationalism.

The hegemonic approach argues that corporations use the capabilities they have developed in their home countries to expand their operations abroad. So, if one knows the institutional setting of the company’s home country, the way its foreign operations will be managed can to a significant degree be predicted. The hybridization approach awards a certain amount of power to a company’s foreign subsidiaries. There is a dyadic relationship between the head office and the subsidiaries, and they negotiate on the policies implemented in the host context. The subsidiary is not completely dependent of the head office or powerless. Consequently, the implementation of practices transferred

from the home country varies across subsidiaries. This perspective was developed on the basis of research on the expansion of Japanese corporations to the United States and the United Kingdom during the 1980s and 1990s. In relation to their corporate labor policy in particular, these companies did not impose their home country practices. Instead, they adapted it to the local institutional settings, forming a hybrid. Finally, in the transnational approach, corporations operating across national borders form “a common social space in which different institutional settings are encapsulated” (Morgan, 2005: 569) and experience two distinctive and opposing forces: the “social embeddedness of the subsidiary” and the “standardization and increasing control from the headquarters as management tries to tie the various institutionally distinct settings together” (Morgan, 2005: 569). Social embeddedness depends on whether a specific local activity is part of a broader – global – chain of activities, on the number and level of resources that have been invested in the local activities (sunk costs), on the (international) composition of the workforce, and on the extent of the relationships with the local context (Morgan, 2005). Mechanisms used by management to tie these local subsidiaries together include the organizational structure, performance measures, standardization of procedures, best practices benchmarking and transfer, and the creation of standardized management careers. Headquarters of such corporations often operate as banks deciding which subsidiaries receive the funds generated internally (through the ongoing operations) and externally (from the financial market). These funds are then invested on the basis of expected return on investment. They use a financial carrot and a stick when controlling their subsidiaries across the globe.

Morgan argues that only the transnational approach “deals sufficiently with the distinctive nature of multinationals, that is, the diffuse and complex flows of labor, capital, technology, and knowledge across multiple national boundaries,” which creates “a social space defined by two cross-cutting features” (2005: 572): the local, social embeddedness of subsidiaries and a drive towards standardization and global integration of management. To analyze the behavior of transnational corporations it is, therefore, necessary to develop an analytical framework that not only incorporates economic and political aspects, but also is able to match the complex dynamics of transnational corporations in a way that is much more sophisticated than the “subsidiary

strategy/internal market point of view that has developed in the international business literature or the limited considerations of certain institutionalist approaches” (Morgan, 2005: 572). With this notion of embeddedness, Morgan explains how transnational firms are forced to deal with the demands of different and possibly conflicting institutional environments. This makes it an interesting starting point for a sociological approach to transnational corporations that can possibly tackle the problems found in economic and political approaches to the firm.

The notion of embeddedness plays a central role in the new economic sociology. This rapidly growing section of the sociological field received its scientific legitimacy by combining network analysis and new institutionalism in the sociology of organizations (Beckert, 1996; Convert and Heilbron, 2007). Most of its insights have been developed as a reaction to classical and neoclassical economic theory. The new economic sociology questions their claims of rationality and complete information and, instead, argues not only that economic actors take one another into account, but also that all economic behavior is embedded in social structures (Granovetter, 1985; White, 1981). Granovetter’s article *Economic Action and Social Structure: The Problem of Embeddedness* (1985) is often seen as its starting point. Arguing against the oversocialized and undersocialized conception of action in some parts of sociology and economics, Granovetter claims that economic actors do not act as “atoms outside of a social context, nor do they slavishly adhere to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations” (1985: 487). The embeddedness approach provides a more sociological account of the behavior of transnational corporations. It does not suffer from the decontextualized notion of rationality of most economic approaches, and it addresses the significance of social structures for economic behavior and the political and cultural aspects of decision making.

Embeddedness is not a one-dimensional concept; rather, four different types can be distinguished (Zukin and DiMaggio, 1990): cognitive, cultural, structural, and political. In organizational analysis, the notion of bounded rationality, caused by

uncertainty, complexity, and limited information, is referred to as cognitive embeddedness. Cultural embeddedness refers to beliefs, ideologies, taken-for-granted assumptions, and formal and informal rules shaping economic behavior and reasoning. The embeddedness approach as used by Granovetter comes closest to what can be called structural embeddedness. This challenges the anonymity assumption of neoclassical economic models and, instead, argues that economic exchange takes place within ongoing patterns of interpersonal relationships. Finally, political embeddedness refers to the influence of power struggles between different economic actors and non-market institutions, such as social classes and the state, on economic behavior, decisions, and institutions.

However, although embeddedness is a rather general concept that can be differentiated along the lines suggested by Zukin and DiMaggio (1990), it has certain limits. First, it does not provide an explicit theory of actors and action, apparently because it assumes that, given the system of social relations within which actors are embedded, various actors act in the same manner. Second, it has been argued that the concept of embeddedness cannot properly account for structural constraints independent of direct interaction (Bourdieu, 2005); but, by connecting the notion of embeddedness to the theory of fields as developed by Fligstein (1996, 2001a) and Bourdieu (2005; Bourdieu and Wacquant, 1992), I am convinced that I can tackle these problems and contribute to a sociological framework that can be used to analyze the actions of transnational corporations.

Fligstein's theory of fields (1996, 2001a) provides a sociological explanation of markets. He proposes a political-cultural approach and argues that "social action takes place in arenas" (Fligstein, 2001a: 15). These arenas have been described as a social space, organizational fields, domains, and sectors. Fligstein describes markets as fields organized around a common interest of the actors involved. Fields are used to refer to "structured exchange" (Fligstein, 2001a: 68) or "situations where organized groups of actors gather and frame their actions vis-à-vis one another" (Fligstein, 2001b: 107). Besides private corporations, these fields can also consist of national and local governments, financial institutions, universities, research centers, trade unions, or any

other organization with an interest in the field. Because a firm's primary goal is continuity, it strives for stability in the field in which it is embedded. "Fields contain collective actors who try to produce a system of domination in that space" (Fligstein, 2001a: 15). Two potential sources of instability are price competition and the internal power struggles within companies. A *conception of control* is the perspective on how to solve these potential sources of instability. It is a "vision of how to make the corporation work internally and how to interact with the corporation's main competitors" (Fligstein, 2001a: 69).

The political component in Fligstein's approach refers to the role of governments in fields and the power struggle within companies and between companies embedded in the field. Different parts of a company – such as production, sales, human resources, and finance – compete for the dominant positions on the basis of their own conception of control. The conception of control that promises stability, and with that continuity, becomes dominant. At the same time, powerful companies in the field (incumbents) try to ensure that their conception of control becomes dominant. Conceptions of control have a tendency to reproduce themselves. Therefore, Fligstein argues that the conception of control changes only when the stability of the field is threatened by government intervention (regulation) or price competition.

Governments are part of fields as well. The construction of markets is closely linked to state building and therefore politically embedded. Markets need rules under which companies can organize, compete, cooperate, and exchange. These rules are developed by (modern) states. The construction of markets and the construction of capitalist societies in the Western world are mutually dependent. Property rights, governance structures, and rules of exchange are all institutions developed by modern states shaping, influencing, and controlling economic competition. The specific type and enforcement of rules constrains the types of conceptions of control that can become dominant. The importance of the state and the specific rules imposed by the state differ from country to country and are the result of their historical development. The capability to intervene is not the same for every state, and its particular institutional history influences the institutions set up to control modern markets.

The cultural component in Fligstein's approach refers to the way in which a conception of control becomes the dominant vision on how to control and govern the company. The situation in the field in which an economic actor is embedded is uncertain, and a conception of control can be seen as a way to reduce this uncertainty. A conception of control is an interpretation of the situation in the field that is acknowledged by the actors in the field. It is "a local culture that defines local social relations between actors" (Fligstein, 2001a: 15) in the field.

Whereas Fligstein's theory of fields provides a sociological explanation for the functioning of markets, Bourdieu uses the notion of fields in a general manner to explain human action (although he applies it to the behavior of economic actors as well). Bourdieu's theory of fields is constructed on the basis of the competitive relationships between actors for specific stakes. Actors – in this case transnational firms – create a field – in this case the economic field – and this field exists only through these actors. Actors "are defined by the volume and structure of (the) specific capital they possess" (Bourdieu, 2005: 193) and by their dispositions or *habitus*. Through their capital, they structure the environment in which they operate or, in the words of this study, the field in which they are embedded. Depending on the size of their capital, they control a specific section of the field, or, in more economic terms, achieve a certain market share. At the same time, the existing structure of the field structures the behavior of the actors embedded in the field. So, through their interactions, firms create the economic field that at the same time structures their interactions.

The economic field is a socially constructed space where firms possessing a certain amount of capital struggle with other actors. Their capital includes the usual forms of economic and financial capital, but other forms, including technological, social, and symbolic capital, are used as well. Actors with a relatively large portion of the total capital dominate the field. They exert pressure over other actors through the position they occupy in the structure of the field. They can exert this pressure if they can use the structure of the field through the position they occupy within this structure. Their position and the weight of their position within the structure of the field, rather than direct

interventions, are used by dominant actors to exert this pressure. This is what Bourdieu refers to with his notion of symbolic capital.

Dominant actors benefit from the structure of the field and they therefore try to sustain it. Because these dominant actors possess the necessary capital to accomplish this, structures have a tendency to reproduce themselves. This opposes not only the neoclassical view of actors acting as “atoms outside of a social context” (Granovetter, 1985: 487) pursuing their economic interests, but also the interactionist view, which reduces the “economic and social order (...) to a host of interacting individuals” (Bourdieu, 2005: 77).

Actors’ behavior is not only the result of their position in the field and the amount and structure of the capital they possess; it is determined by their habitus as well. An actor “endowed with a habitus” (Bourdieu speaks of a social agent) is “a collective individual or a collective individuated by the fact of embodying objective structures” (2005: 211). An individual actor is “both social and collective” (2005: 211), which means that its preferences are the product of “collective and individual history” (2005: 211). Actors’ rationality is not only bounded because of limitations of the mind, it is also limited “because it is socially structured and determined” (2005: 211). Because of their habitus, actors do not immediately react to external stimuli. Instead, these responses are conditioned by their habitus, which means that not all actors will react in a similar manner to similar events. If one wants to understand an actor’s actions, it is necessary not only to pay attention to the external stimuli the actor experiences or the reality with which it is faced, but also to analyze and understand its collective and individual history. So, if one wants to understand firm behavior, one should pay attention not only to current market conditions – the structure of the field in which the company is embedded – but also to the markets’ and firms’ historical development.

Summarizing, transnational corporations are embedded in the economic field (Bourdieu, 2005; Fligstein, 1996, 2001a, 2001b). This field is the result of the structured interaction of firms and other actors embedded in this field, while, at the same time, the structure of the field structures their interaction. Within this process, a certain conception of control – a vision on the basis of which decisions within companies are made – is

formed. Although economic fields and, as a result, conceptions of control have a tendency to reproduce themselves, they also change as a result of changes in the interaction of individual actors. This change in interaction, in turn, is caused by a change in the amount of capital and, consequently, the position the corporation occupies within the structure of the economic field. Naturally, this affects the conception of control as well. The behavior of these companies is not only the result of the structure of the field in which they are embedded and the position they occupy within these fields, it is affected by their habitus as well. Finally, a transnational corporation is not only embedded in a field, it is constructed and can therefore be analyzed as a field as well (Bourdieu, 2005). If it is opened up, we do not find atomistic individuals, but a structure functioning as a field related to, but relatively autonomous of, the field in which the transnational corporation is embedded as a whole. Within this structure various parts – e.g. departments – struggle for the dominant positions within the company. This internal structure is linked to the position the company occupies in the structure of the field in which it is embedded through a company's total amount of capital and the distribution of that capital among the various parts of the company.

In Chapter 1, I argued that in recent decades transnational corporations have been experiencing a decreasing national and an increasing transnational dependence. In this chapter, I have reformulated this through the notion of embeddedness, but this does not mean I will not use the notion of dependence during the rest of this study. As a result of their expansion across national borders, in recent decades transnational corporations have become less dependent on the other actors in the national economic fields in which they are embedded. At the same time, they are experiencing an increasing dependence on other actors in the transnational economic field.⁹ Therefore, it is of importance to be clear about what exactly the notion of dependence entails.

It is based upon Elias' notion of interdependence: the degree to which people rely on or need other people (Elias, 1978; Wilterdink, 1993). This notion can be applied to actors in general or, in this case, to transnational corporations in particular. It implies a

⁹ The increasing importance of the transnational field is the result of the transnational expansion of these companies, among other things.

certain balance of power between different actors. If the degree to which actor A depends on actor B is less than vice versa, then actor A is the dominant actor of the two. Actor A can use this dominance for its own benefit. When applied to this study, this would mean that the decreasing national dependence of transnational corporations caused a shift in the balance of power between transnational firms and other actors in the national economic field, such as (organized) labor and national governments, in favor of the transnational corporation.

2.3 Dual embeddedness of transnational firms...

As discussed in Chapter 1, in recent decades economic activities across national borders have been deregulated, and, in response, many companies have rapidly expanded their operations across national borders (in terms of revenues, profits, and employees) in order to obtain and sustain a dominant position in the increasingly significant transnational marketplace. This has resulted in a decreasing national, and an increasing transnational, dependence of these companies. Despite these changing dependencies however, labor is still primarily organized on the national level through a wide range of institutional arrangements. If we connect these observations with the notion of embeddedness and the theory of fields, as explained above, I would argue that *since 1980 transnational corporations have experienced a shifting emphasis in their dual embeddedness in national and transnational economic fields.*

As a result of the deregulation of economic activities across national borders, the transnational economic field has become more significant for the strategies and policies of transnational firms; they increasingly need to adapt their strategies and policies to the competitive conditions in this field. And, as a result of their expansion across national borders, the balance of power between transnational corporations, nation states, and other private actors (such as shareholders) in the national economic fields has changed. This expansion has resulted in a decreasing dependence on national states and organized labor; meaning that these actors and the institutional arrangements of the national economic fields have become less significant for the strategies and policies of transnational firms. At the same time, shareholders have acquired a more dominant position in national economic fields, resulting in an increasing significance of these actors and their interests

for the strategies and policies of transnational firms. The question of course is what, given that labor continues to be primarily organized on the national level, these developments mean for the corporate labor policy of transnational firms.

If I reformulate the economic situation prevailing after the Second World War (see section 1.1) in terms of the notion of fields presented above, I would argue that during the first three decades after the war, economic action primarily took place within national economic fields, and national actors, such as the state and organized labor, had a relatively strong position within these fields. This does not mean that there was no such thing as a transnational field in which companies struggled for the dominant positions, or that companies did not compete across national borders. What I am arguing is that during this time the significance of the transnational economic field was more limited than the situation since 1980. Firms had a strong ‘national’ base and, as a result of the relatively strict regulation of economic actions on the national and transnational level, they were forced to adapt their policies to the competitive conditions in these national economic fields. This situation changed dramatically after the economic crises of the 1970s that led to the deregulation of product, service, financial, and labor markets, government stimulation of economic activities and trade across national borders, and the transformation of most Western welfare states. The transnational economic field consequently became more significant for the corporate strategies and policies of transnational fields, whereas the national economic fields lost some of their significance. Also, the number of transnational firms grew rapidly.¹⁰

This shift in their dual embeddedness does not mean that transnational firms have become ‘footloose’ or ‘disembedded’ from national economic fields. Labor, for instance, is still primarily organized on the national level, through a wide variety of institutional arrangements, such as labor legislation, collective labor agreements, the educational system, the social security system, trade unions, and, in various Western countries, through different consultative, advisory, and representative organizations. Therefore, the economic, political, and social developments in these national economic fields still have significant consequences for the functioning of transnational corporations. With regard to

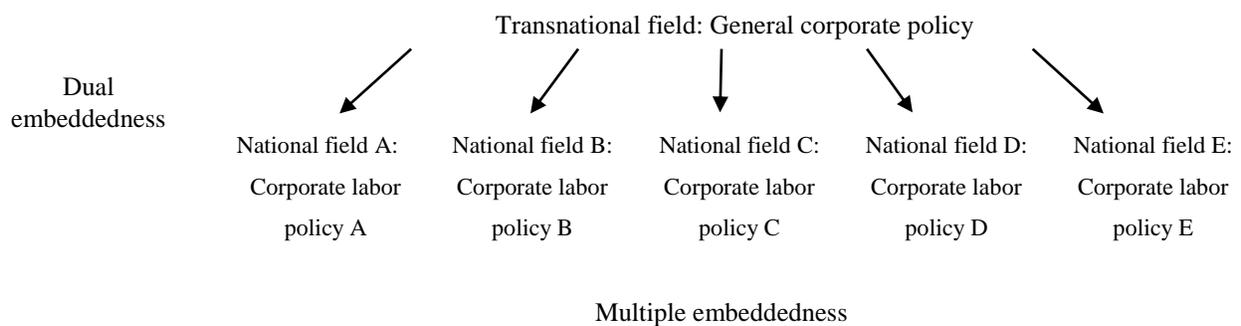
¹⁰ For an overview of the increasing number of transnational corporations, see Gabel and Bruner (2003).

their corporate labor policy in particular, the national economic fields are still of great significance to transnational firms.

I have already explained that companies operating across national borders have always experienced both a national and a transnational embeddedness, but in the past few decades they have experienced a shifting emphasis within this dual embeddedness; the transnational economic field has become increasingly significant for their corporate strategies and policies, and they struggle with other companies for the dominant positions within the transnational economic field, while, at the same time, they struggle with other companies, (organized) labor and its representatives, and national governments in national economic fields.¹¹

Labor is organized on the national level through a wide variety of arrangements. Because these arrangements differ from one country to another, transnational firms are embedded in multiple national economic fields. Transnational corporations' dual embeddedness consists of a transnational embeddedness in a transnational economic field and a national embeddedness in multiple national economic fields. Transnational corporations' dual embeddedness implies a multiple national embeddedness. Transnational firms' dual and multiple embeddedness are illustrated in Figure 2.1.

Figure 2.1 Dual and multiple embeddedness of transnational firms



¹¹ It can be argued that a transnational economic field is nothing more than a collection of different national economic fields, and, therefore, there is no such thing as being embedded in a transnational field and dual embeddedness. I disagree with this statement because I would argue that there is a clear distinction in terms of the actors embedded in and, consequently, the competitive conditions in national and transnational fields.

In sections 2.1 and 2.2, I have argued that economic and political approaches fall short in explaining the behavior of transnational firms; we need a more sociological approach to the firm to understand their behavior. I have argued that the notion of embeddedness and the theory of fields as developed by Fligstein (1996, 2001a) and Bourdieu (2005) can be used to contribute to such an approach. Now, what does this sociological approach to transnational firms look like given the shifting emphasis in their dual embeddedness in the past three decades?

The national and transnational economic fields consist of firms and all other actors with an interest in these fields, such as local, regional, and national governments, inter- and supranational organizations, trade unions, and investors.¹² Depending on their various forms of capital – including financial, cultural, juridical, and symbolic capital – these actors obtain different positions within these fields and frame their actions vis-à-vis one another. Through their interactions, they create the economic fields, and their interaction is structured by the structure of these fields. The actions and interactions undertaken by transnational firms are intended to obtain and sustain a dominant position within the transnational and economic national fields and, ultimately, secure the long-term continuity of the firm. So, transnational firms simultaneously struggle with the other actors embedded in both the national and the transnational economic fields for the dominant positions within these fields.

In contrast to classical economic theory, the final goal of these struggles is not to maximize market share, profitability, or any other economic or financial criterion. Although the success of large firms measured in terms of shareholder value has become a dominant characteristic of the transnational economic field (see also section 3.1), the struggle with other actors is not economic but political and cultural in character and is intended to secure the long-term survival of the firm,¹³ as explained by Fligstein (1996, 2001a, 2001b). These struggles are political because through their actions the various actors try to improve their position within the field. Also, (national) governments play a crucial role within these fields; and, because the situation within the field is uncertain, the

¹² See Chapter 3 for a more detailed description of the structure of the national and transnational economic fields.

¹³ A preliminary goal can be to improve market share or maximize profits; but this is done only to assure the ultimate goal, the long-term continuity of the firm.

various actors adopt a particular conception of control on the basis of which decisions are made.¹⁴ Consequently, the functioning of these fields is also cultural in character. Besides being the result of direct interaction with other actors in national and transnational economic fields, transnational firms' behavior is also affected by their habitus.

In contrast to classical economic and political approaches to the firm, I argue that transnational firms are collective corporate actors, each with a unique individual and collective historical development. They try to obtain and sustain a dominant position within the multiple national and transnational economic fields in which they are embedded. These fields are characterized by their own historical development and a specific structure resulting from the distribution of various forms of capital among the corporate and non-corporate actors embedded in the field. Transnational firms are more complex than most economic and political approaches give credit for, and they do not function in line with the narrowly defined concept of rationality common in economic approaches to the firm; in addition, they take the multiple environments in which they are embedded into account.

Transnational firms are multilayered in two ways: (1) they are embedded in multiple fields to which they need to adjust their policies and (2) they consist of various parts with different, and sometimes conflicting, interests. Also, their actions are not just the result of their pursuit of financial and economic profit; rather, their actions need to be understood as attempts to secure the long-term continuity of the firm by obtaining and sustaining a dominant position in the fields in which the company is embedded (Fligstein, 1996, 2001a). These fields are not only characterized by corporate actors; national governments and supranational organizations are part of these fields as well. In recent decades, various forms of transnational regulation have been developed and implemented, and this affects firms operating across national borders (see for instance Hale and Held, 2011). This regulation implemented by these non-corporate actors functions as the 'rules of the game' and constrains the actions of corporate actors. Because firms' actions can be understood as attempts to obtain and sustain a dominant position in their relevant fields, they can also be the result of the actions of other

¹⁴ The shareholder value conception of control – which rose to prominence in the past three decades – is an example of such a vision.

(dominant) actors within these fields. In particular, firms possessing a relatively weak position are forced to adapt their actions to the actions of other actors in the field. Because firms are embedded in economic fields on the transnational as well as the national level, they are forced to adapt their policies to the competitive conditions in the fields on both of these levels.

Three mechanisms to explain firm behavior can be differentiated within this sociological approach to transnational firms. A firm's *dual embeddedness* is the first mechanism that explains their actions. To explain their labor policies, it is necessary to analyze firms' embeddedness in both the transnational and the national economic field. The competitive conditions in fields constrain and structure firms' corporate policies (Bourdieu, 2005; Fligstein, 1996, 2001a). Simply put, the working of this mechanism is observable when policies that were at first primarily organized in line with the conditions in national fields become more and more organized in line with the conditions in the transnational field (or vice versa).

A second explanatory mechanism is the *conception of control* as explained by Fligstein (1996, 2001a). Because of uncertainty surrounding the situation in the field, actors develop and/or adopt a particular conception of control on the basis of which decisions are made. These conceptions of control are collectively shared visions on the situation in the field upon which firms base their actions. Because companies have a shared view on the situation in the field, it can be expected they will act alike, leading to isomorphic behavior (DiMaggio and Powell, 1983). The adoption of a particular conception of control can be expected to be primarily observable in times of rapid change in the institutional and economic environment of a firm. In that case, firms will adopt strategies and policies that have been proven to be successful for other firms or at least are considered to be successful.

Finally, a third explanatory mechanism for the behavior of transnational firms can be derived from Bourdieu's (2005) notion of *habitus*, or what business scholars might call corporate culture. All actors, including transnational firms, experience both a collective and an individual historical development. This can result in companies displaying either similar behavior or unique behavior. As a result of firms' shared collective development – the development of the field in which these companies are

embedded – firms can be expected to display similar behavior. This somewhat resembles Fligstein’s conception of control, but the difference between the two is that the introduction of a particular conception of control introduces new types of strategies and policies that fundamentally differ from existing strategies and policies, whereas an individual or collective historical development implies a continuation of existing policies and strategies, or the introduction of new policies and strategies that closely resemble the existing policies and strategies. On the basis of their individual historical development, firms can be expected to display unique behavior. Both collective and individual historical development can be expected to lead to a process of path dependency.

Now, before turning to a further explanation of how transnational firms deal with their dual embeddedness, I first position this study further in relation to other studies and elaborate on some of the terms used in this study.

At the beginning of this chapter, I explained that there is a wide variety of literature dealing with the development of, and differences in, the organization of capitalism across countries. The central question in this type of research is often a variation on the question of whether companies transfer policies from the home country to the host country, or the other way around. Although this is a study on the corporate labor policy of companies operating in different countries, it is not an analysis of home–host country effects. Whereas these types of studies try to determine whether corporate labor policy is transferred from one national field towards another (from home to host country, the other way around, or a variation on these two), I argue that the transnational economic field has become increasingly significant for the strategies and policies of companies operating across national borders and that this transnational economic field is a distinct level ‘above’ national economic fields. The question I pose is whether these companies are starting to organize labor on the transnational level as well. And, if so, what are the consequences of this development for their corporate labor policy given the national embeddedness of labor as explained above?

In this study, I use the terms transnational corporations and transnational restructuring, instead of more common terms such as multinational corporations and globalization. I do so because I argue that large companies that have expanded their

operations across national borders have become relatively independent of individual nation states; and whereas the term multinational corporation refers to a company that operates or is embedded in multiple nation states, the term transnational corporation refers to a company that operates ‘above’ individual nation states within a transnational field. Because their expansion across national borders has resulted in a vision of the company that is relatively detached from national economic fields and is instead based upon the situation in the transnational economic field, I argue that transnational corporation is a more accurate term to refer to this type of company.

Globalization is also a frequently used term in this respect, within academia as well as in political debates and the popular press. It is used to refer to “any process or relationship that somehow crosses states boundaries” even though these processes or relationships often “do not at all extend across the world” (Hannerz, 1996: 6). In line with Hannerz’ reasoning, I, therefore, argue that it is more accurate to use the “more humble” (Hannerz, 1996: 6) term transnational to refer to companies’ expansion across national borders. This expansion often does not imply global operations but does result in operations that are not confined to individual nation states.

2.4 ...and the resulting differentiation and centralization

Transnational firms’ dual embeddedness confronts them with the need to adapt their corporate strategies and policies to the competitive conditions in the transnational field on the one hand, resulting in the centralization of these policies on the transnational level, but they also need to adapt these strategies and policies to the competitive conditions in the national economic fields, resulting in differentiation on the national level. Posed in slightly different terms, the two opposing forces of national adaptation and transnational integration confront transnational corporations with a classic management question (Eccles and Nohria, 1992): how can autonomous parts of an organization be made to work together to do what is best for the organization as a whole, instead of pursuing their own goals? Because of the competitive nature of the transnational economic field (see section 3.1), transnational firms experience a need for a centralized corporate policy. Every part of the company needs to work towards the achievement of the company goals, assuring the continuity of the organization by

obtaining a dominant position in the transnational economic field. This implies that the corporate labor policy of transnational corporations must be aimed at achieving this goal as well; but because of the institutional arrangements concerning labor on the national level, the possibilities of aligning corporate labor policy with the general corporate policies and the competitive conditions in the transnational field are limited. Their transnational embeddedness requires a centralized corporate labor policy, but this is constrained by transnational corporations' national embeddedness concerning labor, resulting in differentiation in corporate labor policy.

The differentiation in the corporate labor policy of transnational firms is the result of a single mechanism (the shift in emphasis in their dual embeddedness), but company management uses various methods to “direct behaviour of individuals in an organisation towards the goals of this organisation” (Harzing, 1999: 8) and achieve the desired integration of corporate policies. Placing subsidiaries in a strict hierarchical relationship, centralizing and standardizing departments and policies, and implementing corporate rules and regulations are all common methods, but other methods, such as goal setting, performance control, cultural control (socialization), and training and recruitment, can be distinguished as well (Harzing, 1999).

In section 2.2, I explained how companies develop conceptions of control on the basis of which companies are governed and controlled. Over the past century, five different conceptions of control can be distinguished, each with its own criteria on the basis of which decisions are made (Fligstein, 1990, 2001a). Whereas in the past, direct control, manufacturing control, and marketing control have been dominant – focusing on competitors, the production process, or marketing and sales – since the Second World War the finance conception of control (from the 1950s to the 1970s) and the shareholder value conception of control (since the 1980s) have been the dominant vision in corporate America and have spread to other Western countries. These two visions on how to control and govern a company have in common that they both rely on financial criteria as decision-making mechanisms. The difference between the two is that the finance conception of control focuses on achieving the highest return on investment, whereas the shareholder value conception of control focuses on maximizing shareholder value. The two most recent conceptions of control as distinguished by Fligstein can be categorized

under different control mechanisms as distinguished by Harzing (1999). The finance and shareholder value conceptions of control have elements of goal setting, performance control, and cultural control. In line with Fligstein's arguments, it can be expected that, in recent decades, transnational corporations have used financial criteria to make each individual part of the company work towards the achievement of the company goals.

A different mechanism to achieve integration that could "transcend the need for 'calculative' or 'financial' control" (Rubery and Grinshaw, 2003: 204) is corporate culture. Instead of keeping control through centralization, some transnational corporations give their subsidiaries more freedom in order to benefit from their capabilities and competences. In this case, a strong corporate culture can be used to make sure that all subsidiaries stay focused on working for the benefit of the organization as a whole and prevent or at least discourage them from pursuing their own goals (Morgan, 2005).

Isomorphism is an important concept within the institutional literature and can be caused by, among other things, two aspects of professionalization: formal education and professional networks. Through formal education at universities and professional training institutions, organizational norms are developed and enhanced among managers and their staff. Through professional networks, which span across organizations, norms and rules on organizational and professional behavior are transferred (DiMaggio and Powell, 1983). By filtering their personnel, for instance by only hiring managers with a certain educational background, organizations can use this mechanism to make sure that the same type of policies are implemented across the organization and achieve the desired integration.

Finally, rhetoric can be used as an integration mechanism: "managers live in a rhetorical universe – a universe where language is constantly used not only to communicate but also to persuade, and even to create" (Eccles and Nohria, 1992: 9). Rhetoric can be used to mobilize "actions of individuals in a way that contributes both to the individuals as people and to the performance of organizations as a whole" (1992: 10). Despite the fact that this is a somewhat normative remark, it has been argued that rhetoric can be used to influence people's actions. Therefore, it can be used by the top management of an organization to achieve integration as well. Rhetoric is, therefore, a

possible integration mechanism for transnational corporations. “A rhetorical stance toward management correctly points out that the primary task of managerial language has always been to persuade individuals to put forth their best efforts in a collective enterprise with other men and women” (1992: 29).

In summary, transnational corporations’ multiple embeddedness in national fields leads to differentiation in their corporate labor policy, but, because of their embeddedness in the transnational economic field, they need all parts of their organization to work towards the same company goals and there are various mechanisms to achieve the desired centralization.

2.5 The corporate labor policy concept explained

Corporate labor policy is one of the central concepts of this study. It is also a rather broad and vague concept and therefore needs clarification.

A first definition could be all those deliberate actions of a company that have consequences for the factor labor within the company. Although this definition is still rather broad and vague, it does tell us that corporate labor policy entails deliberate actions with consequences for employees and the way their labor is organized. In order to clarify this concept further and make corporate labor policy researchable, I turn to the leading strand of literature concerning this topic, the human resource management (HRM) literature.

Human resource management can be defined as “the management of work and people towards desired ends” (Boxall et al., 2007: 1), or “the management of other people’s labor in production” (Kaufman, 2007: 20). These two definitions have a significant overlap with the first definition of corporate labor policy as stated above. ‘Management towards desired ends’ can be seen as a different formulation of management of deliberate actions. ‘Labor’, ‘people,’ and ‘work’ all refer to the factor labor within the organization as used in the initial definition.

The present-day HRM literature is dominated by a particular view on labor, which can be described along the line of three core claims: (1) changes in companies’ environments have resulted in changes in the way companies deal with their employees; (2) these changes have caused a shift in the way management approaches employees; and

(3) both the employees and the organization benefit from this approach (Thompson and Harley, 2007).

As a result of these claims, it can be argued that HRM suffers from a high degree of rhetoric and is not based on a critical empirical analysis of present-day corporate labor policies. First of all, the HRM literature claims that changes in their environment have resulted in a change in the way companies deal with their employees. The increasingly competitive nature of the transnational field in which companies are embedded has resulted in a need for flexibility and a need to create unique inimitable products. The first claim of the HRM literature is that it is through their employees that companies are able to create these products and increase their competitiveness. Second, the abovementioned developments in companies' economic environment have resulted in a shift in the way management approaches employees. Instead of controlling their employees through "Taylorist labor management practices," they now try to "stimulate employees' commitment and generate motivation" (Thompson and Harley, 2007: 148). Finally, and closely related to the previous claim, the HRM literature claims that employees, as well as the organization, benefit from this approach. Whereas Taylorist employment practices resulted in conflicts, "HRM is based (...) on pluralist perspectives of competing, but containable interest among stakeholders" (Thompson and Harvey, 2007: 149), aligning the interest of employers and employees.

However, despite the rhetorical nature of the HRM literature, in recent years there have been a number of interesting studies focusing on nationality effects in the corporate labor policy of transnational corporations.¹⁵ These studies focus on the influence of the country of origin on foreign subsidiaries, the influence of the host country on local subsidiaries, the diffusion of employment practices from the parent country to local subsidiaries, and the reversed diffusion from foreign subsidiaries to the parent company (e.g. Edwards, 2000; Edwards and Ferner, 2004; Edwards and Kuruvilla, 2005; Ferner, 1997; Ferner and Quintanilla, 1998; Gooderham et al., 2006; Guest and Hoque, 1996; Quintanilla et al., 2008). These studies discuss the dominant question in international HRM research, "the global-local question" (Edwards and Kuruvilla, 2005: 1): do

¹⁵ The majority of the HRM literature talks about multinational corporations rather than transnational corporations. I use the term transnational corporations instead for reasons explained in section 2.3.

economic and technological forces result into the convergence of company policies and organizations around the world, or do national differences continue to exist as a result of national differences?¹⁶ In section 2.3, I explained that I am not conducting a study on home and host country effects, but this does not mean that this strand of literature cannot be of interest to this study. In particular, the ways in which HRM policies are measured within these studies are of great interest.

On the basis of the literature from the mid 1970s to the mid 1990s, Ferner (1997) concludes that nationality matters, but that whether the country of origin or the local institutional arrangements is dominant also depends on the specific component of corporate labor policy. “Issues such as wage determination, hours of work, forms of job contract and redundancy procedures are highly subject to local institutional arrangements. Other aspects of HR (...), such as payment systems, management development, or employee communication are (...) more susceptible to the imprint of country-of-origin effects” (Ferner, 1997: 22). Research on subsidiaries of American and British corporations in Germany shows that it is possible to export HRM practices to foreign subsidiaries, but the national institutional environment prevents transnational corporations from following a transnational labor policy (Muller, 1998). Given the central questions of this research, these are very interesting conclusions. It is therefore of great interest to see which components of corporate labor policy are distinguished in this type of research.

Lawrence (1985) provides a classic distinction between four major components of corporate labor policy: rewards, employee voice, human resource flow, and work organization. He describes work organization as “the matching of people to assigned activities and decision responsibilities”, rewards as “the intrinsic rewards of recognition and the extrinsic monetary rewards”, employee voice as “policies providing for employee influence on their immediate work setting and on broader corporate affairs,” and employee flow as “the policies and procedures for recruitment, training, promotion, discharge, and retirement” (1985: 16). In a study on the opposing pressures of integration

¹⁶ See the debate around Whitley’s (1999) national business systems.

and differentiation¹⁷ that shape the corporate labor policy of transnational corporations, Rosenzweig and Nohria (1994) studied six corporate labor practices – employee benefits, annual paid time off, executive bonus, degree of participation in executive decision making, gender composition of management, and employee training – to determine whether these two pressures play out differently for different components of corporate labor policy. They concluded that corporate labor policies primarily tend to resemble local practices, but the degree to which they resemble these practices differs. Reward systems resemble local practices more than work organization and human resource flows. In the *Oxford Handbook of Human Resource Management*, Boxall et al. (2007) differentiate between a number of core processes and functions that partly coincide with the different corporate labor policy practices as distinguished by Ferner (1997) and Lawrence (1985): work organization, employment subsystems, diversity management, recruitment and selection, training and development, remuneration, and performance management (Boxall et al., 2007).

The four components of corporate labor policy that Lawrence (1985: 16) distinguished are “ones that every organization must establish” in one way or another. Because his distinction is the most comprehensive one, I build on his work and slightly adjust the terms he uses to refer to the four different components¹⁸ as well as what these components encapsulate.¹⁹ I do so to make sure that the terms fit with the concepts used in this study.

In the *Oxford Handbook of Human Resource Management*, Cordery and Parker (2007: 188) characterize work organization as “the way tasks are organized and coordinated within the context of an overarching work system.” This definition is much broader than Lawrence’s definition. Not only does it refer to the assignment of tasks and responsibilities to individual employees, it also places the employee in the broader context of the organization. Given the character of this research, I use a rather broad definition in line with the definition as provided by Cordery and Parker, but at the same

¹⁷ Rosenzweig and Nohria (1994) use the terms internal consistency and local isomorphism to refer to the pressures of transnational integration and national adaptation described in section 2.4.

¹⁸ Instead of *human resource flow*, I use the term *employee flow*, because the term ‘human resource’ is based on a specific view of labor.

¹⁹ Lawrence’s explanation of the four different components of corporate labor policy is rather broad. To make sure that they can be analyzed as part of this study, I have adjusted them using both Lawrence’s explanation and those of others (e.g. Guthrie, 2007; Marchington, 2007).

time limit the research on this component of corporate labor policy for practical reasons. In this research, work organization refers to the way employees' tasks and responsibilities are organized as part of the overall organizational structure. Because this is a very general description that would require an enormous amount of research given the scale of the organizations central to this study, I focus on how the formal organizational structure of transnational firms as well as the organization of the department responsible for the corporate labor policy of these firms have developed.

According to Lawrence, rewards include not only extrinsic monetary rewards, but also intrinsic rewards. Although the intrinsic rewards of work are of great importance to most employees, a corporate labor policy primarily focuses on the extrinsic monetary rewards. This includes the level of rewards (in comparison to the market), the payment system (fixed versus variable), and pay structure (whether there is a high degree of dispersion and whether it is based on the job or on employees' competencies) (Guthrie, 2007). Rewards in this study, therefore, refer to how employees' efforts are rewarded in a monetary sense and the way these rewards are determined. Monetary rewards include not only employees' salary, but also healthcare benefits, social security arrangements, and pension rights; and in relation to the way these rewards are determined, I refer to a process or function that is sometimes coined as a separate component of corporate labor policy (Latham et al., 2007), performance management.

Employee voice is referred to in different ways by different authors. Marchington (2007) talks about employee participation systems, whereas Rosenzweig and Nohria (1994) refer to it as employee influence mechanisms. In a general sense, it could be said that this component of corporate labor policy refers to all practices that "allow workers some 'say' in how their organizations are run" (Marchington, 2007: 231). This can take place in a unionized or non-unionized form and can refer to grievance processes and employee complaints, employee participation, works councils, direct voice systems, or any other form or mechanism that gives employees influence in the way the organization in general is run and their work in particular is organized. Lawrence (1985: 16) describes this as the "policies providing for employee influence on their immediate work setting and on broader corporate affairs." In line with these definitions, I refer to employee voice as all those mechanisms that result in interaction between employer and employees

concerning the way the organization in general is run and employees' daily work in particular is organized.

Employee flow refers to a number of processes concerning the movement of people through the organization, such as selection, recruitment, development (training), promotion, and resignation. From the perspective of the resource-based view of the firm, the HRM literature argues that employees are an important resource for the company. In today's highly flexible and volatile markets, companies' human resources are seen as a potential competitive advantage. Therefore, companies need to pay a lot of attention to the recruitment, selection, and development of their employees. Although this description of the importance of employees to companies contains a high degree of rhetoric, these processes are one aspect of corporate labor policy and are therefore interesting to study. Also, the rhetoric used by companies with respect to these processes is interesting to analyze the changing position of labor within the company.

In summary, I first define corporate labor policy in rather broad terms as being the management and control of the employees of a firm; but, second, I make this term researchable by distinguishing four components (work organization, rewards, employee voice, and employee flow) that all relate to specific practices.

I have already argued that the HRM literature is not based on a critical analysis of present-day corporate labor policies; rather, it is based upon a number of core claims that give it a rather normative character. However, because this stream of literature dominates research on the corporate labor policies of transnational corporations, its development can help us to understand the development of these policies.

The scientific study of corporate labor policies originated in the United States. At the end of the nineteenth century, the day-to-day management of employees in American corporations was left to first-line supervisors, but the increasing scale and complexity of corporations forced firms to abandon this decentralized approach. At first, centralized departments became concerned with decisions on production and order schedules. Later, compensation and benefit schemes were implemented to boost productivity. During the 1910s and 1920s, centralized personnel departments were created by many companies to guarantee a constant flow of new workers. The newly installed personnel managers

formed professional organizations to strengthen their position vis-à-vis line managers, who blamed them for being too soft. There followed a struggle between line managers and personnel managers for the dominant position in relation to personnel decisions in the corporation. During the economic troubles of the 1930s and during the Second World War, the national government intervened in the labor market, and this strengthened the position of trade unions and personnel managers. After the Second World War, the position of personnel departments weakened, but it remained strong in comparison to the first decades of the twentieth century (Jacoby, 2005).

The first decades after the Second World War can be characterized as a period of management capitalism (Useem, 1996), with company management often having a pluralistic view on the firm, trying to balance between claims of different stakeholders, including customers, employees, shareholders, and the general public. Companies realized that it was important to be seen as 'socially responsible' and as a 'good' employer that takes care of its employees. This helped personnel managers in their struggle with other departments. Employee relation departments often functioned as mediators between line managers and individual employees, especially for non-union employees. They operated as advocates of employees, promoting and safeguarding their interests. During these years, new government regulations were introduced. In order to comply with these new regulations, many companies expanded their central personnel departments, resulting in the centralization of their corporate labor policy (Jacoby, 2005).

At the end of the 1970s, the American government started a process of deregulation. At the same time, trade union membership fell and labor markets were deregulated. These developments all contributed to the deterioration of the position of the personnel department within the company.

A final important development that occurred during the 1980s and 1990s was the transformation of the corporate governance system. Financial innovations such as junk bonds gave shareholders the opportunity to aggressively demand more influence on corporate decisions (Jacoby, 2005). At first, these demands were resisted by many corporate boards, but a wave of hostile takeovers and other actions by activist shareholders shifted the balance of power between management and investors in favor of the latter, causing a shift from managerial capitalism to investor capitalism (Useem,

1996). No longer was there a balance between the interests of different stakeholders; shareholder value became the dominant ideology in the corporate world.

This reorientation of American corporations was accompanied by a shift in their corporate labor policy, a shift that can be characterized as a development from personnel administration to human resource management (Heilbron and Quak, 2012). Operations were reengineered in order to maximize return on investment while decreasing the number of employees. Job cuts resulted in a decrease in the budgets of personnel departments; and the short-term view on the organization caused by the dominance of shareholder value resulted in more short-term market criteria for employees as well. This was reflected in the increasing number of part-timers, temporary workers, and independent contractors. Also, compensation schemes became more market oriented. With the rise of the chief financial officer (CFO) to greater prominence, financial considerations became dominant in decisions concerning the labor force, for instance in relation to healthcare benefits. Instead of being concerned with safeguarding the interests of employees, the personnel department became concerned with the question of how the human resources of the organization should be deployed to boost financial results.

The increase in competition during the 1980s and 1990s forced companies to rapidly adjust to the changes in their market environment. Companies tried to achieve this by decentralizing responsibilities, including in relation to corporate labor policy decisions. Together with job cuts, this resulted in a further deterioration of the position of the personnel department. When, finally, HRM responsibilities were being outsourced, the shock for traditional personnel managers was complete. Each of the three traditional HRM roles – providing services to employees, advising and monitoring line managers, and safeguarding the interests of employees – was being questioned and, instead, HRM was given the role of ‘business partner’ of company management. This meant that it had an advisory role in relation to internal clients. Instead of helping disgruntled employees, HRM employees were now participating in the design of corporate policies and strategies. Although in many companies HRM executives reported directly to the CEO, most personnel departments had a secondary role (Jacoby, 2005).

In summary, the management of employees has undergone a number of profound changes. The first personnel departments were created during the first decades of the

twentieth century. Supported by government regulation and strong trade unions, they were able to improve their position within the corporate pyramid and maintained a relatively strong position well into the first decades after the Second World War. In the final quarter of the twentieth century however, this started to change; during these decades, their position within the company was fundamentally restructured. From a department that serviced employees, safeguarded their interests, and advised and monitored line managers, they became ‘business partners’ to company management responsible for aligning the corporate labor policy with the general (financial) goals of the organization. For most of the twentieth century, the idea behind the setup of large firms’ personnel departments was that they had multiple tasks and that they could execute these tasks relatively independently of other corporate policies; but in the final quarter of the twentieth century this situation changed. Personnel departments were restructured and are now concerned with the investment in, and deployment of, the organization’s human resources. Like employees themselves, the personnel department has become instrumental in the pursuit of the (financial) goals of the organization.²⁰ This development first took place in the United States, but later similar processes could be observed in other Western countries, including the Netherlands.

2.6 Conclusion

In the first three sections of this chapter I have proposed a sociological approach to transnational firms, which, as I argue, does justice to the complexities of these firms themselves as well as their environments and can be used to study their corporate labor policy. The central concept in this approach is the notion of dual embeddedness; firms are embedded in national economic fields as well as in the transnational economic field and need to take the competitive conditions in these fields into account when designing their

²⁰ In Chapter 1, I explained that in the last quarter of the twentieth century a shift took place in the economic and social policies of most Western countries, a shift that could be characterized as a shift from organized capitalism to disorganized capitalism or from embedded liberalism to neoliberalism. Earlier in this chapter, I talked about the change from managerial capitalism to investor capitalism as a description of the change that has taken place in corporate governance. And here I speak of the instrumentalization of the corporate labor policy. Although these three changes take place on different levels, they are related. The introduction of neoliberal economic policies included the deregulation of financial markets which, among other things, improved the position of financial institutions vis-à-vis firms and enabled the change to investor capitalism. This latter development resulted in the restructuring of firms in line with the interests of investors and this, in turn, included the instrumentalization of labor.

corporate policies. In section 2.4, I explained some of the mechanisms used by firms to deal with the demands of the national and transnational fields. Finally, I explained what the notion of corporate labor policy entails (section 2.5). In Chapter 3, I build upon this chapter and explain how institutional arrangements in the national and transnational fields affect the four components of corporate labor policy: work organization, rewards, employee voice, and employee flow.

Chapter 3: How do the national and transnational economic fields constrain and provide opportunities?

In Chapter 1 and 2, I have argued that, as a result of their expansion across national borders between the 1980s and the 2000s, large companies experienced a shifting emphasis in their dual embeddedness. The question central in this study is what the consequences of this development have been for their corporate labor policy given the continuing significance of national economic fields for this aspect of transnational firms.

In this chapter, I explore this dual embeddedness and explain how the national and transnational economic fields constrain transnational firms in the organization of the four components of their corporate labor policy – work organization, rewards, employee voice, and employee flow – and provide them with opportunities. I first give a general description of developments in these fields, before dealing with these four components separately. This general description is provided to improve our understanding of the development of the institutional arrangements constraining firms and providing them with opportunities. Because I studied the corporate labor policy of the case study companies, as presented in Part II, in the Netherlands and the United States (see section 4.3), in this chapter I focus on the institutional arrangements in these two specific national economic fields as well as on developments in the transnational economic field.

3.1 Development of the national and transnational economic fields

Ever since the rise of large firms in the second half of the nineteenth century, these firms have struggled with other companies in various national economic fields as well as in the transnational economic field. Whereas at first regulation was relatively mild or even absent, between the 1920s and the 1970s, regulation – including trade barriers, monetary control, and regulation concerning product, service, financial, and labor markets – at both the national and the transnational level significantly constrained competition across national borders in most Western countries. During that period, the transnational economic field was underdeveloped in comparison to the period of neoliberalism or disorganized capitalism (Harvey, 2005; Lash and Urry, 1987) of the last quarter of the twentieth century.

Transnational firms often resembled the national economic field in which they were founded. Even though, for example, Philips had already expanded its operations across the globe at the beginning of the twentieth century and experienced a decreasing dependence on the Dutch economic field over the course of that century, this national field and the local field of the Eindhoven²¹ region continued to be of great significance well into the second half of the twentieth century. It was only in the 1990s that Philips broke with this tradition. In 1997, for instance, Philips relocated its corporate headquarters from Eindhoven to Amsterdam. It also took until the 1990s before executive positions became increasingly populated by non-Dutch nationals (see Chapter 5). In many companies, transnational organizational structures and policies were not as important as they are nowadays, signifying the importance of the national level within these types of organizations.

The shifting emphasis in the dual embeddedness of transnational firms that has taken place in the past three decades was initiated by the deregulation of economic activities, which started in the 1970s in reaction to the economic crises of that time. Firms reacted to these developments by expanding their operations abroad and restructuring their organizations on the transnational level, causing a decreasing national, and an increasing transnational, dependence. At the same time however, these firms continued to experience a significant national dependence with regard to labor. Now, I will provide a general description of the development of both national economic fields and the transnational economic field.

One could easily fill a library with the literature discussing the variations and development of the institutional arrangements and structure of national economic fields. Various authors have discussed how welfare states, industrial relations systems, employment relations, business systems, or the organization of capitalist societies as a whole, vary between countries. Well known examples include Esping-Andersen's (1990) *Three Worlds of Welfare Capitalism*, Whitley's (1999) *Divergent Capitalisms: The Social Structuring and Change of Business Systems*, Scharpf and Schmidt's two volume

²¹ Eindhoven, located in the southern part of the country, is the fifth largest city in the Netherlands with a total population of around 210,000.

(2000a, 2000b) *Welfare and Work in the Open Economy*, Hall and Soskice's (2001a) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, and Streeck and Thelen's (2004a) *Beyond Continuity: Institutional Change in Advanced Political Economies*. Given the purpose of this chapter, I do not engage in an extensive discussion on the arguments made by the various authors and the pros and cons of each of their approaches. Instead, I briefly highlight the arguments and results most relevant to this study.

According to some authors, differences in the political and economic institutions of countries are “deviations from ‘best practice’ that will dissolve as nations catch up to a technological or organizational leader,” whereas others explain these differences on the basis of “durable historical choices for a specific kind of society, since economic institutions condition levels of social protection, the distribution of income, and the availability of collective goods – features of the social solidarity of a nation” (Hall and Soskice, 2001b: 1). In recent years, the idea of durable differences between national fields is gaining a stronger foothold.

Whitley (1999), for instance, argues that during the twentieth century different forms of capitalism have developed in various countries and that, despite claims of convergence caused by economic globalization, significant differences continue to exist between various forms of economic organization. “Convergence to a single most effective type of market economy is no more likely in the twenty-first century than it was in the highly internationalized economy of the late nineteenth century” (Whitley, 1999: 1). Following his arguments, we could say that there is no single most effective way of organizing economic activities as some economists might argue, for instance on the basis of transaction cost reasoning or contingency thinking. The economic and political institutions of various national fields evolve over time, to a certain degree in line with the development of the transnational economic environment. At the same time, their evolution is also influenced by their own historical development. Advanced welfare states faced similar challenges – changes in the economic environment during the 1970s, 1980s, and 1990s – but responded in different ways (Scharpf and Schmidt, 2000a, 2000b).

Streeck and Thelen (2004b) find an overall direction in the development of the economic and political institutions of Western countries. In general, the development of Western economies and their institutions in the past three decades can be labeled as following a path of liberalization: “the steady expansion of market relations in areas that under the postwar settlement of democratic capitalism were reserved to collective political decision making” (2004b: 30). This gradual process, as these authors argue, can take many forms. In France, for instance, it was primarily advanced by the state, whereas in Germany responsibilities were often handed over to the social partners negotiating under market constraints.

This literature is not only of interest to those studying the organization and institutions of capitalist societies; it is also of great interest to those studying firm behavior. Because of companies’ national embeddedness, developments in national fields are of great importance for their corporate policies. “Do companies located in different nations display systematic differences in their structure and strategies?” and “If so, what inspires these differences?” (Hall and Soskice (2001b: 1).

According to Hall and Soskice (2001b), regional and sector specific institutions are of importance in any attempt to explain differences in companies’ structures and strategies, but institutions developed on the national level play a central role. These national institutions are collective institutions formed through the interaction of a wide range of actors including firms, organized labor, and national governments. Individual firms do not have the power to steer the development of these institutions. Firms operating across national borders face different institutions in different countries. Different institutional settings constrain companies in different ways, and these companies have to deal with these constraints. Therefore, it can be expected that transnational companies have different strategies in different countries and that these strategies resemble the institutional structures of these national fields.

To give a general description of the development of national economic fields from the 1980s onwards, I compare their development with the preceding period.

During the first decades after the Second World War, many national economic fields in the Western World were dominated by a relatively small number of large, diversified companies. Consequently, competition within these fields was often mild.

Because their resultant stable positions within the national economic fields assured them continuity, these firms did not experience a need to vigorously compete with other companies in order to obtain a more dominant position. Instead, under the leadership of their executive board these firms often pursued a strategy of differentiation. The competitive conditions in these fields could be characterized as, what economists call, monopolistic competition; they contained a small number of companies that were active in somewhat separated parts of these fields. Companies were often capable of offering (a certain mix of) products and services no other company could or did and, consequently, had a unique position within the market. One could say that they dominated a subfield or niche of the national economic field.

Important non-corporate actors in national economic fields are national and local governments, and organized labor. Nation states and economic fields have always been closely related, contributing to one another's construction and development (Polanyi, 2001). Governments have an important role in national economic fields. They intervene and constrain the behavior of private firms through, among other things, the regulation of competitive relationships, a multitude of labor arrangements, state-owned companies, subsidies, and taxes.

During the 1970s, organized labor was at the peak of its strength in many Western countries. After the Second World War, organized labor was successful in strengthening its position vis-à-vis employers and national governments. This is demonstrated by the, in some cases, extensive welfare states constructed during the 1960s and 1970s, the high percentage of employees who were trade union members during that time, and trade unions' successful demands for high wage increases in the 1960s and 1970s.

In response to the economic crises of the 1970s, national governments altered their economic policies. Even though the reactions of various governments differed, some general developments can be observed in most national fields (Scharpf and Schmidt, 2000a, 2000b).

First of all, the labor markets in most Western countries experienced a certain degree of flexibilization. National governments tried to make their labor markets more adaptive to sudden as well as structural changes in economic conditions. Second, many governments altered their social security systems to keep them affordable and adjust them

to the changing labor markets. Because of the shift in the balance of power between transnational corporations and (organized) labor, trade unions and other labor representatives were in a relatively weak position faced with this development. The shift in the balance of power between transnational corporations on the one side and national governments and organized labor on the other gave transnational corporations – at least theoretically, based on the sociological approach presented in the previous chapter – the opportunity to reorganize their corporate labor policy in line with their general corporate policy, which became more and more focused on the competitive conditions in the transnational economic field.

This does not mean that transnational corporations were given the opportunity to independently organize their corporate labor policy. With regard to labor, they still experienced a significant embeddedness in national economic fields, and the competitive conditions in these fields constrained their options; and because the institutional arrangements concerning labor differed across national fields it can be expected that their labor policies also differed across countries.

A final important development that many national economic fields in Western countries experienced was the rise of shareholder value as an important business principle (Fligstein, 2001a). In both the Netherlands (Zanden, 1997) and the United States (Heilbron et al., 2011; Useem, 1996), the position of shareholders was improved by changes in regulation (see also section 3.2). In the first three decades after the Second World War, managers were the dominant actors in large firms, but, after decades of deteriorating profit margins, shareholders began more aggressively pursuing their interests, leading to the rise of shareholder value as a dominant business principle. Useem (1996) characterizes this development as a shift from managerial to investor capitalism.

Companies operating across national borders have always struggled with other corporate actors for the dominant positions within the transnational economic field. Because of the regulation of economic activities, the significance of this field was relatively limited during a large part of the twentieth century, but in reaction to the economic crises of the 1970s national governments started a policy of deregulation and privatization, which included the lowering and breakdown of trade barriers (Bourdieu,

2005; Scharpf, 1999; Scharpf and Schmidt, 2000a; Streeck, 2001). This process was implemented by various national and transnational governments and organizations. In the last quarter of the twentieth century, national governments deregulated cross-border trade and created a number of inter-, supra-, and transnational institutions to regulate transnational economic activity, such as the European Union (EU), the North American Free Trade Agreement (NAFTA), and the World Trade Organization (WTO). Existing transnational institutions such as the International Monetary Fund (IMF) and the World Bank contributed to this development. Because national legal and economic restrictions were slowly dismantled, economic activity increasingly took place at the transnational level; firms started to expand their operations abroad, resulting in an increasing significance of the transnational economic field.

Although the deregulation of economic activity implied that various governments transferred some of their power and responsibilities to these various inter-, supra-, and transnational organizations, the degree to which this happened differs. Whereas NAFTA, for instance, is a trade agreement between Canada, the United States, and Mexico, many European countries handed over part of their economic and political authority to the European Union. Various other economic agreements, with various degrees of power, exist across the globe as well (e.g. ASEAN and Mercosur). Because of the different degrees to which various countries across the globe have handed over power and responsibilities to inter-, supra-, and transnational bodies, the transnational economic field consists of various regional subfields.

So, since the economic crises of the 1970s, the transnational economic field has become increasingly significant for the corporate policies of transnational firms. The question then is how can we characterize the development of this field in the past three decades?

First of all, the increasing significance of the transnational field included growth in the number of firms struggling for the dominant positions within this field. Former 'national' companies expanded abroad and started to compete with a relatively large number of foreign companies for the dominant positions in the transnational field. This resulted in an intensification of competition and forced firms to become more cost sensitive. One of the consequences of this development was that large conglomerates

dating back to the first decades after the Second World War started divesting those activities that did not deliver sustainable results and specialized in a small number of core activities (Piore and Sabel, 1984).

A second consequence of the shift in emphasis from national to transnational embeddedness is the changing position of companies vis-à-vis national governments and organized labor. When firms were still predominantly organized on the national level, there was a certain balance of power between these firms, the state, and organized labor. With the increasing significance of the transnational economic field, firms started reorganizing themselves on this level as well, and this caused a shift in the balance of power between these actors, in favor of the transnational firm.

Third, the development of the transnational economic field in the past three decades has been characterized by the increasingly dominant position of shareholders. Both in the Dutch and in the American national field, their position has been strengthened, but because of the absence of regulation on the transnational level this is even more so the case in the transnational economic field. Transnational firms have become increasingly dependent on anonymous and remote shareholders. Whereas previously important financiers of the firm, such as banks, were often closely connected to the firm – for instance through shared board members (Heemskerk, 2007) – and interested in a long-term commitment, these new shareholders are often only attached to the company for reasons of financial interest and solely interested in the highest possible return on investment. They actively promote their interests, resulting in shareholder value becoming the dominant ideology in the corporate world and companies incorporating the shareholder value ideology in their corporate policies (Fligstein, 2001a; Heilbron et al., 2011; Useem, 1996). This development stimulated firms to specialize in those activities that deliver the best financial results.

3.2 Work organization

In this study, work organization refers to the formal organizational structure of transnational firms as well as the organization of the department responsible for the corporate labor policy of these firms (see section 2.5).

On the national level, an important constraint for this component of the corporate labor policy of transnational firms is formed by the corporate governance system. It constrains these firms in the sense that it affects the way companies should be run.

The Dutch corporate governance system takes into account the interests of various stakeholders. Even though, in recent years, the notion of shareholder value and the position of shareholders have become increasingly important, the Dutch corporate governance system is still primarily focused on the long-term continuity of the firm. It determines that firms have a two-tier board, an executive board and a supervisory board. Members of the executive board are appointed by the supervisory board, whereas members of the supervisory board are appointed by the shareholders (two thirds) and the works council (one third). The supervisory board has the responsibility to act in the best interest of the company as a whole and not just one of its stakeholders, such as its shareholders. Nonetheless, during the 2000s, the position of shareholders was strengthened – reflected, for instance, in the right of shareholders to vote against proposals in relation to executive pay during shareholder meetings. The fact that the position of shareholders has been strengthened means that, in the design of this component of corporate labor policy, their interests have become more significant.

The American corporate governance system can be labeled as shareholder democracy. Until the 1980s, top managers were the dominant actors within American corporations, but because of changes in regulation this situation has changed, a transformation that can be labeled as a change from managerial capitalism to investor capitalism (Useem, 1996), or the rise of shareholder value as the dominant conception of control (Fligstein, 2001a; Heilbron et al., 2011). Shareholders have the right to appoint the board of directors that supervises the executive board. Also, because executive pay is directly related to share price, executives have a strong financial incentive to act in line with shareholders' interests. Finally, because in the American corporate governance system it is difficult to install protective measures to prevent hostile takeovers, executives have to boost share prices to assure their survival.

Because this shift in emphasis from national to transnational embeddedness was accompanied by an increase in competition and an increasing importance of financial criteria in the decisions-making process, firms need to be more cost sensitive, and

financial criteria have become more prominent in the design of the work organization component of their corporate labor policy. These characteristics of the transnational economic field constrain firms in the sense that they force them to continuously try to do more with less (to save costs) and to restructure in line with the demands of the financial markets.²²

3.3 Rewards

In this study, rewards include all types of monetary rewards, including salaries, healthcare benefits, pensions, and social security, as well as the pay structure (see section 2.5).

Like many small, open economies, the Netherlands is largely dependent on exports for its economic success. The Dutch government's influence on developments on the world market is limited, and, in order to be able to discuss how to absorb shocks from the external economic environment, consultative bodies such as the Foundation of Labor and the Social Economic Council were set up. Through these bodies, employer and employee organizations negotiate on social and economic policies with one another and the state. Katzenstein (1985) characterized the Netherlands (and some other small European countries) in the mid 1980s as democratic corporatism, which means that the social partners and the state together bear the responsibility for the country's economic welfare (Hemerijck et al., 2000). During the 1970s, the Netherlands experienced a stagnating economy, rising wages and public spending,²³ and rampant inflation. At the beginning of the 1980s, a new coalition of Christian Democrats and Liberals took office with a strategy to improve business profitability, lower wage costs, decrease regulation, and lower public spending. An agreement – the so-called Wassenaar Agreement – was signed by the most important representatives of the employer organizations and trade unions agreeing on wage restraint, which was needed to help improve Dutch competitiveness, but also on job security, which softened the social implications (Hemerijck et al., 2000).

²² An example of such a measure could be the sale of some parts of the firm because the financial markets have a preference for firms that focus on a small number of products.

²³ Public spending rose from 30 percent of GDP in 1961 to 46 percent in 1971 and 60 percent at the end of the 1970s (Hemerijck et al., 2000).

During the 1990s and 2000s, consultations between employer organizations, trade unions, and the state continued to take place twice every year. At the same time, over the course of these decades, collective bargaining was slowly decentralized. Consultations between the social partners and the state with regard to general economic and social policy still take place on the national level, but collective labor agreements are increasingly agreed upon on the sector and firm level. Whereas in the past collective labor agreements still displayed significant similarities – caused by the consultations between the social partners on the national level – in recent years they are becoming more sector and firm specific.

So, even though firms in the Netherlands still need to take into account consultations taking place on the national level when organizing the rewards component of their corporate labor policy, developments in the Dutch industrial relations system in recent decades have provided them with more opportunities to adjust it to their individual circumstances.

Whereas the state plays a significant role in the Dutch industrial relations system, in the United States the state is largely absent. Historically, both employers and employees have always resisted state intervention, and its role has therefore primarily been to ensure that the dominance of either employers or employees does not interfere in the market process (Pot, 1998). Employers have always been the most powerful of the three actors, and in recent decades their position has become even stronger. In contrast to many other Western countries, there are no national employer organizations in the United States responsible for negotiations with trade unions on wages or other employment conditions. So, in the United States, firms are largely unconstrained by the industrial relations system.

In the three decades following the Second World War, an extensive welfare system, including a social security system, was created in the Netherlands, combining elements from the social democratic, the conservative/corporatist, and the liberal model (Esping-Andersen, 1990). It includes a general disability plan, sickness insurance, unemployment benefits, a universal state pension, healthcare benefits, and social assistance. When its costs started to rise dramatically during the 1970s and 1980s, the Dutch government started a process of minor and major changes, such as the lowering of

benefit levels and more strict criteria for eligibility. Also, some parts of the welfare state were privatized. These alterations did not, however, change the fact that employers (and employees) are obliged to contribute to this social security system; they cannot opt out of the system and neither do they have the choice of arranging these schemes themselves on the commercial market.

The United States is an example of a liberal market economy, which means that firms largely depend on the market mechanism to coordinate their activities (Hall and Soskice, 2001a). Insurance to protect against illness, disability, unemployment, and aging is not provided by the government or social partners; instead, employees are dependent on their employer to provide these benefits. Because poverty cannot be resolved through the market, here the state does play a role. An important idea behind all state provisions in the United States is that they should not interfere with the market mechanism. Therefore, benefits are relatively low, paid only for a short period, means tested, and the criteria for eligibility are strict. Firms themselves can determine which benefits they want to offer their employees.

Both the need to be more cost sensitive and the increasing importance of financial criteria constrain transnational firms regarding the rewards component of their corporate labor policy. Besides the need to bring costs down, which means saving costs on salaries, benefits, and the like, they also experience a need to improve (the predictability of) their financial results. This also means that financial risks need to be limited as much as possible, with consequences, for instance, for the pension systems that firms provide. Whereas a defined benefits system implies long-term risks for the firm, with a defined contribution system firms are more certain about actual costs. Also, the rise of the shareholder value ideology pushes firms to implement its principles in the rewards component of their corporate labor policy (Fligstein, 2001a; Useem, 1996).

3.4 Employee voice

Employee voice concerns those mechanisms that result in the interaction between employer and employees in relation to the way the organization in general is run and employees' daily work in particular is organized (see section 2.5).

Even though employee voice is primarily focused on the firm level and not the national level as the industrial relations system is, in the Netherlands employee representatives (trade unions) do negotiate with employer organizations and the state on a wide range of issues influencing their day-to-day work. This is a formal way of organizing the employee voice component of corporate labor policy – a way from which they cannot deviate.

This does not occur in the United States. On the contrary, in the United States certain employer organizations are concerned with avoiding unionization. This stems from the fact that the United States is characterized by a system of populism: if the majority of employees support a union, this union has the right to act as these employees' representative. Consequently, many firms try to discourage unionization. Unions in the United States are not characterized by a certain political ideology, as most unions in Europe are; rather, they are primarily focused on worker benefits. In contrast to employer organizations, US unions have organized themselves on the national level. One of their most important weapons is the threat of strike, but this requires significant financial reserves. Both employer organizations and unions are involved in counter-lobbying: unions for labor legislation and employer organizations for deregulation. US unions were at the peak of their strength during the first decades after the Second World War, but in recent decades the number of members has declined and their position has weakened (Katz and Wheeler, 2004).

At the same time, however, the American government does regulate the way in which organized labor and companies interact, for instance by prescribing the procedure to determine whether a union has the right to represent workers, but it refrains from intervening in the bargaining process itself.

An important piece of legislation that affects the way employee voice is organized in the Netherlands is the Works Council Act. This act was implemented in 1950 and amended twice in the 1970s. Its aim is to “democratize the corporation by giving employees certain rights on managerial issues” (Pot, 1998: 127). Works councils consist of elected employees and operate independently of company management. They have three statutory rights, called information rights, consultative rights, and rights of appointment. The works council has a right to information with regard to, among other

things, the sale of the corporation, major acquisitions or reductions in the number of employees, and the hiring of temporary staff. And the works council has to agree to changes implemented by management with regard to hours of work, pay and job evaluation systems, pensions, grievance procedures, recruitment, promotion, training, and dismissal procedures. Finally, since 2004, works councils have the right to propose candidates for the supervisory board. Firms cannot deviate from this act and are, in this sense, constrained.

This differs significantly from the United States where employees have no managerial rights; instead, in the United States management rules. They have the opportunity to organize the employee voice component of corporate labor policy largely without constraint.

For the employee voice component of corporate labor policy an important consequence of the shift in emphasis from national to transnational embeddedness is the changing, more dominant position of firms vis-à-vis national governments and organized labor. This shift implies a decreasing dependency on these actors and therefore provides transnational firms with the opportunity to more independently organize this component of their corporate labor policy. Because transnational firms have become less dependent on these other actors, they can more freely determine the way in which they want to organize this component.

3.5 Employee flow

Employee flow refers to processes concerning the movement of people through the organization, such as selection, recruitment, development (training), promotion, and resignation (see section 2.5).

In the Netherlands, the employment relationship is organized through individual and collective labor agreements clearly stating the rights and duties of both employers and employees. The majority of labor contracts do not contain a clause stating the duration of the agreement; rather, their duration is indefinite. This means that, if a company wants to end a labor contract, it has to prove that it has legitimate economic reasons to do so, and, even then, this can be a lengthy and costly procedure. At the end of the 1990s, the Flexibility and Security Act was implemented, granting temporary workers

more rights and providing employers with the option of giving employees fixed-term contracts for a maximum of three years before contracting them for an indefinite period.

In the United States, employers have a high degree of freedom concerning the hiring and firing of employees: *'The way it works in the US is what they call employment by will. There is basically a general understanding between an individual who is hired by a company and the company that at any time we reserve the right to release you. And I, as an employee, can say, at any time, that I reserve the right to leave. Of course labor laws that have been built around that concept have restricted it, but at the end of the day I don't receive a contract every year or have a paper. Basically I get paid for performance and guaranteed (...) there is a certain reasonable understanding that if I perform in the job, if I obey the rules in the company, and I conduct myself in a way as a professional, then I should be employed. The company says: I will conduct my business in a way that is professional and I will treat you on the courts and the laws and the policies of the company. However, if business conditions should change and I decide to either sell the business, close the business, or move in a different direction, whatever the rules and guidelines are, I can end the employment relationship.'*²⁴ So, both the employer and the employee can end the employment relationship at any time, and this provides them both with a great deal of flexibility. This does not mean that the employment relationship is not regulated at all. Regulation to prevent discrimination is very strict, when both hiring and firing employees, especially if the company depends on government contracts. Regulation concerning the terms and conditions of employment is "limited to the areas of employment discrimination, worker safety, unemployment compensation, minimum wages and maximum hours, and retirement" (Katz and Wheeler, 2004: 74).

The transnational economic field forces firms to be cost sensitive and improve their financial results and therefore constrains firms in their decisions on where to hire employees. To reduce costs, it seems logical that they will primarily employ people in locations with low labor costs and will not be keen on investing in extensive training facilities. On the other hand, their improved position vis-à-vis trade unions and national and local governments that accompanied the shift in emphasis from national to

²⁴ Interview 2 ING US: HR manager 20 years' experience.

transnational embeddedness increases the opportunities for transnational firms to more independently organize the employee flow component of their corporate labor policy.

3.6 Conclusion: constraints and opportunities

Transnational firms are embedded in multiple national economic fields and the transnational economic field. The structure of, and the conditions in, these fields constrain these companies in the design and implementation of their corporate policies, as well as providing them with opportunities.

On the national level, various institutional arrangements constrain transnational firms in the design of their corporate labor policy, even though there are clear differences between the national fields in the Netherlands and the United States. In general, we can say that in the United States firms experience fewer constraints consequent to state regulation than firms in the Netherlands. Also, the position of trade unions in the United States is weak in comparison to their position in the Netherlands. On the other hand, the position of shareholders vis-à-vis firms in the United States is stronger than that in the Netherlands. So, firms in the United States are constrained in different ways than they are in the Netherlands. In general, we can say that in the Netherlands they primarily experience constraints from public actors, whereas they primarily experience constraints from private actors in the United States.

In the United States, work organization is primarily affected by a corporate governance system that favors shareholders' rights. In the Netherlands, the corporate governance system implies that firms need to take into account the interests of various stakeholders, even though in recent years the position of shareholders has been strengthened. With regard to rewards, in the Netherlands firms are constrained by the social security system as well as the collective way in which most labor contracts are agreed upon, whereas in the United States these institutional arrangements are not that well developed and therefore do not imply significant constraints. With regard to employee voice, firms are also largely unconstrained by state regulation and the position of trade unions in the United States, whereas in the Netherlands they are obliged to establish works councils, which have various rights. Finally, whereas in the Netherlands employees experience a significant degree of protection with regard to hiring and firing,

in the United States most employees work on the basis of employment by will. So, with regard to employee flow also, US firms experience fewer constraints as a result of institutional arrangements attached to the state than Dutch firms do.

Three developments in the transnational economic field are of importance to transnational firms with regard to the organization of their corporate labor policy. First of all, the stronger position they have obtained vis-à-vis organized labor means that the interests of the latter actor are of less significance in the design of the various components of the corporate labor policy of transnational firms. This does not mean, however, that transnational firms do not experience constraints in the transnational economic field at all. Rather, the relatively intense competition in this field forces them to be cost sensitive in the design and implementation of their work organization, rewards, and employee flow; and consequent to the rise in the importance of the financial markets that accompanied their growth, financial criteria have become increasingly important in the design of their corporate labor policy.

Chapter 4: How to study the development of the corporate labor policy of a transnational firm?

Between the 1980s and the 2000s, many firms expanded their operations across national borders and experienced a shift in emphasis in their dual embeddedness in national and transnational economic fields. They became increasingly dependent on the transnational economic field, while experiencing a decreasing dependence on national economic fields. Labor, however, is still one aspect of these firms that is primarily embedded in national economic fields. In Chapter 3, I explained how these fields constrain, and provide opportunities for, the different components of a transnational firm's corporate labor policy.

In this chapter, I explain how I studied these firms' corporate labor policies to determine the consequences of the changes in their dual embeddedness. To do so, I sharpen the preliminary central question presented in the first chapter, formulate research questions (section 4.1), derive expectations from the theoretical framework and the description of the transnational and national economic fields presented in the previous chapters (section 4.2), and present the research method (section 4.3).

4.1 Research questions

In Chapter 1, I formulated the following preliminary central question: *what have been the consequences of the changing national and transnational dependencies of transnational firms since 1980 for their corporate labor policy, given that the institutional arrangements concerning labor differ across countries, and how can these consequences be explained?*

On the basis of the sociological approach to transnational corporations presented in Chapter 2, I now rephrase this question as follows: *what have been the consequences of the shift in emphasis in the dual embeddedness of transnational firms since 1980 for their corporate labor policy given the continuing national embeddedness of labor, and how can these consequences be explained?*

In order to be able to answer this question, three research questions need to be addressed. First, I have to determine what transnational corporations' dual embeddedness looks like: (1) *what is the structure of the national and transnational economic fields in which transnational corporations are embedded, and how have they developed since 1980?*²⁵

Once the structure and dynamics of the economic fields in which the transnational firms are embedded are clear, the next question is how they have reacted to the developments in these fields. Because all fields in which these firms are embedded are structured differently and have developed in their own distinctive manner, it can be expected that these fields provide different opportunities and constraints: (2) *how have transnational corporations reacted to the constraints and opportunities caused by the shift in emphasis in their dual embeddedness in national and transnational economic fields?*²⁶

Finally, the question is how this has affected the policies concerning the factor labor: (3) *what have been the consequences of this shift for their corporate labor policy?*²⁷

4.2 Expectations

To guide the empirical research as presented in Part II, I formulated eight expectations. Like the research questions presented above, these expectations concern the development and structure of the fields in which the case study companies are embedded, how companies have reacted to their development, and what the consequences have been for their corporate labor policy.

Before presenting the expectations, I first explain how they have been developed and how they are used within this study. The expectations are based on the theoretical framework and the description of the transnational and national economic fields as presented in the previous two chapters. The construction of the theoretical framework is not the result of a purely theoretical exercise. The work of, amongst others, Granovetter,

²⁵ See Chapter 3.

²⁶ See Chapters 5 and 7.

²⁷ See Chapters 6 and 8.

Fligstein, and Bourdieu is used as the basis of this framework, but it is primarily the result of a synthesis of their work, the development of the economic and political policies of Western countries between the 1980s and the 2000s, and the general development of large firms during this period (see section 2.3). Therefore, the expectations presented in this section are neither the result of a hypothetico-deductive method, nor the result of a purely inductive approach. Consequently, they should not be used in line with one of these classical methods of scientific research. Instead, in this study, the expectations are used in a way similar to Blumer's (1954) notion of sensitizing concepts. They give "a general sense of reference and guidance in approaching empirical instances" (1954: 7). They are intended to give direction to the empirical research presented in Part II and help organize the data and identify the working of the mechanisms as presented in Chapter 2.

In order to be successful in the transnational economic field – obtain a dominant position – transnational firms have to adapt their corporate policies to the competitive conditions in this field. At the same time, the national embeddedness of labor calls for labor policies adapted to the conditions in the various national economic fields in which the company is embedded. Transnational firms are confronted with the two opposing forces of transnational integration and national adaptation (see section 2.4); whereas their transnational embeddedness calls for centralized transnational labor policies, their national embeddedness calls for decentralized national labor policies. Companies operating across national borders need to find a way to deal with these two opposing forces.

On the basis of the observation that transnational firms have experienced an increasing transnational dependence, I come to the following first expectation: *as a result of the shift in emphasis in their dual embeddedness since 1980, transnational corporations have reorganized their corporate policies and structures to fit this new situation by reinforcing their transnational structures and transnational standardized policies, accompanied by specific goals and targets for their policies to be implemented on the national level, leading to centralization* (expectation 1).

In Chapter 2, I explained that in studying work organization I focus on two things, of which the evolvement of the department responsible for the development and

execution of the corporate labor policy is one. In section 2.5, I also explained how in the twentieth century personnel departments have developed as part of the overall restructuring of the firm. On the basis of these observations and the shift in emphasis in the dual embeddedness of transnational firms, I expect that *as part of the restructuring of transnational firms between the 1980s and the 2000s their personnel departments have been restructured to align their corporate labor policies with the general corporate policies of the organization; employees and personnel departments have become instrumental in the pursuit of the financial goals of the organization* (expectation 2).

In Chapter 1, I explained that during the first decades after the Second World War in many Western countries a certain redistribution of risks and responsibilities developed based on national networks of interdependencies between firms, national governments, and (organized) labor. Risks were at least partly collectivized, and companies bore a significant share of the risks and responsibilities concerning labor. As a result of the transnational restructuring of economic activities in the past three decades, the interdependencies between these actors have shifted with firms obtaining a more dominant position. On the basis of this development, I expect that *transnational firms have shifted risks and responsibilities concerning the factor labor to other parties, such as national governments and individual employees* (expectation 3).

In Chapter 1, I explained that some scholars claim that globalization will lead to a “race to the bottom” (Scharpf, 1999: 17) in working conditions, wages, and social protection. This claim is discussed not only in the scientific literature, but also often during heated political debates and in the popular press. The idea behind this claim is that now that companies can more easily transfer their production sites from one country to the other, they will use this to force governments to lower their taxes and organized labor to lower its demands (Harzing, 2004). Scharpf (1999) researched this claim with regard to taxation in European countries and did not find any support. Besides the fact that I do not expect that a race to the bottom in rewards has occurred, I also argue that the notion of a race to the bottom does not do justice to the complexity of these types of firms and the national and transnational fields in which they are embedded.

Transnational firms experience a dual embeddedness and, in order to be successful, they have to meet the conditions in both the transnational and the national

economic fields in which they are embedded. Because of their continuing national embeddedness, I do not expect a convergence in the corporate labor policy of transnational corporations. Because of the complexity of this type of organization and the various fields in which they are embedded, I expect a more differentiated development. In line with their transnational embeddedness it can be expected that transnational corporations have developed transnational labor policies, specifically for those employees with responsibilities on this level (current and future top executives). At the same time, employees with national responsibilities can be expected to be supported by national policies executed by the national levels of the organization. Finally, in order to reduce costs and increase competitiveness, all work that does not necessarily have to be executed in a specific country will be transferred to countries with low labor costs (Oesch and Menes, 2010). So, as a result of their own complexity and the complexity of the national and transnational economic fields in which they are embedded, I expect *a differentiation in the corporate labor policy of transnational corporations, consisting of a transnational component targeted at employees with transnational responsibilities, national policies for other employees, and the transfer of activities that do not necessarily have to be performed in a specific country to low cost countries* (expectation 4).

Even though I presented transnational corporations' labor policy as a single undifferentiated policy in the first expectation, in expectation 4 I have presented a more nuanced picture. But, besides a differentiation between various groups of employees, I also expect to find a differentiation in various types of practices, a difference between the Netherlands and the United States, and a difference between organizations operating in different sectors.

As discussed in Chapter 3, work organization (see section 3.2) refers to the formal organizational structure of transnational firms as well as the organization of the department responsible for the corporate labor policy of these firms. In the United States, work organization is primarily affected by a corporate governance system that favors shareholders' rights. In the Netherlands, the corporate governance system implies that firms need to take into account the interests of various stakeholders, even though in recent years the position of shareholders has been strengthened. Increasing competitiveness and the focus on financial criteria on the transnational level mean that

firms need to improve their productivity, cut costs, and (re)organize in line with the demands of the financial markets.

Rewards (see section 3.3) include all types of monetary rewards, including salaries, healthcare benefits, pensions, and social security, as well as the pay structure. In the United States, firms experience fewer constraints consequent to state regulation or the position of trade unions in organizing this component of their corporate labor policy than firms in the Netherlands. They can provide benefits to employees via the market if they decide to offer these, whereas in the Netherlands firms are constrained by the social security system and have to take into account agreements made between the social partners on the national level and negotiate with unions on the specifics of these agreements. As with work organization, the need to lower costs and the increasing importance of financial criteria on the transnational level constrain firms concerning this component of their corporate labor policy.

Employee voice (see section 3.4) comprises all those mechanisms that result in the interaction between employer and employees concerning the way the organization in general is run and employees' daily work in particular is organized. In the United States, firms are largely unconstrained by state regulation and the position of trade unions, whereas in the Netherlands they need to take into account the position of works councils and a variety of consultative and negotiation organizations on the national and sector level. Arrangements concerning this component of corporate labor policy are largely absent at the transnational level; and, because organized labor has no strong position at this level, firms do not experience significant constraints.

Finally, employee flow (see section 3.5) refers to the various practices relating to the transfer of people through the organization, including recruitment and selection, training and education, promotion, and dismissal. Again, there is a clear distinction between the Netherlands and the United States, with firms being more constrained by the institutional arrangements in the Dutch economic field than in the United States. The need to be cost sensitive and the increasing importance of financial criteria, combined with the weak position of organized labor at the transnational level, provide transnational firms with the opportunity to reorganize this component of their corporate labor policy in line with the competitive conditions in this field.

So, each of the four components of corporate labor policy is constrained by the institutional arrangements in the national and transnational fields in different ways. On the basis of the descriptions above and in Chapter 3, I expect *that as a result of the shifting emphasis in their dual embeddedness: (a) with regard to work organization, both transnational firms in general and their personnel department have been restructured on the transnational level; (b) with regard to rewards, transnational firms have cut costs and reorganized the way employees are rewarded in line with the interest of their shareholders; (c) with regard to employee voice, transnational firms have introduced forms of transnational communication but have not introduced employee influence on this level; and (d) with regard to employee flow, transnational firms have outsourced production capacity to low cost countries and centralized training facilities on the transnational level for those employees with transnational responsibilities* (expectation 5).

In Chapter 3, I explained that the structure and dynamics of the national economic fields in the Netherlands and the United States differ and, therefore, constrain transnational firms in different ways. In general, we can say that in the United States firms are less constrained by state regulation and the position of trade unions, and shareholders have a stronger position in the United States, forcing firms to develop and implement policies in line with their interests. The question is what the consequences of the shifting emphasis in the dual embeddedness of transnational firms have been for their corporate labor policy in these two countries. On the basis of the description of the development of the national economic fields in Chapter 3, I expect that, *given the changes in the relationships between the different actors in the Dutch economic field and the American economic field and the changes in the institutional arrangements in these two countries, the corporate labor policy of transnational firms in the Netherlands is increasingly starting to resemble their corporate labor policy in the United States* (expectation 6).

Large firms operating across national borders are not only in competition with other firms in the same sector (e.g. the financial or pharmaceutical sector). Rather, as Fligstein (2001a) argues, they struggle with other large firms in the transnational economic field. This does not mean, however, that all firms experience an increasing significance of the transnational economic field in a similar manner or at the same time.

Depending on, amongst other things, the type of products and services firms produce and the regulation regarding these products and services, firms' increasing transnational dependence differs, and the resulting reorganization of their corporate labor policies can, therefore, be expected to display differences as well. Therefore, I expect that *the corporate labor policies of transnational firms from different sectors, each experiencing a shifting emphasis in their dual embeddedness, will develop in similar ways, but the timing of these developments and the specific way these developments unfold will differ between firms from different sectors as result of the characteristics of these sectors, resulting in processes of path dependency* (expectation 7).

In short, the first expectation states that firms are becoming increasingly embedded in the transnational economic field and that they are adapting their corporate labor policy to the conditions in this field. This implies that the corporate labor policies of transnational firms around the globe are converging and starting to look alike. In the last four expectations (4 through 7), I painted a more nuanced picture, arguing instead that these policies will display a certain degree of differentiation depending on types of employees, the specific component of corporate labor policy, the institutional arrangements in the national economic field in which the firm is embedded, and the sector in which the company is active. On the basis of these previous expectations, I expect that *the centralization on the transnational level of transnational firms' corporate labor policies is more limited than the centralization on the transnational level of other domains and that these firms' corporate labor policies will experience only a limited degree of convergence* (expectation 8).

4.3 Research method

In this study, I analyze the consequences of the profound shift in emphasis in the dual embeddedness of transnational corporations for their corporate labor policy. I want to provide a detailed insight into how exactly this process has unfolded between the 1980s and the 2000s: which mechanisms explain these developments? This is theoretically driven exploratory research requiring a qualitative approach.

As we have seen in Chapter 2 (section 2.5), the vast majority of studies on the corporate labor policy of firms operating across national borders consist of (large-scale)

surveys of a (small) number of HR practices of transnational corporations in different countries at one point in time. These surveys demonstrate how these practices differ between firms and across countries, but they do not provide a detailed insight into the reasons behind these differences, they do not enable us to understand their historical development, nor do they provide us with the opportunity to get an oversight of the entire corporate labor policy of these firms. To do just this, I have chosen to conduct a small number of detailed case studies. By doing so, I shall be able to explain the mechanisms at work and provide insights that are unobtainable with these more common approaches.

By mechanisms, I mean explanations for “the causes and consequences of individual action oriented to the behavior of others,” which are not only precise in the sense that they are “specifically tailored to a specific range of phenomena,” but also abstract in the sense that they provide for “a prompt elimination of irrelevant factors and a sharp focus on the central issue,” in addition to “a fine-grained as well as tight coupling” between cause and effect (Hedström and Swedberg, 1998: 24-25).

Now, a first question that needs to be answered is how many case studies should be conducted.

In the previous section, I explained that I expect differences between the different components of corporate labor policy, between countries, and between firms from different sectors. This has to be taken into account during the selection of the case studies. By conducting in-depth case studies, I shall be able to compare between different components of corporate labor policy. By analyzing two firms from two different sectors (one industrial organization and one service organization) I shall be able to compare between sectors. And by studying both of these organizations in two countries, I shall be able to compare between countries. So, this means that I shall conduct a total number of four detailed case studies (two firms in two countries).

A second question is which companies to analyze.

As a first case study company, I selected electronics equipment producer Royal Philips Electronics (*Philips*). Philips was founded in the Netherlands at the end of nineteenth century and expanded its operations across the globe over the course of the twentieth century. Even though Philips started this expansion in the 1920s and 1930s, it

really took off after the Second World War. By the 1970s, Philips was seen as the “embodiment of the age of mass production” (Sluyterman, 2005: 129) and as “one of the few truly global companies in the world” (Atzema et al., 2008: 186); but, although Philips already had production and sales facilities around the globe before the start of this study’s time period, it was primarily governed and controlled on the national level. Philips’ national organization retained a dominant position within the organizational structure. It was only in the 1980s that Philips started a process of transnational restructuring that completely changed the company. Therefore, Philips is an excellent case to study the consequences for their corporate labor policy of the shift in emphasis in the dual embeddedness of transnational corporations.

As a second case study company, I selected ING Group (*ING*), a large, originally Dutch provider of financial services across the globe. This firm was selected for three reasons. First of all, the financial sector is one of the most highly internationalized sectors (Bourdieu, 2005). Second, ING is the result of a merger between three financial corporations at the end of the 1980s and beginning of the 1990s, one of which was formerly state owned. Consequently, it can be expected that the labor policy of this company underwent drastic changes between the 1980s and the 2000s. This does not make it completely exemplary for all transnational corporations, but it does demonstrate the changes that took place in their corporate labor policy in a relatively short time period. Finally, in the relatively short research period (from 1980 onwards), ING rapidly expanded its operations across the Dutch borders. Taken together, this makes ING an excellent case to demonstrate the consequences for their corporate labor policy of the changing dual embeddedness of transnational corporations.

As explained above, in this study I compare firms from different sectors. Therefore, I chose Philips, an industrial corporation, on the one hand, and ING, a service organization, on the other. Because of the local embeddedness of services, it is hard to outsource these activities to other countries. Transnational corporations from the service sector do not have the potential to move production abroad as easily as an industrial company has. Consequently, service companies are embedded in national fields to a higher degree than industrial companies. Whereas ING provides financial services that are difficult to outsource to low cost countries, Philips’ production process can be located

anywhere across the globe. This gives Philips a possibility for its corporate labor policy that ING does not have, and it would be interesting to see what the consequences of this difference are for the corporate labor policy of these two organizations.

A difference in timing can be expected between the two case study companies as well. From the 1970s onwards, national economic fields became more integrated, but there are significant differences between the sectors in which the two companies are active. The electronics sector experienced the integration of national economic fields as far back as the 1970s and 1980s, whereas it took until the 1990s before the integration of the financial sector took off.²⁸

A final, third, question is in which countries these companies will be studied.

I selected two transnational corporations of Dutch origin because as a relatively small but open economy the consequences of changes in the international economic environment are of great importance to the Netherlands. Small countries often react quickly to these changes (Katzenstein, 1985). Changes in the national field in which labor is embedded can therefore be expected to take place first in a small but open economy like the Netherlands. If we focus on the organization of labor in the Dutch economic field, we can say that, as we have seen in Chapter 3, various institutional arrangements constrain firms in the organization of their corporate labor policy.

In order to demonstrate the differentiation in corporate labor policies within companies, an international comparison will be conducted. In the Netherlands, institutional arrangements attached to the state and organized labor are of great significance for the corporate labor policy of transnational firms. The Netherlands can be characterized as a “coordinated market economy of the corporatist variant, characterized by a high degree of mutual cooperation between unions and employers, and regular consultation with the government” (Visser and Meer, 2011: 228). Therefore, an interesting comparison would be a national economic field that can be characterized as a liberal market economy, which means that “firms coordinate their activities primarily via hierarchies and competitive market arrangements” (Hall and Soskice, 2001b: 8). The United States is seen as the prime example of a liberal state and is therefore the most logical candidate. Because of the size of the US market, many foreign firms, among

²⁸ The explanation of the differences between the two case studies is dealt with in the concluding chapter.

which Philips and ING, have expanded their operations to this national field as well. This makes it an excellent candidate, and I therefore selected the United States as the second case study country.

Even though I am comparing the corporate labor policy of two transnational firms in two countries, with one of these two countries being the host country of these two firms, I, again, want to stress that this is not intended as a study of home–host country effects. I am not trying to determine whether specific policies are transferred from the home to the host country, or the other way around. Rather, I am researching the consequences of the shifting emphasis in the dual embeddedness of transnational companies for their corporate labor policy in countries that differ in the way labor is organized.²⁹

There was a significant difference in ease of access to the two case study companies. ING was informally approached through a personal contact, giving me access to two senior HR managers and a director of one of ING’s Dutch subsidiaries. After three introductory interviews (February–April 2007), I was introduced to the head of the archives department who gave me access to the annual financial and social reports, the minutes of the meetings of the supervisory board, and various reports on company policies, including the company’s corporate labor policy, for the period 1970–2005. All these documents were studied to get a first overview of the development of the corporate labor policy of ING and its predecessors in the Netherlands and its development on a transnational scale. When this was done, a further 19 interviews (February–October 2009) were conducted in the Netherlands with ING employees on various hierarchical levels, representatives of ING’s works council, and union representatives, primarily discussing corporate labor policy in the Netherlands and ING’s restructuring on the transnational level. Finally, another ten interviews were conducted with ING employees in the United States (January 2010) to discuss ING’s US labor policies and enable comparison with the Netherlands. One of ING’s top HR managers introduced me to ING’s US office, and they were very willing to cooperate. The interviewees also provided me with relevant documentation about ING’s US labor policies.

²⁹ See also section 2.3 and Chapter 3.

Whereas ING's top management and other employees were all very willing to cooperate, the research conducted at Philips proved to be more challenging. After I formally asked Philips' top management for their cooperation, they, at first, responded positively, only to tell me that they would not cooperate three months later. When I again formally requested their cooperation, thereby stressing its importance for this research, they agreed to cooperate partly (access to corporate archive and one interview), but only a few weeks later I was told by the archive department that they could not assist me because they did not have a systematic archive with HR documents.

As one of the oldest large Dutch companies and one of the largest employers in the Netherlands during most of the twentieth century, Philips is not only a very interesting case study for this research, but has also been researched and debated by various scholars in the past. Despite the lack of cooperation, I therefore decided to go ahead. At the University of Nijmegen, I found a collection of financial reports covering most of the study period (the rest were found online). And at the Dutch Economic Historical Archive (NEHA) in Amsterdam I found the *Philips Koerier*, Philips' weekly and later two-weekly personnel magazine, which also published Philips' annual social report for the period 1960–1996. At the end of the 1990s, this magazine was replaced by a monthly newsletter, and Philips' social report was integrated into its *Financial and Corporate Social Responsibility Report*. Through a union representative whom I interviewed, I also got into contact with three of Philips' senior HR managers, a former union representative, and two former works council members, all of whom I interviewed (November 2009–January 2010). One of the works council members also gave me access to an annual report that Philips sends to its works council members, for the period 1970–2008. This primarily included figures on changes in the composition of Philips' work force. Via Philips' Dutch HR managers I was brought into contact with Philips HR department in the United States, where I was able to conduct another six interviews (March–April 2010). Finally, I conducted an interview with one of Philips' top HR managers at company headquarters. In total, I conducted 14 interviews in relation to Philips.

All interviews, with the exception of Philips US 1, conducted at Philips and ING were recorded, transcribed, coded, and analyzed in a software program designed for this

purpose (Atlas.ti) using keywords derived from the various HR topics as distinguished in section 2.5. Table 4.1 provides a list of the interviews and a profile of the interviewees.

The central question of this study has a clear causal component: how do different components of transnational corporations' labor policy develop under the influence of the changes in its dual embeddedness in national and transnational economic fields? Even though I argue that it is possible to find examples of this transnational influence, the causal claim can be disputed because of the complex nature of the topic. In order to make this claim at least plausible, I took the following three steps. First of all, conducting case studies in two companies in two countries (a total of four case studies) makes a comparison between cases possible. By analyzing the working of different mechanisms in all four cases, I can at least show the direction of the development of the corporate labor policy and how exactly this works. Second, I used a combination of sources of information. Besides analyzing company documents, I conducted interviews with present and former employees (primarily people working at the various HR departments, but at different levels within the organization) and with outside experts such as trade union officials and a research journalist. Depending on the background of the interviewee, the interviews focused on particular components of the firm's corporate labor policy, but with all interviewees the wider development of the firm and the firm's corporate labor policy were discussed. Because the companies studied are both large transnational corporations that receive a lot of attention, other researchers have also conducted studies on these companies. I used their findings as data for my research, as background material during my interviews, and in order to check findings from other sources. Finally, because of the public nature of these companies (they are, for instance, both listed on the stock exchange), they regularly come under the media spotlight. By using the combination of methods explained above, I am convinced that I am able to demonstrate the working of the above-explained mechanisms and make the link between transnational corporations' changing dual embeddedness and changes in their corporate labor policy at least plausible.

Table 4.1 Conducted interviews

| Philips Netherlands (NL) | Most recent function | Experience at/with company | Date of interview |
|-----------------------------------|-----------------------------|-----------------------------------|------------------------------------|
| Interview 1 | Trade union official | 20 years | 9 November 2009 |
| Interview 2 | Trade union official | 30 years | 1December 2009 |
| Interview 3 | Works council member | 30 years | 2 December 2009 |
| Interview 4 | Works council member | 20 years | 8 January 2010 |
| Interview 5 | Senior HR manager | 30 years | 25 January 2010 |
| Interview 6 | HR manager | 22 years | 25 January 2010 |
| Interview 7 | HR manager | 25 years | 25 January 2010 |
| Philips United States (US) | | | |
| Interview 1 | HR manager | 15 years | 30 March 2010 |
| Interview 2 | Senior HR manager | 2 years | 30 March 2010 |
| Interview 3 | HR manager | 26 years | 31 March 2010 |
| Interview 4 | HR manager | 10 years | 30 March 2010 |
| Interview 5 | HR manager | 30 years | 1 April 2010 |
| Interview 6 | HR manager | 15 years | 1 April 2010 |
| ING Netherlands (NL) | | | |
| Interview 1 | HR manager | 30 years | 16 February 2007 |
| Interview 2 | HR manager | 35 years | 28 February 2007 |
| Interview 3 | Senior HR manager | 35 years | 24 April 2007 and 12 February 2009 |
| Interview 4 | HR manager | 30 years | 24 February 2009 |
| Interview 5 | HR manager | 12 years | 27 February 2009 |
| Interview 6 | HR manager | 26 years | 10, 20 March 2009 |
| Interview 7 | HR manager | 38 years | 11 March 2009 |
| Interview 8 | HR manager | 22 years | 16 March 2009 |
| Interview 9 | Works council member | 40 years | 17 March 2009 |
| Interview 10 | Senior HR manager | 18 years | 19 March 2009 |
| Interview 11 | Works council member | 35 years | 23 March 2009 |
| Interview 12 | Senior HR manager | 20 years | 25 March 2009 |
| Interview 13 | Trade union official | | 25 March and 6 April 2009 |
| Interview 14 | Employee HR department | 3 years | 1 April 2009 |
| Interview 15 | Works council member | 23 years | 1 April 2009 |
| Interview 16 | HR manager | 20 years | 6 April 2009 |
| Interview 17 | Works council member | 23 years | 15 May 2009 |
| Interview 18 | Senior HR manager | 5 years | 15 June 2009 |
| Interview 19 | HR manager | 5 years | 4 October 2009 |
| ING United States (US) | | | |
| Interview 1 | Senior HR manager | 15 years | 11 January 2010 |
| Interview 2 | HR manager | 20 years | 11 January 2010 |
| Interview 3 | HR manager | 4 years | 12 January 2010 |
| Interview 4 | HR manager | 31 years | 12 January 2010 |
| Interview 5 | HR manager | 2 years | 13 January 2010 |
| Interview 6 | HR manager | 10 years | 14 January 2010 |
| Interview 7 | HR manager | 5 years | 14 January 2010 |
| Interview 8 | HR manager | 7 years | 14 January 2010 |
| Interview 9 | HR manager | 15 years | 14 January 2010 |
| Interview 10 | HR manager | 12 years | 14 January 2010 |

Part II

A sociological analysis of transnational firms and their corporate labor policy

Chapter 5: The dynamic history of an industrial conglomerate: Royal Philips Electronics

In this chapter, I present and explain the development of Royal Philips Electronics (*Philips*). This electronic giant was founded at the end of the nineteenth century as a producer of electric light bulbs in the Dutch city of Eindhoven³⁰ (Sluyterman, 2005; Smidt, 1990). Over the course of more than a century, it has developed from: (1) a company that was significantly embedded locally in the Eindhoven region during the first half of the twentieth century (around 40,000 employees in 1929³¹) while exporting its products across the globe and opening up production and sales facilities in various, primarily European, countries; to (2) a primarily nationally embedded company with a significant presence in the Eindhoven region, but rapidly expanding its presence in the rest of the country and around the globe during the first three decades after the Second World War (around 400,000 employees in 1970³²); and, finally, (3) restructured itself into a transnational firm of Dutch descent that adjusted its corporate policies and strategies to the competitive conditions of the transnational electronics field in the last quarter of the twentieth century and the first decade of the twenty-first century (around 115,000 employees in 2009³³).

In Chapter 4, I explained that this study focuses on the development of two transnational corporations in two national fields, the Netherlands and the United States. In this chapter, I focus primarily on Philips' development in these two countries. I provide a historical overview of Philips' development and the fields in which it was and is embedded, thereby providing all the necessary information to understand the changes in the corporate labor policy of this electronics giant presented in the next chapter, studying the first expectation as presented in section 4.2, and illustrating the mechanisms that explain transnational firms' behavior as presented in Chapter 2. I expect that, as a result of a shifting emphasis in its dual embeddedness since 1980, Philips has reorganized

³⁰ Eindhoven, located in the southern part of the country, is the fifth largest city in the Netherlands with a total population of around 210,000.

³¹ Of which around 27,500 were employed in the Netherlands, primarily in the Eindhoven region, and around 12,500 abroad.

³² Of which around 50,000 were employed in the Eindhoven region and 100,000 in the Netherlands in total.

³³ Around 14,000 are still employed in the Netherlands.

its corporate policies and structures to fit this new situation by reinforcing its transnational structures and standardized policies, accompanied by specific goals and targets for its policies to be implemented on the national level, leading to centralization.

5.1 Locally embedded, but competing across the globe

At the end of the nineteenth and the beginning of the twentieth century, the lighting industry was dominated by three American and German electronics giants: General Electric, AEG, and Siemens. These companies dominated this rapidly expanding industry because of their large home markets. Philips³⁴ suffered from the disadvantages of being a relative latecomer to the field and having a small home market. But, because of low labor costs in the southern part of the Netherlands, Philips' aggressive sales strategy, the absence of patent regulation in the Netherlands around that time,³⁵ and cartel agreements with its major competitors, Philips was able to secure a relatively strong position during the first decades of the twentieth century. In 1914, Philips opened its own physics laboratory (NatLab) in Eindhoven, which became active in practical as well as fundamental scientific research and became an important pillar underpinning Philips' success (Metze, 2004).

During the First World War, Philips' German competitors were boycotted in, among other countries, France, Russia, and the United Kingdom. Philips seized this opportunity to expand its market share. During these years, it became increasingly difficult to obtain raw materials for the production of light bulbs. Philips, and most of its competitors, therefore started a process of vertical integration. Philips not only started to produce argon gas and glass bulbs, but also, for instance, acquired its own ships to ensure delivery across the globe. Later, Philips also opened paper and cardboard plants for the production of packaging materials.

In these early decades of the twentieth century, the transnational lighting field was characterized by intense competition. Using a system of mass production, various producers were able to reduce their production costs. At the same time, innovations

³⁴ See Heerding (1980, 1986) and Blanken (1992, 1997, 2002) for a detailed description of the creation of the Dutch light bulb industry and the growth of Philips from a light bulb producer into an electronics conglomerate over the period 1891–1970.

³⁵ From 1869 to 1912 patents were not protected in the Netherlands.

forced them to keep their production process up to date. They were forced to become more efficient while simultaneously improving the quality of their products. In order to control the competitive relations within the lighting field, large producers not only acquired competitors and started a process of horizontal integration, but also signed cartel and licensing agreements. As a result of these acquisitions, companies were able to achieve economies of scale, lower their production costs, and discourage new entrants. Philips, for instance, acquired other Dutch light bulb producers and a number of its European competitors. Because of, among other things, cartel and licensing agreements, they were able to divide various geographical markets among one another. The Phoebus cartel (General Electric, Philips, and Siemens), for instance, controlled large parts of the transnational lighting field from 1924 to 1939.

Throughout the 1920s and 1930s, the lighting field was characterized by rather stable competitive relationships. This gave Philips and its foreign competitors the opportunity to focus on the development and production of other electronic products, and resulted in high profitability and large financial reserves. These reserves were used to invest in research and development and diversify their product portfolio. Technological innovations, such as the radio, created new markets. Philips started producing electric tubes, radios tubes, and x-ray systems, and expanded its foreign operations by acquiring and opening production facilities in other European countries. By the end of the 1920s, Philips had production facilities in eight European countries³⁶ and sales organizations as far away as China and Brazil. Production capacity was expanded rapidly and in Eindhoven alone the number of employees grew from 2,000 in 1922 to 23,000 in 1929.

As a result of the economic depression of the 1930s, the rapid growth of Philips and its main competitors came to a halt. In response to this severe economic downturn, many governments increased their protectionist measures, causing a sharp decline in exports – an especially painful development for a company with a small home market such as Philips. Together with monetary instability and increasing competition from Japanese companies in the lighting industry and American competitors in the electron tubes business, this resulted in declining sales and declining market share. In order to overcome this protectionism, Philips decided to decentralize its production facilities and

³⁶ Belgium, France, Italy, Poland, the Netherlands, Spain, Sweden, and the United Kingdom.

invested in foreign production sites. This so-called local-for-local strategy would stay in place for several decades (see sections 5.2 and 5.3). As a consequence, the number of Dutch employees decreased (19,000 in 1939) and the number of foreign employees increased (26,000 in 1939).

In summary, at the end of the nineteenth century, Philips started off as a local producer of light bulbs in the Eindhoven region competing with foreign competitors on the international light bulb market by exporting its products across the globe. During the first decades of the twentieth century, Philips expanded its product portfolio to become a producer of electronic equipment. When national governments intervened by constraining economic activities across national borders to protect their national markets, Philips responded by adopting a local-for-local strategy. As a result of government intervention, the transnational electronics field became less significant and instead Philips adjusted its strategy and policy to the conditions in the various national economic fields. Philips responded to these protectionist measures by increasing its presence in the various national fields and presenting itself as a local producer.

5.2 A Dutch company controlling an organization spanning the globe

Philips recovered rather quickly from the devastations of the Second World War. Before the start of the war, it had brought its British and North American³⁷ activities under separate trusts, and the seat of the company was transferred to the Netherlands Antilles. Also, as stated in the previous section, Philips had a decentralized structure and strategy that made it look like a local producer; Philips could be characterized as an ‘industrial world federation’ (Blanken, 2002). This structure and strategy were very helpful during the first decades after the Second World War. It was an important competitive advantage when national governments protected their home markets and firms from foreign competition (Kahancova, 2007).

During the 1950s and 1960s, the world economy grew rapidly, while national markets remained protected by trade barriers and monetary restrictions. Like some of its competitors (e.g. General Electric and Siemens), Philips started a process of extensive diversification and became an electronics conglomerate with sales organizations and

³⁷ Philips’ American and Canadian activities were transferred to the North American Philips Corporation.

production facilities across the globe, offering a wide range of electronic products. Philips not only produced light bulbs and small domestic appliances such as radios, TV sets, vacuum cleaners, and electric shavers, but also invested in, among other things, telecommunication systems, medical systems, defense systems, and computers.

In order to satisfy the rising demand during these economically prosperous times, Philips invested to increase its production capacity, causing a sharp rise in the total number of employees. Whereas Philips employed around 90,000 people across the globe in 1950, this rapidly grew to 225,000 in 1960 and a staggering 400,000 in 1975. By that time, Philips had production facilities in more than 50 countries.

This enormous increase in the number of employees was not just the result of autonomous growth. Philips also acquired several other producers of electronic equipment. Like the automobile and steel industry, the electronics industry slowly experienced the integration of national fields³⁸ with companies from around the globe competing for the dominant positions. As a result, the transnational electronics field became more significant and electronics firms started to adjust their policies and structures to the competitive conditions in this field. With production facilities and sales organizations around the globe, Philips became the “embodiment of the age of mass production” (Sluyterman, 2005: 129) and “one of the few truly global companies in the world” (Atzema et al., 2008: 186). Philips struggled for the dominant positions in the transnational electronics field with a relative small number of primarily American (e.g. General Electric and Westinghouse) and German (AEG and Siemens) competitors. Because national markets were still rather sheltered and there were only a small number of competitors, competition within the national fields was relatively mild.

Despite these developments, Philips could still be characterized as a ‘national,’ ‘Dutch’ company. Both its company headquarters and the head offices of its various divisions were located in the Netherlands, the vast majority of its top executives were Dutch nationals, and, even when Philips employed 400,000 people around the globe at the beginning of the 1970s, one quarter of its total workforce was still employed in the Netherlands, of which half in the Eindhoven region alone.

³⁸ *Philips Koerier*, 14 May 1982, page 7.

Summarizing, over the course of the first three decades after the Second World War, Philips quickly expanded its operations and experienced an increasingly significant embeddedness in national fields across the globe, competing with a relatively small number of other producers of electronic equipment for the dominant positions within these fields. From a company that was primarily locally embedded in the Eindhoven region before the Second World War, Philips grew to become an industrial conglomerate and became embedded in national fields across the globe by pursuing a local-for-local strategy. Despite this growth however, the Netherlands was still Philips' center of gravity, and the company could still be characterized as Dutch.

5.3 Transnational restructuring

During the economic downturn of the 1970s and 1980s, the electronics industry began to suffer from a surplus in production capacity, resulting in decreasing prices and enormous pressure to cut costs and become more efficient. This process was further accelerated by increasing competition from, primarily, Japanese producers. Whereas in reaction to the economic downturn of the 1930s national governments had implemented trade barriers to protect their home markets, the economic crises of the 1970s resulted in Western governments starting a process of deregulation; protectionist measures were being dismantled.

As a dominant producer of household appliances, Philips experienced the full force of its new Asian competitors, resulting in deteriorating profit margins. This forced Philips to fundamentally reconsider its corporate policies. Because the 1950s and 1960s had been a time of protectionist measures by national governments and expanding mass markets, Philips' decentralized strategy and structure (local-for-local) were very profitable. But when the mass markets became saturated and international trade restrictions were dismantled, a new strategy and structure were necessary. Philips initiated three fundamental changes.

First, Philips decided to centralize its production facilities in the three major regions in which it was active, Europe, North America, and Asia. However, despite closing, for instance, 60 of its 275 European production facilities in the first half of the

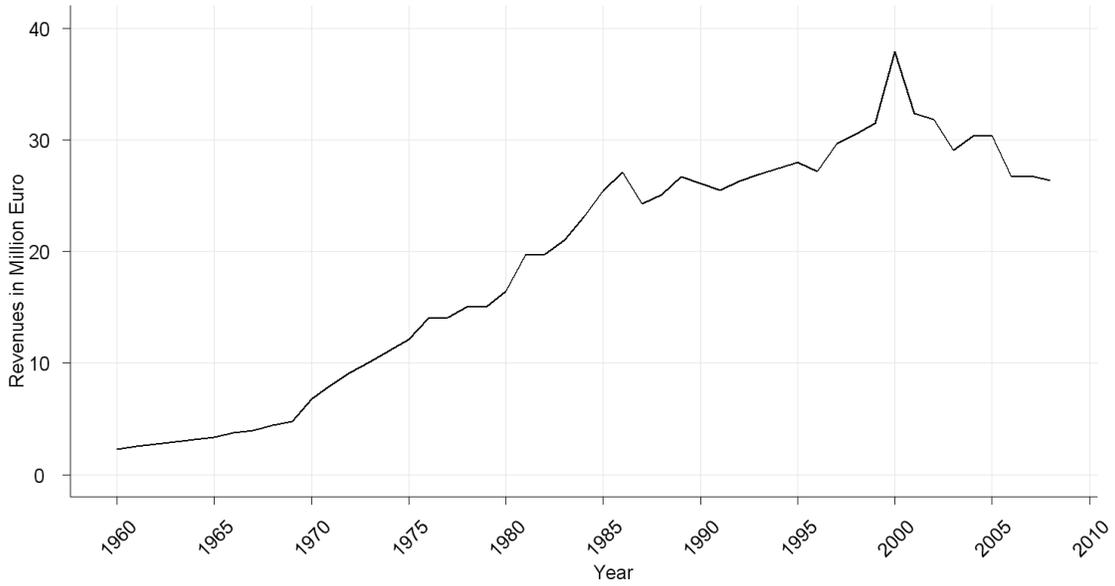
1980s, Philips still had over 400 factories around the globe in 1985. The centralization process continues to the present day.

Second, Philips started a process of disinvestment. In order to become more flexible, Philips decided to end its vertical integration strategy. It started by selling off its paper and cardboard production facilities, followed later by the sale of its metal and synthetic material production facilities, its catering services, and numerous other activities that were not considered to be core activities. This disinvestment program was in line with the reasoning of management guru Prahalad, who was hired by Philips and advised them to “divide its portfolio of activities into core and non-core, and into interlinked and stand-alone” (Sluyterman, 2005: 190).

Third, Philips decided to strengthen its product divisions, thereby ending its local-for-local strategy and decreasing the role of the national organizations within the company structure. For decades, the national organizations had been responsible for most of the production and marketing decisions, but with the opening up of the sheltered national fields and the increasing significance of the transnational field, Philips decided that national variations in production and marketing were no longer desirable. By strengthening its product divisions, Philips restructured its production and marketing strategy and policies on the transnational level. This decision had significant consequences for the different national organizations in general, and for the American organization in particular (see section 5.4).

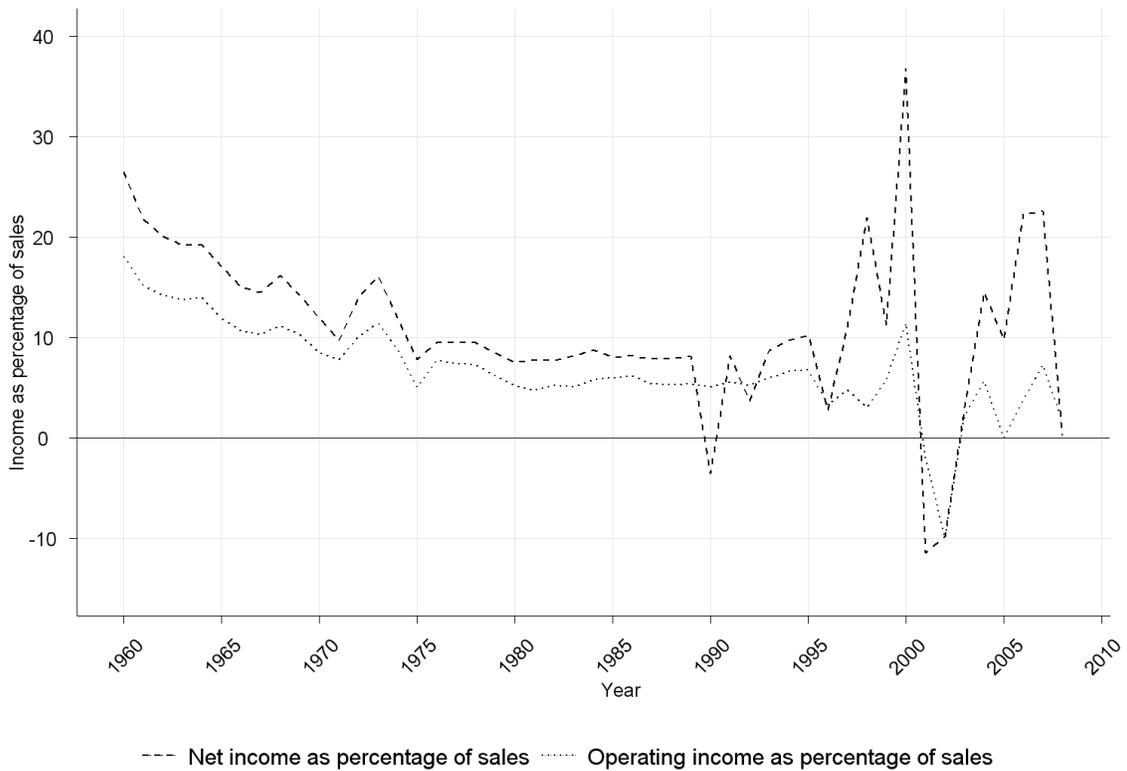
However, despite these measures and even though its revenues continued to grow, Philips experienced decreasing profit margins (see Figures 5.1 and 5.2). In 1990, almost a century after it was founded, Philips announced significant financial losses and was said to stand at the edge of bankruptcy. Whether this was true can be disputed, but Philips did have significant problems keeping up with its competitors. The measures taken by Philips’ management team during the 1970s and 1980s had not been sufficient to prevent the company from losing market share. Therefore, a second period of even more fundamental restructuring was initiated.

Figure 5.1 Development of Philips' revenues (1960–2008)



Source: Philips Annual Financial Reports (1960–2008).

Figure 5.2 Development of Philips' profits (1960–2008)



Source: Philips Annual Financial Reports (1960–2008).

During the 1990s and 2000s, Philips was headed by three different CEOs.³⁹ Each of them experienced financial successes and downturns, and each of them had a slightly different perspective on which activities Philips should pursue. This resulted in a changing product portfolio and acquisitions and divestures in, among other things, multi-media, high-volume electronics, medical systems, household appliances, defense systems, and industrial and electronic acoustic systems (Atzema et al., 2008).

To improve operations, new CEO Jan Timmer (1990–1996) started a major restructuring process, called Operation Centurion. This process included the lay off of tens of thousands of employees (Philips wanted to decrease the total number of employees by at least 15 percent), an extensive reduction in the number of management layers, and a portfolio analysis on the basis of which Philips' management team decided to sell different parts of the organization⁴⁰, including the music and large household appliances divisions. Boonstra (1996–2001) in turn invested in high volume electronics and sold some of Timmer's acquisitions. In the first decade of the twenty-first century, Kleisterlee further decreased the number of markets in which Philips was active to lighting, healthcare, and consumer electronics. Under the leadership of these three CEOs, Philips said farewell to the times of mass production and industrial conglomerates and turned into – what they themselves call – a technological company active in lifestyle and healthcare. They outsourced and sold off large parts of their production facilities and became increasingly focused on the creation and design of products in the three abovementioned markets.

The fundamental restructuring of the company was accompanied by the transnational restructuring of the company in terms of production facilities⁴¹ (at the end of the 1990s Philips had around 270 factories around the globe, compared to more than 400 in the mid 1980s)⁴², employees, and the nationality of top management. Especially from the mid 1990s onwards, Philips experienced a significant increase in the number of foreign executives. Boonstra was recruited from outside the organization to become CEO, a clear break with Philips' tradition of appointing longtime employees to the

³⁹ Jan Timmer (1990–1996), Cor Boonstra (1997–2001), and Gerard Kleisterlee (2001–2011).

⁴⁰ *Philips Koerier*, 28 February 1991, page 1.

⁴¹ Changes in the composition of Philips' workforce are dealt with in more detail in Chapter 6.

⁴² *Het Financieele Dagblad*, 31 August 2000, “Boonstra: geen innovatie, wel rendement” [Innovation no, return on investment yes], page 1.

executive board. Since then, Philips has had an increasing number of foreign nationals on its executive board, some from outside the organization and some from companies that Philips acquired. Also, divisions became headed by non-Dutch nationals. For these new non-Dutch managers, the Netherlands is just one of the countries in which Philips conducts business. This was a clear break with Philips' past when top positions, including the position of director of non-Dutch national organizations and factories abroad, were almost completely filled by Dutch nationals.⁴³ Finally, by the mid 2000s, half of the employees working at Philips high-tech campus in Eindhoven were foreign nationals.⁴⁴

A rather symbolic break with Philips' past, and also a clear symbolic step towards a more transnational company, was the relocation of its corporate headquarters from Eindhoven to Amsterdam under the leadership of Boonstra in 1997. The most important reason for this move was that Boonstra wanted to disentangle Philips' corporate headquarters from the management of Philips' Dutch companies in Eindhoven (see also section 6.2). By separating to two physically, he believed he would be better able to get a grip on Philips's various production companies around the globe, especially in the Netherlands where country managers opposed announced reorganizations.⁴⁵

Since its foundation at the end of the nineteenth century, Philips has been characterized by competition between the production departments, the research and development departments, and the marketing and sales departments. They all struggled for the dominant positions within the company. This struggle can be traced back to Philips' two founding fathers, salesman Anton Philips and engineer Gerard Philips. As a result of the increasing importance of the financial markets and the rise of shareholder value as a dominant business principle (Fligstein, 2001a; Heilbron et al., 2011), financial criteria, especially shareholder value, have become an increasingly dominant business principle for Philips' top management in the past two decades. *'The other big influencing group is the finance organization (...) they have a tremendous number of finance people in the organization and a tremendous amount of financial controls over things which fall into some other functions. I can see it here in the HR function as well, how much the*

⁴³ Based upon Philips NL Interview 6: HR manager 22 years' experience.

⁴⁴ *Het Financieele Dagblad*, 16 december 2004, "Engels jargon en 24 uur e-mailverkeer" [English jargon and 24-hour email traffic], page 9.

⁴⁵ *Volkskrant*, 19 September 1997, "Hoofdkantoor Philips naar Amsterdam" [Philips' corporate headquarters to Amsterdam], page 1.

*finance organization has their tentacles in an area that they don't have any functional expertise. But they apply the same mathematical conclusions as they might to a product (...) there are more CFOs in Philips than I've seen at five other companies.*⁴⁶

As far back as 1987, a top executive stated that every employee had to be aware that he was working with the money of Philips' shareholders. In a 1990 interview in *Philips Koerier*,⁴⁷ a retiring member of the executive board explains that the "financial dimension"⁴⁸ is becoming increasingly important. It was a big shock for Philips' employees when the 'cold wind' directed at Philips by the financial markets was introduced within the firm as well. The number of projects that were given funding decreased, and the question of whether an investment would pay off became more important. In a 1990 introductory interview with Philips' internal magazine, new CEO Jan Timmer explained that financial criteria would become increasingly important within the decision-making process. "Do you strive for a future in which you tell management: you decide what you do and how you do it, as long as you deliver results at the end of the year? In the end, that is what we strive for, but we still have quite some work to do before we get there."⁴⁹

Shareholder value was introduced as a business principle under the leadership of Jan Timmer, but Cor Boonstra, his successor, stated it to be the single most important strategic corporate goal. In his first month as Philips' new CEO, he told top management that they themselves "the management, are responsible" for the disappointing financial results of the 1980s. He announced "fundamental changes in the management structure" and clearly stated that Philips needed to make increasing shareholder value its number one priority: "Philips' shares have already been underperforming for ten years. Our shareholder value needs to increase very, very quickly. From now on our company profits will have to grow in double digits every year."⁵⁰ Under his leadership, shareholder value became a firmly rooted strategic objective, and this was not abandoned by his successor. Philips used to compare its financial results with its closest competitors, such as Sony and

⁴⁶ Interview 2 Philips US: Senior HR manager 2 years' experience.

⁴⁷ *Philips Koerier*, 7 June 1990, page 5.

⁴⁸ By financial dimension, he meant the financial establishment, such as banks, financial analysts, and institutional investors.

⁴⁹ *Philips Koerier*, 20 December 1990, page 1.

⁵⁰ *Volkskrant*, 25 October 1996, "Nieuwe topman over kelderende winst: Wij zijn zelf verantwoordelijk" [New CEO on plummeting profits: We (ourselves) are responsible], page 1.

Samsung. In recent years, however, Philips has changed its benchmark. This list now consists of other large companies capable of generating profitable returns for their shareholders, such as Shell, Honeywell, Johnson & Johnson, and two of its longtime competitors, Siemens and General Electric.⁵¹ Instead of just competing with other producers of electronic equipment for market share, Philips competes with other large companies for shareholders' investments.

In summary, even though as far back as the 1920s Philips had already expanded its operations abroad and evolved into an industrial conglomerate in the first three decades after the Second World War with subsidiaries across the globe, it was only in the late 1980s, after facing years of declining profit margins, that Philips' top management decided to change the company structure. From a structure based on strong national organizations, Philips strengthened its division structure with transnational responsibilities. In other words, from an organization that had adjusted its strategy, policies, and structure to the multiple national fields in which it was active around the globe, Philips started to adjust them to the conditions in the transnational economic field. This change in Philips' dual embeddedness was accompanied by a fundamental restructuring of its production capacity and the increasing importance of financial criteria for the management and control of the organization. Not only did Philips centralize its production capacity, it also outsourced significant parts of it. By doing so, Philips expected to become better equipped to compete in the transnational economic field, which had become increasingly significant and which, as a result of the increasing importance of the financial markets, is characterized by a strong focus on financial criteria.

5.4 Philips in the United States

This research focuses on the development of the corporate labor policy of transnational corporations in both the Netherlands and the United States. Both Philips and ING (see Chapter 7) were founded in the Netherlands. Therefore, the description of the development of these organizations as a whole, such as the one above, largely overlaps

⁵¹ *NRC Handelsblad*, 26 January 2007, "Van electronicafabrikant naar lifestyleconcern" [From electronics producer to a lifestyle company], page 11.

the development of these organizations in the Netherlands. From the beginning of the Second World War until the end of the 1980s however, Philips' American operations had a unique position within the Philips company structure, a position that deserves special attention.

As already mentioned, in order to protect its operations in the United States, Canada, and the United Kingdom, Philips founded independent trusts. The North American Philips Corporation (NAPC)⁵² experienced a large degree of autonomy. *'What it meant is that 40 percent of the shares were publicly traded on the New York Stock Exchange under North American Philips. The other 60 percent were owned by Philips Nederland, which meant they had the majority of interest. But, what it also meant is that it was a very separate and distinct organization. Because even though we were under the leadership of a Dutch CEO and a Dutch chairman, it was very much hands off from the Netherlands. It gave people a wonderful excuse to say: we'd love to follow these policies, we'd love to follow these programs, but don't forget we still have 40 percent of our shareholders and we're a publicly traded company. Therefore, although we'd love to comply, we really can't, because we have to be very conscious of the shareholders in the US.'*⁵³ The American part of the Philips organization operated as if it was an independent company. *'They never saw themselves as part of the Philips organization', but instead as an 'independent entity.'*⁵⁴ It was almost as if there was *'a wall between the two organizations.'*⁵⁵ *'Until Philips bought out all the shares of the NAPC, Philips in the US acted as a separate company. As an independent company and really did its best to avoid any interaction from the Netherlands.'*⁵⁶

However, even though it operated as an independent company, NAPC did develop in a rather similar manner as its Dutch parent company. In the decades following the Second World War, NAPC pursued a diversification strategy, turning it into an electronics conglomerate controlling the entire production chain: *'We made everything from television sets to musical instruments to furniture (...) we ran a bus company (...)*

⁵² Even though this included Philips' operations in Canada, the vast majority of NAPC's operations were located in the US.

⁵³ Interview 3 Philips US: HR manager 26 years' experience.

⁵⁴ Interview 4 Philips NL: Works council member 20 years' experience.

⁵⁵ Interview 3 Philips US: HR manager 26 years' experience.

⁵⁶ Interview 5 Philips US: HR manager 22 years' experience.

*anything was possible.*⁵⁷ The various division managers had a large degree of autonomy: *‘Most presidents, division presidents, were affectionately called barons (...) it was really very reflective of the level of authority and influence within the company that they had (...) We followed the rules of a regular traded company but, at the same time, the division presidents had a hell of a lot of authority, and autonomy.’*⁵⁸ Because of this independent position within the Philips organization, NAPC management came up with its own rules and sometimes went against corporate policies issued by company headquarters in the Netherlands. At the end of the 1970s and the beginning of the 1980s, for instance, NAPC decided to sell the VHS recorder developed by Matsushita on the American market instead of the V-2000 developed by its own corporate parent (Metze, 1991).

In the previous section, I explained that during the 1980s Philips started to reorganize and put in place a transnational structure instead of a company structure based upon strong national organizations. This restructuring also included the end of NAPC’s independent position. In the decades preceding this decision, corporate headquarters had never been able to control its American daughter. There was *‘this sort of barrier that had been erected that was in fact much greater than the Atlantic Ocean. It certainly precluded operating a business on a global basis. It certainly precluded being able to optimize production decisions and the like. If indeed you want to be a global business, if indeed you want to optimize on a global scale, the set up like we had is not conducive to that.’*⁵⁹ At the end of the 1980s, Philips acquired all outstanding NAPC shares, and NAPC operations were integrated into Philips’s transnational division structure.

Summarizing, as part of its transnational restructuring, Philips sold various parts of its American operations in the past two decades. From a company producing a wide variety of products and employing around 50,000 employees in the mid 1980s, Philips US became much more focused on healthcare and lighting.⁶⁰ Because of reorganizations and divestures, the number of people employed by Philips in the United States decreased

⁵⁷ Interview 3 Philips US: HR manager 26 years’ experience.

⁵⁸ Interview 3 Philips US: HR manager 26 years’ experience.

⁵⁹ Interview 3 Philips US: HR manager 26 years’ experience.

⁶⁰ Consumer lifestyle has always had a marginal role within the United States.

to around 15,000 at the beginning of the 2000s. In recent years, this number has risen slightly as a result of investments in the healthcare division.

5.5 Conclusion

In the introduction to this chapter I explained that I would describe and explain the historical development of Royal Philips Electronics, thereby determining whether I could find support for the first expectation and illustrate the working of the mechanisms presented in Chapter 2.

Even though Philips was founded as a local producer of light bulbs, in the first years after its foundation it had already started to export its products around the globe. Until governments started to intervene through protectionist measures in the 1930s, Philips competed with firms from a variety of countries for the dominant positions in the transnational lighting field and, later, when these companies started to expand their product portfolio, in the transnational electronics field. At first, Philips was only exporting its products, but at the beginning of the twentieth century it established and acquired production facilities abroad. Even though these decades were characterized by laissez-faire capitalism, competition between companies was constrained by interventions from national governments (as we saw for instance with the boycott of German companies during the First World War that gave Philips the chance to strengthen its position in the lighting field at the expense of its German competitors). Also, because various competitors, including Philips, signed cartel agreements determining production and prices, free competition between competitors was further restricted. So, the light bulb market was largely a transnational field, but still the national fields were of great significance as well and the developments within these fields significantly influenced a producer's competitive position.

From around the 1930s, the various national fields in which the company was embedded became of increasing significance to Philips' corporate strategy and policies. These fields were characterized by a relatively high degree of government intervention – governments held a strong position within these fields – and Philips had to compete with other corporate actors for the dominant positions. The sharp economic downturn in the 1930s and the start of the Second World War resulted in protectionist policies; national

governments tried to protect their home markets and local producers. These policies stayed in place until the economic crises of the 1970s and caused companies to organize themselves on the national level as well. Philips pursued a local-for-local strategy that was in line with the structure of the sheltered national markets.

The first steps had already been taken in the 1920s and 1930s, but it was especially during the 1950s and 1960s that Philips, as well as many of its competitors, started to expand their operations and followed a diversification strategy. A new conception of control became dominant; in order to remain competitive in the electronics fields, companies needed to achieve economies of scale and produce for customers around the globe. This was especially vital for a company with a small domestic market, such as Philips. So, it was during the late 1960s and early 1970s that, with regard to electronic products, national fields started to integrate and the transnational field became increasingly significant, a shift that was characterized by the rise of a new conception of control.

With the deregulation of national fields and integration into a transnational field really taking off in the 1970s, a fundamental shift in Philips' dual embeddedness took place, and competition between electronics companies from around the globe intensified. Philips experienced the full force of this development and saw its profit margins decline significantly. In order to become better equipped for the struggle with other corporate actors for the dominant positions in the transnational field, at the end of the 1980s Philips started a process of fundamental restructuring, a process that continues to the present day. This process was characterized by three developments.

First of all, after investing in various products and markets during most of the twentieth century, Philips decided to focus on a relatively small number of markets. Second, large parts of the production process were transferred to external parties and are now controlled through market contracts instead of a hierarchical relationship. This process also included the transfer of production facilities to other countries. And third, the way the company is governed and controlled was fundamentally altered. Authority and power were transferred from the national organizations to the division level, and these divisions govern Philips' operations across the globe. In the past decade and a half in particular, this transfer was accompanied by an increase in the number of foreign

nationals holding executive positions. Whereas at the beginning of the 1990s almost all top executives were still Dutch nationals, at the end of the 2000s the majority of top executives were non-Dutch nationals.

Even though, eventually, Philips decided to implement these fundamental changes, it took a relatively long time before this was decided. Philips' profit rates had already started to decline in the 1960s, but it took until the end of the 1980s before these decisions were taken. The fact that this took roughly two decades can be explained by Philips' long and relatively successful historical development. This had created a certain corporate culture that was not easily changed.

Within Philips' historical development we can clearly observe the mechanisms explained in Chapter 2 at work. During the first decades after its foundation, Philips was embedded in various national fields across the globe and adjusted its strategy and policies to this situation. The company implemented a decentralized local-for-local strategy that was very successful in a period of relatively closed national economic fields. At the same time, it competed with other large producers of electronic equipment and therefore experienced a significant embeddedness in the transnational electronics field as well. Over the course of the second half of the twentieth century, a shifting emphasis in this *dual embeddedness* occurred; Philips became increasingly dependent on the transnational electronics field. Despite this being a structural shift, at first Philips did not immediately respond by adapting its corporate policies.

Philips was founded at the end of the nineteenth century. During most of its history, it was successful, and this resulted in a strong corporate culture; Philips was endowed with a specific *habitus* that affected the way it perceived the developments taking place. This explains why it did not quickly change its corporate policies when confronted by this structural shift. It took a considerable amount of time and a crisis that shook the foundations of the firm before Philips changed its policies. The path that Philips has since chosen is one of specialization, outsourcing, and strengthening its transnational divisional structure. It can be argued that this is in line with the rise of shareholder value as the dominant *conception of control* in the last decades of the twentieth century, which contends that firms should focus on those activities that promise the highest possible return on investment.

In this chapter, I have analyzed Philips' development from the end of the nineteenth to the beginning of the twenty-first century in line with the second objective of this study, that is, to improve our understanding of the development of transnational firms from the 1980s to the first decade of the twenty-first century using the sociological approach of transnational firms as presented in Chapter 2. The analysis was conducted in relation to the first expectation stated in Chapter 4, that, as a result of a shifting emphasis in its dual embeddedness since 1980, Philips has reorganized its corporate policies and structures to fit this new situation by reinforcing its transnational structures and standardized policies, accompanied by specific goals and targets for its policies to be implemented on the national level, leading to centralization. This analysis will enable us to better understand the development of its corporate labor policy in the same period as analyzed and presented in the next chapter.

Chapter 6: Managing the personnel of an industrial conglomerate: Royal Philips Electronics

In the previous chapter, I explained how Philips evolved from being a local producer of light bulbs in the Eindhoven region exporting its products around the globe, to experiencing a significant embeddedness in multiple national fields across the globe while still having a clear Dutch character, and finally transforming into a transnational organization adjusting its strategy and policies to the competitive conditions of the transnational electronics field. In this chapter, I analyze what the consequences of its shifting emphasis in its dual embeddedness have been for its corporate labor policy in the past three decades, thereby focusing on the four components of corporate labor policy as elaborated upon in Chapter 2: work organization, rewards, employee voice, and employee flow (see section 2.5). I do so using the expectations stated in section 4.2⁶¹ and elucidate the working of the mechanisms that explain transnational firms' behavior as presented in Chapter 2.

Philips has experienced a shifting emphasis in its dual embeddedness in the past few decades. I expect that, as a result of this shift, Philips has reorganized its corporate policies and structures to fit this new situation by reinforcing its transnational structures and transnational standardized policies, accompanied by specific goals and targets for its policies to be implemented on the national level, leading to centralization (expectation 1); that this transnational restructuring was accompanied by the restructuring of its personnel department to align its corporate labor policy with the general corporate policies of the organization and that its employees and personnel department have become instrumental in the pursuit of the financial goals of the organization (expectation 2); and that risks and responsibilities concerning the factor labor have been shifted to other parties, such as national governments and individual employees (expectation 3).

A corporate labor policy is not a single whole; rather, various differentiations can be expected based on various degrees of national embeddedness. I expect Philips' corporate labor policy to consist of a transnational component targeted at employees with

⁶¹ In this chapter I deal with expectations 1, 2, 3, 4, 5, 6, and 8. Expectation 7 is dealt with in Chapter 9.

transnational responsibilities, a national policy for other employees, and the transfer of activities that do not necessarily have to be performed in a specific country to low cost countries (expectation 4). Further, I expect that as a result of the shifting emphasis in its dual embeddedness (a) with regard to work organization, both the company as a whole and its personnel departments have been restructured on the transnational level; (b) with regard to rewards, Philips has cut costs and reorganized the way employees are rewarded in line with the interest of its shareholders; (c) with regard to employee voice, Philips has introduced various forms of transnational communication but has not introduced employee influence on this level; and (d) with regard to employee flow, Philips has outsourced production capacity to low cost countries and centralized training facilities on the transnational level for those employees with transnational responsibilities (expectation 5). Also, I expect that, given the changes in the relationships between the different actors in the Dutch economic field and the American economic field and the changes in the institutional arrangements in these two countries, Philips' corporate labor policy in the Netherlands is increasingly starting to resemble its corporate labor policy in the United States (expectation 6).

Finally, I expect that the centralization on the transnational level of Philips' corporate labor policy is more limited than the centralization of other domains and it will have experienced only a limited degree of convergence (expectation 8).

I now first describe the general development of Philips' corporate labor policy from its foundation until the first decade of the twentieth-first century (section 6.1), before focusing on the four components of corporate labor policy (sections 6.2–6.5) as distinguished in Chapter 2. I conclude this chapter by returning to the expectations and by explaining the working of the mechanisms involved (section 6.6).

6.1 Philips' corporate labor policy

In the previous chapter, I explained that, even though Philips was a relative latecomer to the lighting market, it was able to obtain a strong position by, amongst other things, taking advantage of the low wages in the southern part of the Netherlands. Whereas Philips' two most important rivals – German manufacturers AEG and Siemens – had located their production sites around Berlin – an area with relatively high wages –

Philips attracted primarily young women⁶² from the agricultural region of Eindhoven where wages were much lower.

During the first decades of the twentieth century, the lighting industry developed into a mass market. In order to achieve the necessary economies of scale and remain competitive, Philips expanded and upgraded its production capacity and increased the number of employees. This upgrade resulted in a need for more highly skilled male workers, reducing the relative number of female workers.⁶³ In the 1920s, around half the working population of the city of Eindhoven was, directly or indirectly, dependent on Philips and still its production capacity in the region was increasing. The resultant shortage of labor forced Philips to attract workers from outside the Eindhoven region.

As a dominant employer within the Eindhoven region, Philips experienced pressure from local religious authorities and trade unions. The 1910s and 1920s were characterized by several strikes, and both the Catholic Church and trade unions were trying to increase their influence. In reaction to these developments and because of the increasing numbers of workers from outside the Eindhoven region, Philips started to develop rather extensive social policies and arrangements. Not only did Philips develop several housing projects (for workers from outside the Eindhoven region), it also created healthcare provisions, sporting facilities, primary schools, and libraries. These activities formed the basis for Philips' rather paternalistic attitude towards its employees that remained in place for most of the twentieth century, even when trade unions had already been accepted as bargaining partners, the Dutch government had developed extensive welfare arrangements, and the influence of the Catholic Church had diminished over the course of the second half of the twentieth century. Besides this structural, external explanation, Philips' extensive social policies were also the result of Philips' leadership in the first half of the twentieth century. To prevent social problems as caused by the economic crisis of the 1930s in the United States, Philips invested heavily in all sorts of social welfare programs. Frits Philips, one of the founding fathers, also initiated and implemented a policy focused at long-term continuity rather than short-term profit maximization (Kahancova, 2007; Stoop, 1992). This social policy was formalized right

⁶² In 1909, women totaled 67.9 percent of Philips' work force.

⁶³ Around 30 percent in 1930.

after the Second World War when Philips included the following social provision in its company statutes: “To safeguard the interests of all stakeholders, the company will strive for long-term prosperity and maximum useful employment” (Haas, 2000: 34). During the first decades after the Second World War, Philips provided a wide range of social arrangements to its employees, including dental care and infant care. With the expansion of the Dutch welfare state in the 1960s and 1970s, these social services were gradually dismantled. Instead, Philips focused on social policies directly related to the company (Haas, 2000).

But, in the 1960s, the paternalistic relationship between Philips and its employees was still in place. Philips felt responsible for its employees who, on the other hand, were expected to help Philips achieve its company goals and did not have much say in the general corporate policies of the organization. “Most simply put, the social policy has to contribute to the achievement of the company’s economic goals by making the factor labor function as well as possible,”⁶⁴ and “ir. F.J. Philips is deeply convinced (...) that the firm should and can pursue an active and positive social policy.”⁶⁵

Around the end of the 1970s and the beginning of the 1980s however, this relationship started to change. In a 1977 article in the company magazine, Philips’ role in society was still defined as follows: “The industrial enterprise has an important economic and social role in society. The production of goods and services is its primary objective. It creates employment and income and gives many, both within and outside the firm, the opportunity to develop themselves. The market economy in which the firm operates stimulates the development of new products, innovations, and organizational structures. With its research, which is focused on future possibilities, the firm contributes to the community’s scientific capabilities. As a result of all these actions, the firm positively influences the enhancement of welfare and wellbeing. In fulfilling its role, Philips focuses on the continuity of the firm. This continuity, which is based upon profitability, is essential for employees, shareholders, other stakeholders, and society in general.”⁶⁶ However, with the deteriorating economic conditions and the integration of national economic fields at the end of the 1970s and the beginning of the 1980s leading to

⁶⁴ *Philips Koerier*, 16 August 1969, page 3.

⁶⁵ *Philips Koerier*, 19 October 1968, page 7.

⁶⁶ *Philips Koerier*, 24 November 1977, page 6.

weakening financial results and a process of constant restructuring, Philips was no longer able and willing to continue its generous social policies.

In a 1982 shareholder meeting, the social provision described above was deleted from the company statutes, a decision that illustrates Philips' changing view on its social policy during this period. This view was characterized as follows by the director of the Dutch Philips Companies in Philips' company magazine in 1988: "The social policy is an integral part of company policy, which means that it has to contribute to both national and international developments. Put differently: the social policy should contribute to the company's competitiveness."⁶⁷

We can conclude that employees became increasingly viewed as strategic assets of the organization that were deployed to achieve the company's (financial) goals (Haas, 2000). Philips' corporate labor policy became more and more directed towards these goals as well. Instead of being focused on caring for its employees and designed rather independently of other corporate policies, its corporate labor policy became constructed as part of the overall policies and strategic objectives of the firm.

Corporate policies are designed to obtain commercial success or – stated in the terms of this study – to obtain a dominant position in the fields in which the firm is embedded. As the increasing dominance of the transnational field caused a period of significant restructuring, Philips restructured its corporate labor policy as well. This included the layoff of many employees around the world, including the Netherlands. For Philips' Dutch employees, this decision came as a shock. Philips had always been known as a beacon of stability with the provision of employment written into its company statutes, but over the course of the 1980s and 1990s Philips said goodbye to the idea of lifetime employment, thus illustrating the trend of greater flexibility in labor relations and the organization of its production function. This shift was accompanied by the further dismantlement of Philips' social welfare programs. The housing companies and medical care became independent entities, and cultural features such as a theatre and exhibition center were sold (Sluyterman, 2005).

The first half of the 1990s was characterized by Operation Centurion, a large-scale restructuring project undertaken to improve Philips' financial situation. This project

⁶⁷ *Philips Koerier*, 24 March 1988, page 3.

included the restructuring of unprofitable divisions, the improvement of efficiency in all divisions, and a portfolio analysis to determine which activities would be divested and which activities were considered as core. The first two decisions included the loss of 12,000 jobs (out of a total of 55,000) in 1991 in the Netherlands alone. Across the globe, some 45,000 jobs were cut. In 1992, another 15,000 jobs were cut, including around 2,000 in the Netherlands.

Examination of Philips' corporate labor policy reveals that Operation Centurion resulted in the further development of a process that had already been set in motion in the 1980s. In 1992, the director of the Dutch Philips Companies explained that the "social policy, often called personnel policy, does not stand alone; it is an integral part of the general corporate policy. It has to be linked to the *business* and is dependent on the situation of the company. So, the personnel policy is not static; it is constantly moving, gradual changes will continue to take place." The "goal of the personnel policy [is to] attract and keep enough qualified employees to reach the company goals. Furthermore (...) the focus has changed in the direction of what is often called *Total Quality Management*: activities focused on improving the quality of the total organization. This has led to increasing attention and care for *human resources*, the human potential of the organization, because people create quality."⁶⁸

The change in the employment relationship can also be observed in the way Philips approaches its employees. In the mid 1990s, for instance, Philips introduced a new marketing campaign with the slogan 'Let's make things better'. This campaign was directed not only at Philips' customers, but also at its own employees. In an ad in the Philips' magazine,⁶⁹ this campaign was used to stimulate employees to improve and help Philips grow.

In the previous chapter (see section 5.4), I explained that the North American Philips Corporation (NAPC) operated as an independent company until the end of the 1990s, producing a wide range of products by different companies falling under the NAPC umbrella. Each of these companies had a significant degree of freedom and had their own personnel department. In the past two decades, Philips' American operations

⁶⁸ *Philips Koerier*, 4 July 1992, page 4.

⁶⁹ *Philips Koerier*, 31 August 1995, page 4.

have been integrated, both within the United States and within the entire Philips organization. As in the rest of the world, Philips US sold off various parts of the organization that were no longer considered to be core business. Also, Philips US integrated the various personnel departments and developed centralized labor policies.

In the past decade in particular, Philips started to integrate the personnel department at the transnational level, first of all, by developing and implementing a labor policy that applies to all employees around the globe (see sections 6.2–6.5), and recently the streamlining of processes on a transnational level has also been started. At the end of 2009, for instance, Philips started a project called HR Simplified. This project was initiated to save costs by reducing the number of people working in the personnel departments and to achieve economies of scale. *‘There is a global project going on called HR Simplified, being led out of Amsterdam and it is basically for anything that is within the shared service, we’re trying to make global processes, global efficiencies. All of that will be tight in to how many headcounts per how many’*⁷⁰ employees in total.

Summarizing, during most of the twentieth century Philips offered a wide range of social arrangements to its employees, Philips had a long-term view on the firm and the relationship with its employees, but employees did not have much saying in company affairs; its corporate labor policy could be characterized as paternalistic. Around 1980 this relationship started to change. Employees became increasingly viewed as strategic assets that were deployed to achieve the company goals and Philips’ corporate labor policy became constructed as part of its overall policy and strategy.

6.2 Work organization

In the 1970s, Philips was an industrial conglomerate producing a wide range of electronic products, but it also produced all kinds of other products to support the production process of these electronic products. In order to control and govern this conglomerate, Philips had implemented a matrix structure consisting of various divisions responsible for the quality, price, reliability, and supply of products (vertical line), and national organizations responsible for sales and, in some cases also, production (horizontal line). Large national organizations, such as the Netherlands, United States,

⁷⁰ Interview 6 Philips US: HR manager 15 years’ experience.

and Germany, had a production responsibility as well.⁷¹ This structure stayed in place throughout most of the 1980s, but this does not mean that no alterations to the Philips organization occurred during this decade.

In the previous section, I explained that as a result of the tough economic climate in the 1980s Philips fundamentally altered its strategy and structure, and as far back as the beginning of the 1970s Philips started to centralize its production facilities. As a result, the center of gravity of Philips' production facilities and its work force shifted from the Netherlands to other parts of Europe and the world.⁷² Even though the relative weight of the Netherlands for the Philips organization declined however, in 1980 still one quarter of total production took place in the Netherlands although Philips' home country accounted for only 10 percent of its sales.⁷³ The centralization of Philips' production facilities continued throughout the 1980s. Between 1980 and 1983, for instance, Philips closed (46) or sold (17) more than 60 of its 275 facilities in Europe.⁷⁴

Philips' concentration process was intended to cut costs and increase its competitiveness in the face of increasing competition, especially from Asian producers. For the same reason, Philips also started to cut the number of hierarchical layers within the organization. In the 1970s, Philips' Dutch factories often had up to eight hierarchical layers: production workers, workers who prepare the production process, an under boss, an assistant boss, a boss, a department head, a sector head, a factory manager, and a factory director. During the 1980s, several of these layers were cut in order to decrease overhead.

The 1980s were characterized by a number of fundamental changes. At the beginning of the 1980s, the juridical and organizational structure of the Dutch Philips organization was changed. Traditionally, the management of the Dutch operations and the management of the entire Philips organization were heavily intertwined. The global management team was also responsible for the Dutch operations and Philips' executive board considered this to be unwarranted. Therefore, the organization was split into the Dutch Philips Companies (Nederlandse Philips bedrijven, NPB) and Philips International

⁷¹ *Philips Koerier*, 6 July 1974, page 6.

⁷² *Philips Koerier*, 1 June 1972, page 5; 5 February 1981, page 5.

⁷³ *Philips Koerier*, 5 February 1980, page 5.

⁷⁴ *Philips Koerier*, 14 May 1982, page 1.

(PI). PI consists of the corporate element of all staff departments and divisions and is responsible for the transnational company policies. NPB consists of the Dutch sales organization and all production facilities in the Netherlands. This change gave the members of the executive board the opportunity to devote their attention to their transnational responsibilities. From then on, production decisions were made on the transnational level, whereas all social decisions – Philips’ corporate labor policy – were made on the national level. So, as a result of this decision, the company became organized on the transnational level, but labor, as part of this organization, continued to be organized on the national level. Even though its national and transnational affairs were split, Philips’ corporate labor policy continued to apply to employees in both parts of the organization in order to enable the transfer of employees from one department to another.⁷⁵ At the end of the 1980s, as we have already seen in the previous chapter, the unique position of NAPC as an independent company within the overall Philips organization was ended. Philips acquired all outstanding shares and the various businesses became part of Philips’ global divisions.

The increasing importance of the divisional structure was a second important change at the end of the 1980s. Philips’ businesses were traditionally organized in various divisions, but the national organizations were the dominant force within the company for a large part of the twentieth century. This changed when Philips started to ‘turn the matrix’ at the end of the 1980s. Instead of a strategy and structure in which the national organizations were dominant, Philips implemented a transnational strategy supported by a strong transnational structure. Divisions were made responsible for their own profits and losses; this also meant that they were given decision-making power concerning production and marketing.⁷⁶ This was not an easy process. Country management had to give up their dominant position, and especially the management teams of large country organizations were not willing to do so easily.⁷⁷

With the divisions having profit and loss responsibility, they were also permitted to contract external suppliers. Traditionally, the national organizations supplied the divisions on the basis of cost prices, but this changed in 1988 when market prices were

⁷⁵ *Philips Koerier*, 7 May 1981, page 1; 24 September 1981, page 1; 1 October 1981, page 1.

⁷⁶ *Philips Koerier*, 26 January 1989, page 10.

⁷⁷ Based upon Interview 5 Philips NL: Senior HR manager 30 years’ experience.

introduced.⁷⁸ The company cafeteria in Eindhoven, for instance, was transformed into Eindhoven Catering Services. Even though it did not yet become an independent company, it did have to compete with external catering services to supply Philips' factories and offices in Eindhoven, while, at the same time, it was also given the opportunity to compete on the external market.⁷⁹

A final important change at the end of the 1980s was the installation of a group management committee consisting of members of the executive board and top executives from different parts of the organization, such as two important divisions, Elcoma⁸⁰ and consumer electronics, and staff departments such as finance in 1987. Many Philips divisions had grown to become transnational players themselves. In order to control these divisions, the board introduced this transnational structure. Despite this change, the national organizations continued to report to an executive board member.

The alterations to Philips' company structure were implemented during a time of intensifying transnational competition. From the 1960s onwards, Asian companies in particular had entered the electronics business, resulting in an increase in competition and a decrease in profitability.⁸¹ At the end of the 1980s, Philips was reorganized in reaction to this structural change of the transnational electronics field – as we have seen above Philips adopted a transnational structure – but this was not sufficient. Philips suffered deteriorating profit margins, and in 1990 new CEO Jan Timmer announced the fundamental Operation Centurion restructuring program (see section 6.1). The first part of this program was a reduction in the number of employees of around 40,000, of which 10,000 in the Netherlands alone,⁸² and its goal was to decrease costs, strengthen Philips' competitiveness, and regain its profitability. Besides a reduction in the number of employees, Philips also conducted a portfolio analysis to determine in which markets it would continue to be active and which operations would be sold or closed.⁸³ Factories in

⁷⁸ *Philips Koerier*, 9 February 1989, page 14.

⁷⁹ *Philips Koerier*, 10 March 1989, page 12.

⁸⁰ Division producing all kinds of electronic equipment, primarily for other Philips divisions. This division was gradually sold off during the 1990s and the beginning of the 2000s.

⁸¹ See Figure 5.2.

⁸² In 1990, Philips employed around 280,000 people around the globe. Around 60,000 of them were employed in the Netherlands and between 35,000 and 40,000 in the United States.

⁸³ *Philips Koerier*, 3 July 1990, page 1–2; 25 October 1990, pages 1 and 3.

Western countries, including the Netherlands and the United States, had to compete with foreign Philips factories in, for instance, Mexico, Poland, and other Eastern European countries, and later with factories in China and other Asian countries, to keep production capacity. Because of the low labor costs in these countries, various production facilities in the Netherlands and the United States were closed. By the end of the 2000s, only a relatively small number of production facilities were left in these two countries. In the United States, for instance, production of electronic toothbrushes *'is going to be moved to South East Asia, so they're in the process of laying all those people off.'*⁸⁴ And *'we're out of the television business in the US, there is still some of the audio parts. But we had some huge manufacturing facilities, so we had perhaps 3,500 employees doing manufacturing [in the TV business]. Now we're doing a grand total in consumer electronics or consumer lifestyle of: zero.'*⁸⁵ *'That is what eventually happens in most the manufacturing, it goes outside the US. So, now most jobs are in sales, marketing, finance; more of the white collar jobs.'*⁸⁶

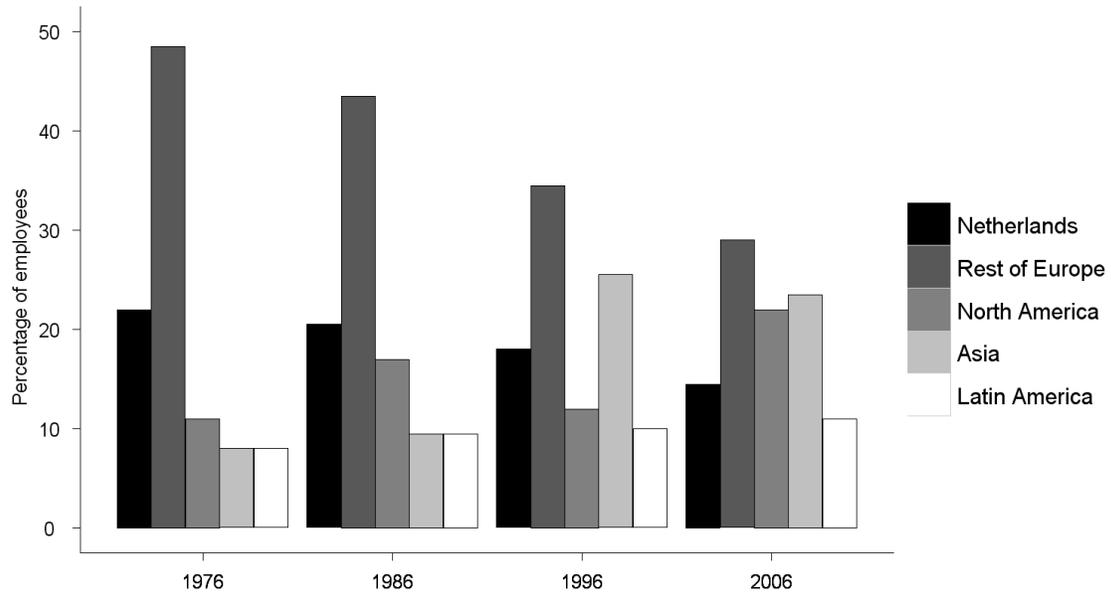
This development is illustrated in Figure 6.1, which demonstrates that the percentage of employees working in the Netherlands and the rest of Europe decreased over the past four decades. In this figure it seems like employment in the United States has increased, but this is only the case relative to the other regions. In absolute terms, the number of employees in the United States decreased. The major reorganizations in the past three decades resulted in a significant decrease in the total number of employees (see Figures 6.2 and 6.3).

⁸⁴ Interview 5 Philips US: HR manager 30 years' experience.

⁸⁵ Interview 3 Philips US: HR manager 10 years' experience.

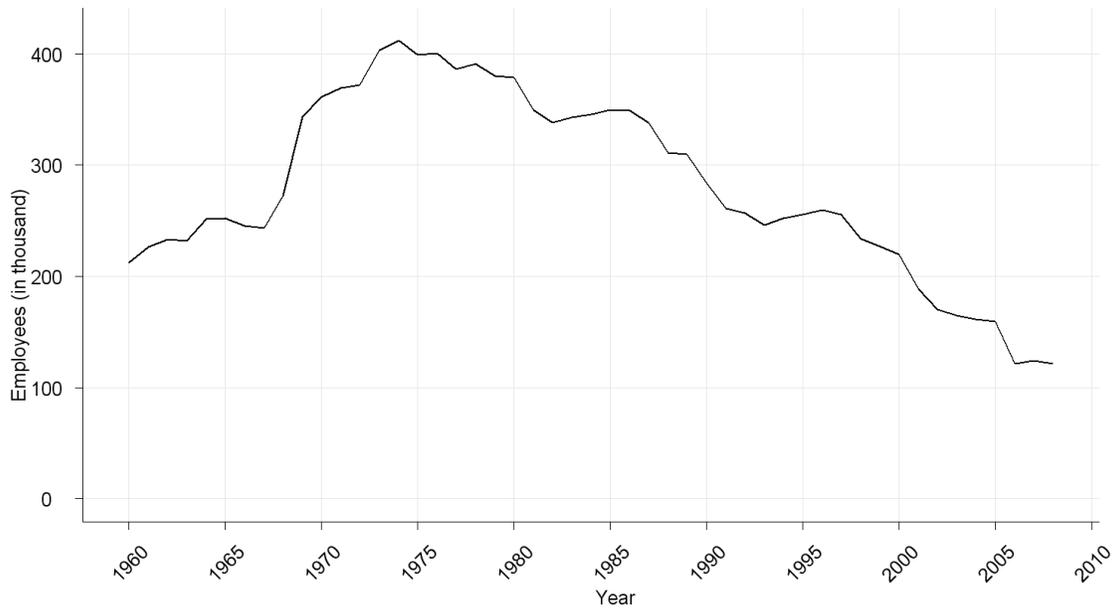
⁸⁶ Interview 5 Philips US: HR manager 30 years' experience.

Figure 6.1 Percentage of Philips' employees per region (1976–2006)



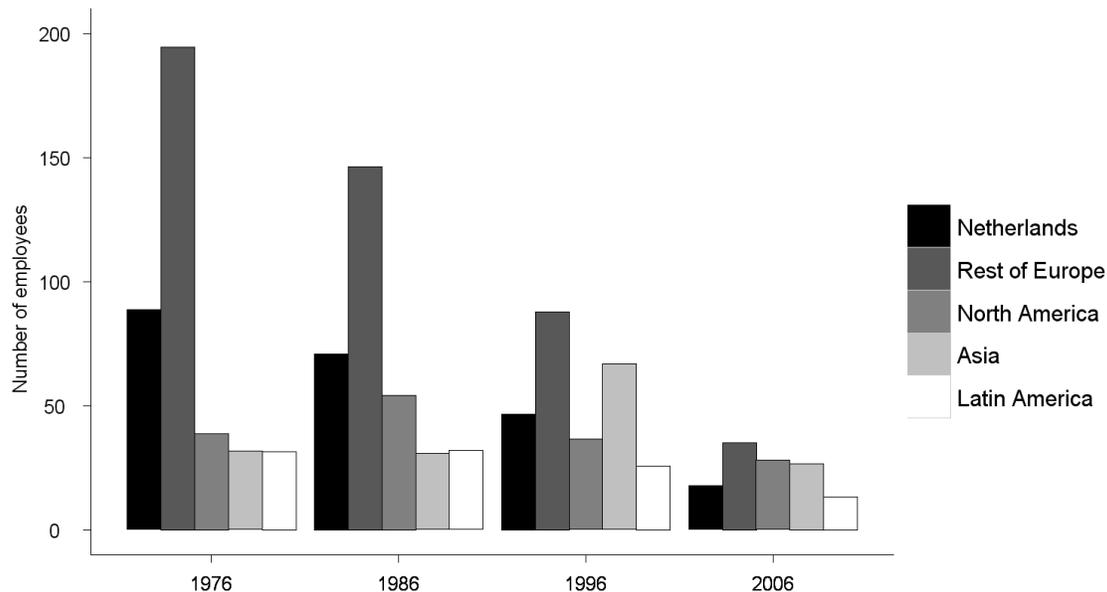
Source: Philips financial reports 1976, 1986, 1996, and 2006.

Figure 6.2 Philips' total number of employees (1960–2009)



Source: Philips financial reports 1960–2008.

Figure 6.3 Philips' total number of employees per region (1976–2006)



Source: Philips financial reports 1976, 1986, 1996, and 2006.

After CEO Timmer cut costs significantly at the beginning of the 1990s, new CEO Boonstra restructured the company once again. He divided the entire organization into around 100 business units, and each of these business units became the responsibility of a single manager. In this way, he wanted to make clear that individual business units themselves were responsible for their results. One of the consequences of this decision was that the role of the country organizations was further diminished; they were given a more supportive and facilitating role within the organization. The divisions and business units were now “leading” (Haas, 2000: 118), they were responsible for their profits and losses, and the country organizations needed to help them achieve the necessary results. Under the leadership of CEO Kleisterlee, the number of businesses in which Philips was active was drastically reduced, also leading to a sharp decrease in the number of employees (see Figures 6.2 and 6.3). Nowadays, Philips focuses on lighting, consumer electronics, and healthcare. In recent years, acquisitions have been made in each of these divisions. Acquisitions in healthcare have primarily taken place in the United States.⁸⁷

⁸⁷ This explains why the percentage of employees working in the United States increased (Figure 6.1) while the total number of employees working in the United States decreased (Figure 6.3).

Besides sharply reducing the number of businesses in which Philips is active, Kleisterlee tried to integrate the divisions and create 'one company'. Traditionally, Philips was a fragmented company consisting of small 'kingdoms' operating rather independently. At the beginning of the 2000s, a campaign was launched under the name One Philips. This campaign was initiated to integrate the different parts of the organization into a single whole. After the semiconductors division was sold in 2006 and the personal care and consumer electronics divisions were integrated, Philips had three divisions left: lighting, consumer lifestyle, and medical systems. These divisions were renamed as sectors in order to underline that, instead of being a production-oriented company, Philips wanted to become a market-oriented company, '*building around customers and markets*'.⁸⁸ Using its technological knowhow, Philips wants to target these three sectors, while at the same time the different sectors work together to come up with new products. Instead of the slogan 'Let's make things better', which focused on the improvement of its products, the new slogan 'Sense and simplicity' takes the customer as its focal point. In order to make this possible, Philips deemed it necessary for the company to become more integrated. Ironically, this again has consequences for the position of the country organizations, but this time the question is whether they should be given a stronger position within the organization. Philips wants to target customers in different geographic markets under a single brand and slogan. The coordination of this endeavor lies with the country organizations. They know their customers best and need to make sure that this is done efficiently. The country manager for China for instance, to give just a small example, has to prevent each of the three divisions from having its own stand at a recruitment convention. In 2011, newly appointed CEO Van Houten announced that he wanted Philips to further develop in this direction. He stated that he wants to partly dismantle the central governance structure and give regional managers more decision-making power.⁸⁹

The reorganizations that Philips experienced in the past two decades did not necessarily simplify its organizational structure. Like Philips' Dutch operations, its American operations became part of the three global divisions as well. In the past, the

⁸⁸ Interview 5 Philips NL: Senior HR manager 30 years' experience.

⁸⁹ Interview with Philips' new CEO in *Het Financieele Dagblad*, 1 June 2011, page 11.

different US business units experienced a great deal of autonomy and operated rather independently of one another. They were overseen by NAPC management, but this operated as a holding company. When NAPC was integrated into the rest of the Philips organization, the various production facilities were slowly integrated into the transnational divisions as well. This development complicated the company structure. *‘First of all, it is a matrix organization. So, we have all three sectors. We have all these functions – and then I’m talking about HR, IT, legal – that work alongside these sectors and have an influence over the governance. And then you have this North American organization on top of it. So it is almost a 3-dimensional matrix which makes it even more complicated. And then, when you add in the fact that one sector⁹⁰ is so dominant and that one of the board and management people who resides here in the US is upstairs and has a tremendous influence over the North American operation. So (...), there is a sector perspective, there is a function perspective, and there is the North American perspective on about every issue or question. It is a challenge to reconcile those perspectives.’⁹¹ This is further complicated by the fact that these various perspectives are organized on different geographical levels. *‘The functional organizations are driven more globally and the businesses in North America are driven more locally. So we have local issues they’re trying to deal with and you’re getting directions from a functional standpoint that tends to be more global. So you get all these initiatives coming up that the businesses say: I don’t want it, I don’t need it. But globally we’re trying to do something (...) it creates an imbalance to some degree, this three-legged stool that we have.’⁹²**

The changes in the organizational structure affected Philips’ personnel departments as well. As a result of the rapid decrease in the number of employees in the Netherlands, the Dutch personnel department shrank in size significantly, and with the integration of the entire Philips organization, there has been a centralization of tasks and responsibilities as well. With regard to Philips’ labor policy, this means that the corporate personnel department has centralized tasks that were previously undertaken by personnel departments on the national level. In recent years, central competence centers were

⁹⁰ The healthcare division is the dominant sector in Philips’ US operations.

⁹¹ Interview 2 Philips US: Senior HR manager 2 years’ experience.

⁹² Interview 2 Philips US: Senior HR manager 2 years’ experience.

established that became responsible for talent management, expatriation, performance management, and rewards. Whereas in the past the corporate personnel department was primarily engaged with labor policies for top executives, during this last decade the corporate personnel department has started developing policies for a larger percentage of Philips' total work force. It is primarily in this last decade that this department has started to develop labor policies for a wide range of Philips employees around the globe.⁹³

The corporate personnel department has not only developed its own transnational policies, it has also steered the development of Philips' various national personnel departments. It has developed a HR model on the basis of which the national personnel organizations have to conduct their business and to which these departments are being reconstructed. The Dutch personnel department, for instance, has grouped all transactional functions into a shared service center. Also, all recruitment activities of the various sectors and business units in the Netherlands are centralized in the national personnel department.

With the integration of the various business units, the various American personnel departments underwent significant restructuring as well. Because in the past NAPC operated as a holding company, the individual business units had a lot of freedom, among other things in relation to developing their own labor policies. Only a small part of all activities was handled by the national personnel department. *'Virtually all the benefits, so the health benefits, the life insurance benefits, were supplied by the [personnel] organization of North American Philips. Labor relations was done by [the national US organization of] Philips (...) responsibility for the most senior executives and the division presidents fell to [US] HR department. Stock options – we had our own stock option plan – that too fell under the responsibility of the [national] organization. It was more macro kind of policies or programs. Virtually everything else was local, and there was no desire or attempt to make it or change it.'*⁹⁴ In Chapter 3 (section 3.3), I explained that in the United States employees are dependent upon their employer for healthcare and pension benefits. Both of these are very costly benefits, and in order to organize them as efficiently as possible Philips had centralized this element of its corporate labor policy,

⁹³ Interview 5 Philips NL: Senior HR manager 30 years' experience.

⁹⁴ Interview 3 Philips US: HR manager 26 years' experience.

for *'economies of scale and expertise.'*⁹⁵ All other functions were handled by various local personnel departments.

In the past two decades, this has changed fundamentally. First, almost all personnel functions have been centralized into shared service centers: pay-roll administration, recruitment, mobility, compensation, learning, and talent management. And in the past two decades, Philips also started to change its HR model. They are trying to *'bring the [HR] function into the twenty-first century.'*⁹⁶ Compared to other US companies, Philips has *'a tremendous number of headcounts in HR per the number of people that we support and many of them are spent in the more transactional activities.'*⁹⁷ To become more efficient, with a view to having one employee in the personnel department for every 100 employees, all transactional activities have been transferred to shared service centers or, if more efficient, outsourced. The goal is to have the personnel advisors working as business partners for the three divisions. Most of the administration of benefits had already been outsourced and at the beginning of 2010 payroll was outsourced as well. *'The two easiest things in the United States are payroll and benefits; highly transactional and a significant cost if you don't get the synergies and efficiencies, you're just pissing away money (...) and healthcare benefits in the United States is, again, where economies of scale really come into play (...) Size makes all the differences in terms of cost (...) Those are the two easiest things and those are the things that we've rationalized pretty early.'*⁹⁸

Summarizing, in response to changes in competitive conditions – resulting in an increasing significance of the transnational field – Philips started a period of extensive restructuring. Production capacity was centralized to improve efficiency, significant parts of the company that were no longer considered to be core business were sold, and large parts of Philips' production capacity were either outsourced to external suppliers or transferred to low cost countries. This resulted in a significant reduction in the number of jobs in those regions of the world where Philips traditionally operated, including the

⁹⁵ Interview 3 Philips US: HR manager 26 years' experience.

⁹⁶ Interview 2 Philips US: Senior HR manager 2 years' experience.

⁹⁷ Interview 2 Philips US: Senior HR manager 2 years' experience.

⁹⁸ Interview 2 Philips US: Senior HR manager 2 years' experience.

Netherlands and the United States. Also, decision-making power was transferred from Philips' national organizations to transnational divisions, significantly reducing the position of country managers and improving the position of managers with transnational responsibilities. Finally, a transnational structure – a corporate personnel department – and transnational labor policies were implemented and reinforced.

6.3 Rewards

Traditionally, Philips rewards its employees in line with the conditions in the country in which the employee works; rewards are nationally embedded. *'The personnel policy in the various countries in which the company is located is determined by the conditions in that country. This is caused by the fact that the terms of employment are highly influenced by the industrial relations system, legislation and country customs, taxes, living expenses, and other regional or national characteristics. The national organizations therefore have a terms of employment policy which is based upon and integrated with the relations within the individual country.'*⁹⁹ In the Netherlands, for instance, Philips' lower level employees (*handarbeiders*: manual workers, the majority of Philips' total work force in the Netherlands¹⁰⁰) were rewarded on the basis of a collective labor agreement (CLA-A) since 1950. In 1954, the scope of this CLA was widened and covered middle management as well (*beambten*¹⁰¹). The terms of employment of higher management levels were arranged in individual labor agreements. In 1978, a second collective labor agreements (CLA-B) was agreed upon for Philips' higher personnel in the Netherlands.¹⁰²

Comparison of these two collective labor agreements reveals an interesting difference in the basis on which employees in these two CLAs are rewarded. For CLA-A, Philips traditionally used its own reward system; in CLA-B, a reward system of the Hay

⁹⁹ *Philips Koerier*, 28 April 1974, page 3.

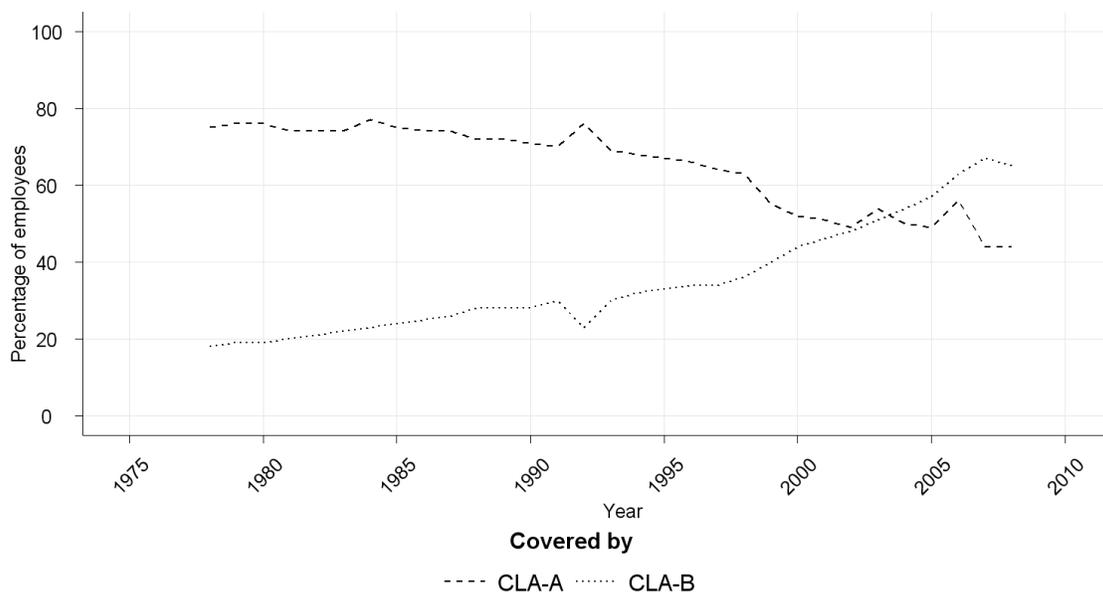
¹⁰⁰ In 1978, 75 percent of Philips' work force was covered by this collective labor agreement. This number rose to 80 percent in 1992, before it started a rapid decrease to 36 percent in 2008.

¹⁰¹ Not for higher management and staff members (*stafffunctionarissen*).

¹⁰² Philips' salary system consists of categories called 10, 15, 20, 25, 30, 35, 40, 45, 50, 60, 70, 80. CLA-A covers employees in categories 10 to 45 and CLA-B covers the employees in category 50 upwards. Over the previous decades, this system was altered a number of times with new groups of employees, such as 27, 37, 90, 95, and 100, but the basis of the system remained unchanged.

consultancy group was used.¹⁰³ From the mid 1990s onwards, the Hay job evaluation system was introduced for all employees across the globe, including all employees in the Netherlands. In the past decade, both CLAs were increasingly starting to look alike and therefore it was decided to integrate them at the beginning of 2010. As a result of the transfer of production facilities to other countries, the number and percentage of Philips employees covered by CLA-A had decreased significantly (see Figure 6.4). Philips transformed from a production company into a knowledge intensive company, and this affected the terms of employment as well. Production workers were rewarded on the basis of the specific function they performed and seniority. With the new CLA, managers are able to determine individual salary increases on the basis of performance.¹⁰⁴

Figure 6.4 Percentage of Philips employees in the Netherlands covered by CLA-A and CLA-B (1978–2008)



Source: Annual reports for the Dutch central works council 1978–2008.

The introduction of performance pay was not new to Philips. As far back as the 1970s, Philips was working on its introduction for four reasons: “(1) to make sure that the manager and employee enter into a clear and practical agreement on the job and tasks of

¹⁰³ Based upon Interview 2 Philips NL: Trade union official 30 years’ experience.

¹⁰⁴ Based upon Interview 5 Philips NL: Senior HR manager 30 years’ experience.

the employee, (2) to make sure that the performance of the employee is measured correctly on the basis of the agreed upon terms, (3) so that the communication that we call performance management will lead to a more motivated employee, and (4) so that management is informed about the performance and potential of the employees, the way their tasks are organized, and the conditions under which these tasks are performed.”¹⁰⁵ However, it took until the beginning of the 1990s before such a policy was implemented, and this policy would only affect Philips’ middle management.¹⁰⁶ It was implemented to stimulate middle management to focus on the ‘bottom line.’ Actual performance rather than seniority became the keystone in the performance management system.¹⁰⁷ It would take until the beginning of the 2000s before performance pay was implemented for all employees.

Reward packages of American corporations consist of two important components: compensation and benefits. Until the beginning of the 2000s, these packages were determined by Philips US almost without any interference from Philips’ corporate headquarters in the Netherlands. ‘*The reward system was designed and implemented, and everything was done by US management, the US HR department.*’¹⁰⁸ Philips US’ compensation package consists of a base salary and an incentive plan. In contrast to the Netherlands, performance pay was already part of the total reward package. Depending on the job, this can be a management incentive plan, sales incentives, or another kind of performance program. Because Philips US never had a high degree of employee turnover, they do not offer retention policies. The most important parts of the benefits package are healthcare, pension, and disability benefits.

In the previous section, I explained that, because of the costs and potential economies of scale, Philips US always organized benefits centrally. They are developed and implemented by the national personnel department. Compensation was highly dependent on the local situation, which is still often the case. In the determination of base salaries and incentive packages, for the majority of the employees, competitors and local labor markets are the benchmarks. It is only with the long-term incentive plan that the

¹⁰⁵ Philips Koerier, 23 May 1970, page 7.

¹⁰⁶ Higher management was rewarded on the basis of individual labor contracts. These contracts often have performance pay components as well.

¹⁰⁷ Philips Koerier, 16 March 1989, page 12.

¹⁰⁸ Interview 5 Philips US: HR manager 30 years’ experience.

national personnel department need to get permission from corporate headquarters, because company stocks are used for this.

In the past decade, Philips' corporate personnel department has widened its scope. It has developed and implemented policies on an increasing number of issues that apply to an increasing number of employees. These policies play out differently in different countries. Five issues are of particular interest.

First, the corporate personnel department has become increasingly interested in long-term incentive plans. Traditionally, these incentive plans were restricted to top executives – with the exception of the US – but in recent years, lower hierarchical levels are rewarded with restricted stocks¹⁰⁹ as well. Because this innovation affects the reward system of Philips' employees in the Netherlands, the Dutch personnel department is obliged to consult the Dutch works council. If they do not agree, Philips is not able to implement changes in the reward system of its Dutch employees. Because the United States has always had a long-term incentive plan, their reward system has not been affected.

Bonuses are a second issue with which the corporate personnel department has become concerned. In the Netherlands, all Philips employees have variable pay, not only those employees with individual labor contracts, but also those covered by the collective labor agreement, even though it constitutes only a small percentage of total salary (3 percent, 5 percent, or 8 percent depending on position in the hierarchy).¹¹⁰ The percentage of variable pay for employees above the CLA is higher (from 15 percent to 50 percent or even 100 percent for executive board members). For the vast majority of all employees, 75 percent of variable pay is based on individual performance; the rest is based on Philips' overall performance. For employees in the top levels of the organization, these percentages are different.

¹⁰⁹ Restricted stock can only be transferred to another if certain conditions have been met. An employee being granted restricted stock, for instance, first has to work for the company for a certain period of time, or the company has to reach certain financial goals.

¹¹⁰ Recently, Philips announced plans to increase variable pay to 7 percent, 9 percent, and 12 percent. *Het Financieele Dagblad*, 21 November 2011, "Philips geeft minder loon, meer bonus aan personeel" [Philips decreases fixed pay and increases variable pay], page 1.

Traditionally, Philips' Dutch employees had the possibility of buying Philips' convertible bonds through the employee share purchase plan. In the late 2000s, the corporate personnel department wanted to implement a single transnational policy for all employees. Therefore, the Dutch personnel department had to convert the purchase plan into a saving scheme for employees to buy shares at a discount. Also, when Philips US wanted to introduce an employee stock purchase plan¹¹¹ at the beginning of the 2000s, they needed to get permission from the corporate personnel department and change the set-up. Philips did not want to ask its shareholders for permission, which they would need if Philips US used the proposed setup. So, the corporate personnel department '*controls the design.*'¹¹²

Fourth, the corporate personnel department concerns itself with pension policies. Because in the past Philips had many tens of thousands of employees in the Netherlands, the Dutch pension fund covers 90,000 people who no longer work for the company, either because they are already retired or because they are now working for another company. The pension fund's assets total more than ten billion euro, causing a large potential risk. Because in the Netherlands Philips still has a defined benefits system, the risks are higher than in those countries with a defined contribution system. So, it is not only the corporate personnel department that is interested in this topic, the corporate risk department is as well.¹¹³ At the beginning of the 1980s, NAPC introduced a defined benefits plan. When the corporate personnel department became more involved with this issue, someone from the corporate personnel department became part of Philips US' pension committee. Nowadays, all '*changes in the retirement area have [also] to be approved by the [global] pension board.*'¹¹⁴ In the mid 2000s, corporate headquarters '*mandated that we close new entrances*' to this arrangement. '*Employees hired after 2005 don't go in the defined benefit, they're just in a defined contribution plan. That was mandated by the Netherlands [corporate headquarters].*'¹¹⁵

Finally, in the late 2000s – a time of slow economic growth and even decline – the corporate personnel department became concerned with base salaries, an issue that

¹¹¹ Also known as a 423 plan (US tax code).

¹¹² Based upon interview 5 Philips US: HR manager 30 years' experience.

¹¹³ Interview 5 Philips NL: Senior HR manager 30 years' experience.

¹¹⁴ Interview 5 Philips US: HR manager 30 years' experience.

¹¹⁵ Interview 5 Philips US: HR manager 30 years' experience.

used to be the prerogative of the national personnel departments. Annual increases now have to be agreed upon by the corporate personnel department in Amsterdam. *‘We [US HR department] make a recommendation to the corporate compensation group, they approve it, and we implement it locally. So it is a function of union agreements or labor agreements, it is a function of inflation, a function of local benchmarks.’*¹¹⁶ This applies to all non-executive employees. The same is true for the Dutch personnel department. They are given a certain bandwidth for the total salary increase. The Dutch personnel department has to make sure that they stay within this bandwidth.

Philips’ executive compensation package is determined by the corporate personnel department; they are *‘totally managing executive pay (...) we’ve gone to global grades and everything like that. The pay structure is controlled by the [corporate personnel department], and the incentive plans, the bonuses, and the long-term incentives have all become pretty global.’*¹¹⁷ In the past few years, the corporate personnel department developed a global policy of paying on the basis of general benchmarks. This causes problems for the personnel departments in individual countries. In the United States, for instance, Philips is active within three distinctive sectors characterized by different compensation packages. The implementation of global principles conflicts with the differences in compensation that Philips US has in its various divisions. *‘The sectors might reward people differently.’*¹¹⁸

Besides getting involved with the salaries of employees around the globe, in the past few years the corporate personnel department has concerned itself with practices around compensation and benefits. For efficiency reasons, the corporate personnel department, for instance, is forcing all national personnel departments to use the same vendor for its payroll system. *‘They’re exerting their control in a number of areas in the rewards area by picking the vendors.’*¹¹⁹

Also, the corporate personnel department has developed a program for the entire performance management cycle and has created an IT system to support it. This program includes both the way performance is measured and the measuring itself, including how

¹¹⁶ Interview 2 Philips US: Senior HR manager 2 years’ experience.

¹¹⁷ Interview 5 Philips US: HR manager 30 years’ experience.

¹¹⁸ Interview 2 Philips US: Senior HR manager 2 years’ experience.

¹¹⁹ Interview 5 Philips US: HR manager 30 years’ experience.

and when meetings to review employees' performance should take place. The performance of employees across the globe is assessed on the basis of the same fifteen criteria.¹²⁰

Moreover, in recent years, global evaluation principles have been introduced. *'This year we just instituted not the "what" as the objective but the "how." Not only what did you achieve, but how did you go about achieving it. We rolled out what we call our leading to win values. Philips is trying to create one culture globally based upon four key values which we refer to as "leading to win." So, for the first time this year, during the performance evaluation process, our employees are not only evaluated on what they achieve but how they went ahead in achieving it as it relates to adhering to our values (...). We call them the four D's (...) Deliver great results, Delight customers, Depend on each other, and Develop people.'*¹²¹

Summarizing, traditionally, rewards were rather independently determined by Philips' national personnel departments in line with the conditions in the national fields. Philips' long-term incentive plans were the only exception. Because they included stocks, corporate headquarters had set rules and guidelines. In this past decade however, the corporate personnel department has issued multiple guidelines to influence the level of the rewards, the composition of the reward package (including base salary, pensions, and performance pay), and the way employees' achievements are measured. In other words, whereas rewards were at first organized by national personnel departments in line with the conditions in the respective national economic fields, in the 2000s the situation in the transnational field became increasingly significant for this component of Philips' corporate labor policy.

Even though the rewards of all employees are affected by the rules and guidelines of the corporate personnel department, there is a difference between employees at the top and those employed at lower levels within the organization. Top executives' rewards are determined by the corporate personnel department, whereas the rewards of the rest of the employees are determined by national personnel departments, in some cases through

¹²⁰ Based upon Interview 1 Philips NL: Trade union official 20 years' experience.

¹²¹ Interview 4 Philips US: HR manager 10 years' experience.

collective labor agreements concluded with national trade unions. Also, top executives' performance pay has been made dependent on the performance of the organization as a whole, whereas the performance pay of lower level employees is primarily dependent on their individual performance. So, even though rewards have become increasingly organized in line with the conditions in the transnational field, this differs between different levels of employees.

Employees' pension plans constitute a significant risk to companies. As the company is embedded in a field in which the financial market now has a dominant role, minimizing risks is considered to be of great importance. In the past few years, Philips therefore has started to implement pension policies that transfer these risks to individual employees.

6.4 Employee voice

Right after the Second World War, Philips installed a system of employee representation in the Netherlands. Every division had a so-called Core that represented employees from different hierarchical levels. Together, the Cores of all divisions formed the personnel council headed by a board that met with a group of people from the social affairs department once every two weeks to discuss personnel matters. Also, there were monthly meetings between the Cores and division management, and, once every year, Philips' executive board had a meeting with the board of the personnel council. In 1955, the first Works Council Act was introduced by the Dutch government. Philips changed its system of employee representation to align it with the requirements of this new act. In the same year, Philips started to publish an annual report targeted at its own employees. This report is a shortened and simplified republication of the annual financial report published by Philips for its shareholders.

In Chapter 3 (see section 3.4), I explained the Works Council Act introduced by the Dutch government in 1971. This act obliges all companies with more than 50 employees to establish a works council. At the beginning of the 1970s, Philips' Dutch workforce comprised around 100,000 employees in dozens of locations around the country. Consequently, Philips needed to establish dozens of works councils, one in each plant and a central works council on the national level. The number of works councils

increased even further when the Works Council Act was changed in the mid 1970s. Works councils were established on every level of the organization, the plant, division, and national level.¹²² At the end of 1970s, Philips had 116 works councils in the Netherlands, of which 53 in Eindhoven alone.¹²³

At the end of the 1960s and the beginning of the 1970s, Philips also had a small number of meetings with the European trade unions. During these meetings, Philips informed them about the structure of the organization and its economic and financial situation. These meetings were not used to negotiate or discuss the terms of employment of Philips' European employees. Philips was not obliged to do so. These were discussed on the national level and Philips did not want to change this policy (Haas, 2000).

In section 6.2, I explained that at the beginning of the 1980s the Dutch and the global staff departments were separated. From then on, the executive board was part of Philips International, a separate legal entity with its own works councils. For the central works council of the Dutch Philips Companies, employing the vast majority of all employees in the Netherlands, this meant that they no longer had the executive board as their speaking partner, but the Dutch board instead, something that was regretted by the works council members: "It still feels like we have lost the executive board."¹²⁴

In the past two decades, Philips has increasingly organized itself on the transnational level, with decision power moving from national directors (country organizations) to division managers. Because the Dutch works council has no say on matters outside the Dutch borders, this means that employee representation has not followed the decision-making power within the organization. This sometimes causes problems, and one way of dealing with these problems is to invite division managers to come and talk about their operations in the Netherlands.

Until the mid 1990s, Philips did not have any form of participation above the national level. Philips' policy has always been: '*we do what we are obliged to as a result of national legislation and that means that we do not do more than strictly necessary.*'¹²⁵ Because of the 1994 directive of the European Union, Philips, like any other corporation

¹²² *Philips Koerier*, 21 February 1974, pages 2–3; Haas (2000), page 75.

¹²³ *Philips Koerier*, 8 April 1976, page 16.

¹²⁴ Comment by the chairman of the works council. *Philips Koerier*, 16 December 1982, page 6.

¹²⁵ Interview 1 Philips NL: Trade union official 20 years' experience.

with significant production facilities in at least two European countries, was obliged to establish a European works council.¹²⁶ Initially, this council primarily functioned as a platform for national representatives to share experiences in various countries. The Belgian, Dutch, and German representatives were already in contact with one another, and this gave them a platform to expand their contacts and become informed about the developments in other European countries.

The European works council did not always function well. For instance, not all representatives were always willing to come to the meetings, even when the executive board announced they were coming to discuss a major reorganization with implications for Philips organizations in various European countries. Also, because the members of the European works council worked in different divisions at different stages of development, it was difficult to reach consensus. Its position is therefore still relatively weak:¹²⁷ *‘Influence of the European council? None! It was just a classroom and the executive board felt obliged to lecture about how well the company was doing. They never said what they were really up to.’*¹²⁸

Philips respected local laws but had no intention of doing more than necessary. So, the decision to transfer decision power to transnational business units did not result in works councils operating on that same level: *‘(...) most decisions are now international decisions taken by the product divisions, the general business units. For Philips, this does not mean that they will give employees a say on the business unit level as well.’* For employees in individual countries trying to secure their position within the company, it is therefore necessary to make sure that they remain competitive. *‘The only influence you have is producing more efficiently than your internal competitors in Poland or France.’*¹²⁹

In the United States, management rules, and this is reflected in how employee voice is arranged as well. It primarily means communication from management to employees. Works councils and unions are seen as obstacles to efficiency. *‘The interface between the employee and the company through union representatives is probably the*

¹²⁶ Philips Koerier, 26 January 1995, page 1.

¹²⁷ When compared to, for instance, the Dutch central works council.

¹²⁸ Interview 4 Philips NL: Works council member 20 years’ experience.

¹²⁹ Interview 1 Philips NL: Trade union official 20 years’ experience.

*most inefficient way to communicate and deal with employees. In the United States, unlike Europe, unions tend to have an increasing cost for a company and a decreasing productivity. That is why most American companies desperately try to stay union free (...). In the US, probably unlike most European countries, there is an increase of cost associated with it, and a decrease of productivity.*¹³⁰ Communication between Philips US and its employees is nowadays primarily organized through modern technology, such as the internet, or via more old fashioned means, such as town-hall meetings. *‘We get a lot of people together, whether on a functional basis or a group level, and leaders come and talk to employees and talk to them about the strategy, the business interaction, and so on. The problem with that is that it tends to be one way. Even though there is time for questions, people rarely raise their hands, rarely ask questions and, if they tend to do, it is a kind of soft ball question.’*¹³¹

The corporate personnel department is not concerned with employee voice on the national level; this is a matter for the national personnel departments. They do, however, undertake certain activities that can be labeled as employee voice activities.

In the mid 1990s, Philips started an employee survey for all of its European employees. Through this survey, around 100,000 employees were given the opportunity to share their thoughts and express their grievances.¹³² In this way, Philips started a sort of regional, European ‘conversation’ with its employees. These surveys were later also conducted by various divisions on a broader scale and, since the mid 2000s, Philips has been conducting a global survey among all employees once every year. This survey is the responsibility of the corporate personnel department and is intended to give information about Philips’ employees to Philips’ management.

Second, the corporate personnel department concerns itself with the promotion of the Philips brand and the One Philips campaign mentioned in section 6.2, which includes the promotion of the Philips brand outside (to customers) as well as inside the organization; trying to get people attached to the Philips organization. Through its communication, Philips is trying to *‘make everyone feel they’re part of one company.’*¹³³

¹³⁰ Interview 2 Philips US: Senior HR manager 2 years’ experience.

¹³¹ Interview 2 Philips US: Senior HR manager 2 years’ experience.

¹³² *Philips Koerier*, 14 April 1994, page 5.

¹³³ Interview 5 Philips US: HR manager 30 years’ experience.

Summarizing, even though some initiatives have been developed above the national level – the European works council and the global employee survey – employee voice is still primarily organized on the national level; and, as a result of legal restructuring, in the Netherlands the Dutch works council has lost its contact with the executive board.

6.5 Employee flow

The central question in this study is what the consequences of the shifting emphasis in the dual embeddedness of transnational corporations since 1980 have been for their corporate labor policy. For the employee flow component of corporate labor policy, we get a mixed answer. The recruitment and selection of new employees have always been, and still are, primarily a national matter, but the training function has experienced a fundamental transnational reconstruction.

After Operation Centurion (see section 6.1), Philips started to dismantle its extensive range of training facilities, primarily in the Eindhoven region. These facilities had been established at the beginning of the twentieth century to train workers who were available in this region. These workers often did not possess the necessary skills to work in Philips' increasingly technically sophisticated production facilities. Also, in the 1970s, Philips needed to recruit tens of thousands of new employees per year. In order to train these people, Philips had built up a large internal educational system preparing them for their jobs and training current employees in order to make sure that they kept up with new technologies. As a dominant employer in the Netherlands and, especially, the Eindhoven region, Philip also tried to help reduce unemployment. Some people who had been unemployed for many years were given a technical education that they could use to find a job either at Philips or at other technical companies. Also, Philips stimulated a technical education for employees' children by paying for their tuition. However, when, in the 1980s, it became clear that in the following years and decades Philips would transfer production to low cost countries and it would therefore need fewer employees,

these training facilities were slowly dismantled. This process was accelerated during Operation Centurion.¹³⁴

This, of course, does not mean that Philips no longer offers trainings facilities to its employees, but training facilities for middle and higher employees are organized differently. Most training has been outsourced. Philips works with a small number of global suppliers, so the entire backbone of Philips' training facilities has been transnationalized and outsourced. Also, employees themselves have become responsible to ask for training opportunities and work on their career, instead of the employer taking them by the hand and telling them what to do. These requests are then compared with company policy and the managers' ideas.

Philips US long operated as an independent company and this also meant that, until the mid 1990s, there were hardly any foreign managers working for Philips in the US. Philips sent out managers from the Netherlands to Asia and other countries, but Philips US' history '*of being independent was hard to break.*' It took until '*the late 90s before they started to really send the managers over,*'¹³⁵ especially with the technology boom when all expatriates '*wanted to go out to Silicon Valley.*'¹³⁶ So, for a long time, training in the United States was strictly a national matter.

Nowadays, the talent management program is a mix of national and transnational structures. The policies for employees who are considered to be high potentials are developed on the transnational level, but execution is on the national level. Talent managers have a regional role, and there are talent managers in all large country organizations. Furthermore, they are aligned to a specific business or function, so for instance healthcare, lighting, finance, or marketing. The criteria for people who are considered to be high potentials are determined globally. The way someone becomes part of the high potentials pool in the US '*is the same as in Brazil.*' Also, all '*programs (...), development centers, some of our higher program levels as well, have all the same*

¹³⁴ Based upon interview 4 Philips NL: Works council member 20 years' experience.

¹³⁵ Interview 5 Philips US: HR manager 30 years' experience.

¹³⁶ Interview 5 Philips US: HR manager 30 years' experience.

*content globally (...). Once you are in the pool, we are developing you in the almost absolute same manner, just to make one global high potential pool.'*¹³⁷

Above the high potential group are the top potentials. These are people with a couple of years' experience that have the potential to become executives. At this point, *'the talent community [is] no longer regionally focused; they become either sector focused or functionally focused.'*¹³⁸ So, these are truly transnational practices.

Recruitment on the other hand is primarily a national matter. In the United States for instance, recruitment is regulated by the government, through the Equal Employment Office (EEO) and the Office of Federal Contractor Compliance Programs (OFCCP). This latter organization in particular is very important for any company that has the government as a client. *'What that means is that any company that does business with the federal government has to live up to a set of standards and regulations that the OFCCP puts out there. Recruiting is extremely regulated by the OFCCP (...). Both the EEO and the OFCCP audit companies on an annual basis (...) They're tough to pass. If you don't pass them, that can mean anything from fines to penalties to loss of government contracts.'*¹³⁹ Because of the large healthcare business that Philips has in the US, it is very important for them to pass these audits.

So, in the US, recruitment is highly embedded due to strict regulation. Consequently, it can be expected that this component of corporate labor policy is not affected by the transnational reorganization of the company, and even though Philips is *'trying to create as much harmonization across regions as'*¹⁴⁰ possible, this seems to be correct. This primarily results from the fact that labor markets are different across the globe. The only structure that points in the direction of a transnational organization of recruitment is the creation of a global recruitment team in 2009. This team, which does not have official status, was founded to stimulate learning between different countries. In recent years, for instance, Philips has been expanding its operations in China and is therefore busy with recruiting new employees. The type of question this team tries to

¹³⁷ Interview 4 Philips US: HR manager 10 years' experience.

¹³⁸ Interview 4 Philips US: HR manager 10 years' experience.

¹³⁹ Interview 6 Philips US: HR manager 15 years' experience.

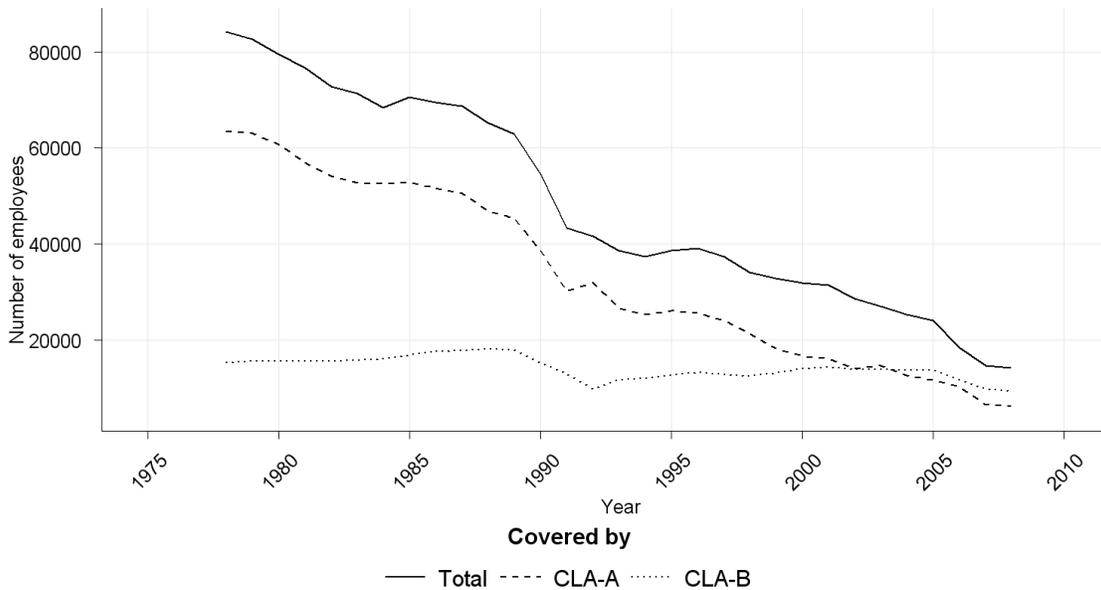
¹⁴⁰ Interview 6 Philips US: HR manager 15 years' experience.

tackle is, for instance, what Philips China can learn from the recruitment organization of Philips US.

Over the course of these past few decades, the type of employee working at Philips has changed considerably. At the beginning of the 1970s, Philips employed, for instance, around 100,000 people in the Netherlands alone. Production workers constituted the majority of this work force – as was the case in the United States – and only around 13 percent of them were administrative or other office personnel (middle and senior management). During the past few decades however, the number of office employees has risen quickly. This also means that the educational background of Philips’ employees has changed considerably. By the mid 1980s, more than half of Philips’ new employees had a college or university degree, and this has only increased since.¹⁴¹ In the Netherlands, this development is demonstrated by the number of employees covered by CLA-A and CLA-B. Figure 6.5 reveals that the decrease in the number of employees in the Netherlands reflects the decreasing number of employees covered by CLA-A, i.e. production workers. The number of employees covered by CLA-B has remained relatively stable, except for two decreases around the time of Operation Centurion at the beginning of the 1990s and in the late 2000s.

¹⁴¹ *Philips Koerier*, 28 March 1985, page 18.

Figure 6.5 Number of Philips employees in the Netherlands covered by CLA-A and CLA-B (1978–2008)



Source: Annual reports for the Dutch central works council 1978–2008

A final interesting development is the changing relationship between Philips and its employees. As discussed in section 6.1, for most of the twentieth century, Philips was a rather paternalistic employer, but from the 1980s onwards, employees’ individual responsibility has been growing, for instance in relation to their career development. “Every employee is responsible for his/her training and development.”¹⁴²

During the 1970s, Philips started with the transfer of production from high cost countries such as the Netherlands to low cost countries. Together with the centralization of production facilities in the 1970s and 1980s, this resulted in a reduction in the number of employees in the Netherlands (see Figure 6.3). Employees who lost their job were sent to a ‘consulting out’ department that would help them find a new job on the external labor market¹⁴³ or to Philips’ Center for Internal Employment.¹⁴⁴ Over the course of the 1980s, employees slowly started to realize that job security at Philips was fading away.

¹⁴² *Philips Koerier*, 14 April 1977, page 12.

¹⁴³ *Philips Koerier*, 16 April 1981, page 1.

¹⁴⁴ *Philips Koerier*, 6 October 1983, page 1. This department was established for employees who are not able to find a new job on the external labor market.

This especially became clear with the announcement of Operation Centurion at the beginning of the 1990s. *'I used to think that at Philips you could count on keeping your job. We often talked about that among colleagues. That this is in fact not the case came as a big shock.'*¹⁴⁵

Summarizing, as already stated in the introduction to this section, employee flow displays a somewhat mixed picture. Training, primarily training focused on current and future top employees, is now organized on a transnational level. Recruitment on the other hand is still almost completely a national matter.

Throughout most of the twentieth century, Philips had an extensive system of training and education in place for its employees. Employees would often work for Philips their entire career and Philips was 'responsible' for their career development, but especially in the past two decades this has changed. Philips' employees themselves have become responsible for their career development. This development is in line with the increasing dynamics of the transnational field in which Philips has become embedded, forcing it to be able to change its strategy when the economic conditions change.

6.6 Conclusion

The transnational economic field became increasingly significant for Philips' structures, strategy, and policies over the course of the 1970s and 1980s, but it took until the end of the 1980s and the beginning of the 1990s before this resulted in structural changes. This delay can be explained by the company's strong corporate culture (habitus).

Around 1990, a restructuring process was set in motion that included the transfer of power and responsibility from Philips' country organizations to its transnational divisions and the centralization and outsourcing of production capacity, which led to a significant reduction in the number of employees. The first steps within these processes had already been taken in the 1970s, and they have not yet finished, but we can conclude that, at the end of the 1980s and the beginning of the 1990s, this process accelerated and

¹⁴⁵ Philips Koerier, 19 December 1991, page 15.

that over the past decades Philips has reorganized its policies and structures to fit the transnational field.

An important development with regard to its corporate labor policy has been the growing importance of the corporate personnel department, especially in the 2000s. This department became more active on a range of issues and developed and implemented transnational policies by giving specific guidelines to the national personnel departments, for instance with regard to rewards and the way personnel policies and processes are organized. So, Philips' shifting emphasis in its dual embeddedness was accompanied by the centralization of its personnel department. This included not only the transfer of responsibilities from the national to the transnational level, but also the introduction of transnational guidelines for the national personnel departments.

Philips' restructuring in line with the demands of the transnational field is also reflected in the position of the personnel department within the company. Labor is increasingly seen as a strategic asset the company needs to deploy in order to obtain the optimal financial results. Philips' labor policies are no longer developed with the local (e.g. the Eindhoven area) or national situation in mind. Instead, the transnational electronics field has become the point of reference for designing these policies, and this has also had consequences for the department concerned with the development and implementation of corporate labor policy. The personnel department used to have a plural character, being an advocate for the employees, advising line management, and servicing the employees, but in recent decades it has been transformed into a business partner for company management and has become instrumental in the pursuit of the financial goals of the organization.

The changing economic environment forced Philips to become more flexible and adapt quickly to changing conditions. In doing so, Philips said goodbye to the idea of lifetime employment and made its employees themselves responsible for their career development and for improving and sustaining their employability, thereby shifting the career risk to employees themselves. Also, in recent years Philips has been in the process of changing its pension system from a defined benefit to a defined contribution system, thereby again shifting risks to employees. Besides these examples, I did not find any other examples of risk shifting. Therefore, I would argue that, even though changes in the

distribution of risks concerning labor have taken place, the degree of risk shift is moderate. The mechanisms at work here are, on the one hand, Philips' decreasing national dependence, but, on the other hand, its continuing national dependence with regard to labor. The way risks are divided within countries is heavily dependent upon the institutions in individual countries. So, even when a firm experiences a decreasing dependence on national economic fields, with regard to the risks concerning labor they can still be largely dependent upon other actors and the institutional arrangements in these national fields.

Philips' transnational restructuring was accompanied by an increase in the number of managers with transnational responsibility. For them, transnational training and career opportunities have been developed. At the same time, the vast majority of employees are still served by the national personnel departments, and their policies are focused on the national field in which these employees work. Finally, in order to adjust to the changing competitive conditions caused by its transnational embeddedness, Philips restructured and reorganized its production facilities. In the past three decades, most of Philips' production capacity in Western countries, including the Netherlands and the United States, was dismantled and outsourced to Eastern European or Asian countries or sold to external suppliers. Nowadays, almost all production capacity has disappeared from the Netherlands and the United States. So, Philips has experienced a differentiation in its corporate labor policy in a transnational component, a national component, and the transfer of tasks that do not necessarily have to be conducted in a specific country to low cost countries.

If we study the four components of the corporate labor policy as distinguished in Chapter 2 (section 2.5), some interesting conclusions can be drawn.

Work organization includes the formal structure of the organization as well as the development of the personnel department. From the 1980s onwards, Philips started to turn its matrix structure; this meant primarily that responsibility and power were transferred from Philips' national organizations to its transnational divisions. Around the same time, Philips changed its production function by both centralizing capacity and outsourcing significant parts of it. Finally, Philips also restructured its personnel departments, resulting in a process of centralization on the transnational level. The

transnational economic field became increasingly significant over the course of the 1970s and 1980s, but it took until the end of the 1980s and the beginning of the 1990s before this was really reflected in its corporate structure and policies. So, even though the shift in its dual embeddedness had already started, it took more than a decade before the organization was adapted to this change. This can be explained by the fact that Philips has a long history and, therefore, a strong corporate culture. As a result, changes in its corporate policies and structures are not implemented overnight, especially if these changes have far-reaching consequences.

Rewards are still significantly dependent upon the conditions in, and structures of, the various national economic fields (in the Netherlands, for instance, the national personnel department is responsible for the negotiations on the collective labor agreement with the trade unions). At the same time, through a range of actions by the corporate personnel department, the national personnel departments are restricted and given guidelines to model their national policies within a certain framework developed on the transnational level. So, certain responsibilities concerning this component of corporate labor policy have been centralized on the transnational level. This affects employees' compensation and benefits package as well as the way in which the reward system is constructed and how employees' performance is measured. Finally, in line with demands from the financial markets for more predictability concerning financial results, Philips has started to change its pension system, which means risk shift from employer to employees.

Employee voice is concerned with the interaction between the company and its employees about everyday affairs and the how the firm is run in general, but, even though the company was reorganized on the transnational level, this does not mean that the same was true for this component of its corporate labor policy. Instead, Philips' formal employee voice structure in the Netherlands, the works council, was decoupled from top management; and even though regional (the European works council) and transnational (the global employee survey) structures were introduced, because these structures lack status within the company we cannot say that this component of Philips' corporate labor policy is now organized on the transnational level.

Finally, employee flow is concerned with the movement of employees through the organization. Here we can see that on the one hand transnational policies and structures have been put in place to support the development of (future) top executives. On the other hand, we must conclude that the changes that have taken place in Philips' competitive conditions have resulted in a greater need for flexibility. This has meant that the idea of lifetime employment has come to an end and that employees themselves have become responsible for their career development.

So, different components of Philips' corporate labor policy are affected by Philips' transnational shift in different ways, with work organization being significantly centralized on the transnational level, the introduction of transnational guidelines for the national reward policies, employee voice still primarily taking place on the national level even though some transnational practices have been introduced, and a differentiation between various practices that can be categorized as employee flow.

There are enduring differences between the corporate labor policy of Philips in the Netherlands and in the United States, for instance in the way employee participation is organized, resulting from the differences in the institutions in the Dutch and American fields. At the same time, under the influence of the transnational restructuring of the firm, we can also observe some increasing similarities, for instance in the way the personnel departments are organized and in relation to transnational guidelines for the reward systems in both countries. In the United States, Philips is less constrained by state regulation and the position of organized labor with regard to its corporate labor policy and can therefore reorganize such policy in line with the requirements of the transnational economic field to a significant degree – also because both in the transnational and in the American economic field the position of shareholders has been strengthened. Because in the past three decades constraints caused by state regulation and the position of trade unions in the Netherlands have slowly developed in a similar direction, Philips' corporate labor policy in the Netherlands has also been slowly developing in the direction of its American corporate labor policy.

There is differentiation between different components of Philips' corporate labor policy as well as between different levels. If we compare this with other domains, such as marketing and production policies, we can conclude that, even though Philips' corporate

labor policy has experienced centralization on the transnational level to a certain extent, labor still experiences a significant embeddedness in national economic fields. The centralization on the transnational level of its corporate labor policy is moderate in comparison to that of other domains.

All in all, we can conclude that, from the 1980s to the 2000s, Philips experienced a certain degree of centralization in its corporate labor policy on the transnational level, a differentiation between different components of its corporate labor policy, between different levels, and between countries, the outsourcing of significant parts of its production capacity, the transfer of power and responsibilities from its national organizations to its transnational divisions, the instrumentalization of employees and the personnel department in pursuit of the financial goals of the organization, a moderate risk shift to its employees, a deterioration in employees' representation, and, finally, a centralization of its corporate labor policy on the transnational level that is moderate in comparison with other domains. How to explain these developments?

Philips experienced a shifting emphasis in its *dual embeddedness* consisting of an increasing dependence on the transnational electronics field and a decreasing dependence on national economic fields. This means that Philips experienced an increasing need to adapt its policies to the competitive conditions in this transnational field, consisting of a need to cut costs and an increasing focus on financial criteria. At the same time, it also implied a decreasing dependence on the other actors in the national economic fields in which it is embedded; this provides Philips with the opportunity to organize its corporate labor policy more independently. The *centralization* of certain components of its corporate labor policy can be explained by both the need to cut costs and the desire to control these policies on the transnational level now that this level has become the defining reality within the firm. However, despite this need and desire, for certain components of its corporate labor policy the national economic fields continue to be of great significance. Therefore, Philips cannot centralize these policies on the transnational level. Also, the costs of certain components of corporate labor policy, such as employee voice, would only increase if they were organized on the transnational level. Consequently, certain components of its corporate labor policy have become organized

on the transnational level, whereas others have not, resulting in a *differentiation* between different components, between different levels, and between different countries. Financial criteria have become an increasingly dominant decision-making mechanism. This also applies to Philips' corporate labor policy and has resulted in the *instrumentalization* of this part of the firm. Finally, the decreasing dependence on other actors in the national economic fields has enabled Philips to decouple employees' representation from company management and shift risks concerning labor.

Chapter 7: The making of a financial giant: ING Group

In this chapter, I present and explain the development of the second case study company, financial services provider ING Group (ING). ING is the result of a merger between two banks and an insurer, each of which was primarily active in the Dutch economic field at the beginning of the 1990s. In the mid 1990s, ING started a process of rapid expansion across the Dutch borders turning it into a “global financial institution of Dutch origin offering banking, investments, life insurance and retirement services (...) to (...) more than 85 million private, corporate and institutional customers in Europe, North and Latin America, Asia and Australia” (ING Annual Report 2008: 4). The transnational restructuring of ING coincides with the expansion and increasing significance of the transnational financial field during the 1990s and 2000s.

In Chapter 4, I explained that this study focuses on the development of two transnational corporations in two national fields, the Netherlands and the United States. In this chapter, I focus primarily on ING’s development in these two countries. I present a historical overview of the development of ING and the fields in which it is embedded, thereby providing all necessary information to understand the changes in the corporate labor policy of this financial conglomerate as presented in the next chapter, exploring the first expectation as presented in section 4.2, and illustrating the mechanisms that explain firm behavior as presented in Chapter 2. I expect that as a result of a shifting emphasis in its dual embeddedness ING has reorganized its corporate policies and structures to fit this new situation by reinforcing its transnational structures and standardized policies, accompanied by specific goals and targets for its policies to be implemented on the national level, leading to centralization.

7.1 Restructuring of the Dutch financial sector

During the 1990s and 2000s, the Dutch financial field was dominated by a relatively small number of large financial institutions. Some of them offered a wide range of financial services (e.g. ING, Rabobank, and Fortis), whereas others offered a more specialized range of products (e.g. ABN Amro and AEGON). From the 1960s to the mid

1980s, these companies were active in a single or only a few financial subfields, but in recent decades they have increased their product range and have entered new financial fields and subfields, in the Netherlands as well as in many other countries across the globe. The transformation that these corporations have experienced is representative of the transformation of the financial industry in the 1990s and 2000s.

From the 1960s onwards, different financial corporations in the Netherlands entered new financial subfields, resulting in an increase in scale and intensifying competition. This development caused a wave of mergers at the end of the 1960s and the beginning of the 1970s. In the years following this Dutch restructuring, most of these companies started entering financial fields outside the Netherlands.

A second round of restructuring took place around 1990. By that time, most financial corporations had entered new financial subfields in the Netherlands as well as abroad. Consequent to the deregulation of the financial sector, this process increased around 1990, resulting in the partial integration of the various subfields. In the next decade and a half, the Dutch financial field integrated with other national financial fields, and the transnational financial field became of increasing significance. Whereas the first merger wave was prompted by the need to increase in scale in order to become better equipped to compete in national financial subfields, the second merger wave was motivated by a desire to offer a wide range of financial products to all possible customers to obtain a dominant position in the increasingly significant and highly competitive transnational financial field.

ING was formed during this second merger wave. ING is the result of the merger between Postbank and NMB bank in 1989, and the merger of the resulting NMB Postbank with insurer Nationale-Nederlanden in 1991. Both banks primarily operated in the Netherlands; only NMB had some operations across the Dutch borders, and Postbank was a state-owned corporation until 1986. At the time of the merger with NMB Postbank, insurer Nationale-Nederlanden had already significantly expanded its operations across the Dutch borders; around half of its revenues were earned outside the Netherlands. Still, it was clearly a Dutch company; its foreign subsidiaries were headed by Dutch nationals and the corporate headquarters was located in the Netherlands.

Alongside the integration of the various national financial fields in Europe into a European financial field and the increasing significance of the transnational financial field, ING started a process of rapid expansion across the Dutch borders in the mid 1990s, turning it into a transnational financial conglomerate. During the 2000s, this transnational expansion was also reflected in ING's corporate strategies and policies. In response to Dutch state support during the financial crisis at the end of the 2000s, the European Commission forced ING management to break up the company. The first steps in this process have been taken, but the exact outcome is still unclear.

Summarizing, we could say that financial institutions experienced a process that can be called 'integrated financial services', 'allfinance,' or 'bancassurance.' These terms all refer to a process of financial institutions expanding their operations outside their traditional niche and aspiring to offer many, if not all, possible financial services to all possible customers via all possible distribution channels in order to improve their competitive position in the transnational financial field. These activities include not only banking and insurance, but also, for instance, asset management, real estate management, and retirement services. As part of this development in the direction of integrated financial services, different banks and insurers merged, acquired other firms, or started some form of collaboration. I now describe the development of the Dutch financial field in previous decades in more detail, focusing on ING.

7.2 First merger wave: embeddedness in Dutch national subfields

Until the 1960s, the Dutch financial field was characterized by a high degree of specialization. After the economic crisis of the 1930s, the Dutch government introduced the so-called Regulatory Regime, which meant that banks were not allowed to offer insurance services and insurers were not allowed to offer banking services. Also, banks and insurers were allowed to hold only a small minority share in one another. As a result, the financial field consisted of separate banking and insurance subfields.

Both subfields were characterized by a high degree of specialization as well. Commercial and trade banks focused on credit loans to large, medium sized, and small companies, the transfer of money between these companies, and deposits of companies and wealthy individuals. Cooperative banks focused on the agrarian sector. Savings

banks focused on savings of the Dutch public. Mortgage and finance companies provided mortgages and credit to the Dutch public. And finally, the state-owned Post Cheque en Girodienst offered a nationwide system of guaranteed checks.

With the rapid development of the Dutch economy in the first decades after the Second World War, competition in the banking and insurance field increased significantly. The demand from companies for credit, for instance, grew rapidly. To meet this demand, commercial banks started to offer savings accounts to the Dutch public and directly competed with savings banks for their rapidly expanding deposits. It was not only commercial and savings banks that started to compete; in order to be better prepared for the increasing competition in the financial markets, many specialized banks and insurers also started to develop activities outside their traditional niche.

In the 1960s, four companies that later formed ING were active in different financial subfields. The Post Cheque en Girodienst (PCGD) and Rijkspostspaarbank (RPS) were both part of the state-owned company PTT (which was also responsible for the postal and telephone services in the Netherlands). These two companies were established by the Dutch government at the end of the nineteenth and the beginning of the twentieth century to create a nationwide system of guaranteed checks (PCGD) and to make it possible for every Dutch citizen to open a savings account (RPS). They were legally bound to these tasks and, therefore, not allowed to undertake other activities in the financial sector. Because of these legal restrictions, the two state-owned banks were not able to compete with the private and cooperative banks that, from the 1950s onwards, expanded their operations and entered the subfields occupied by PCGD and RPS. As a result, the position of these two banks weakened and their continuity was threatened. NMB Bank was founded in the 1920s by the merger of a small number of banks that all serviced medium and small sized businesses. In addition, from the 1960s onwards NMB introduced financial services for the general public, such as savings and current accounts.

Nationale-Nederlanden (NN) was formed in 1963 by the merger of De Nederlanden van 1845 and the Nationale Levensverzekerings-Bank. In contrast to ING's other predecessors, Nationale-Nederlanden already had activities outside the Netherlands. Because of the small size of the Dutch market, NN's predecessors expanded their activities outside their home country – especially in the former Dutch colonies – and this

process continued with substantial acquisitions in the United States and Canada in the 1970s and 1980s.

The increase in competition resulted in a merger wave in the Dutch financial field between the mid 1960s and the beginning of the 1970s. By increasing their scale, many financial corporations expected to be better equipped to compete for the dominant positions in the integrating financial fields and subfields. We have already seen that NN was formed in 1963. Two other examples are insurers AEGON and AMEV. AEGON is the result of the merger of five regional insurers into AGO and Ennia, which finally merged in 1983. In 1974, a number of insurers, which already worked closely together, were integrated to form AMEV. The banking field was characterized by a number of mergers as well. In 1964, Twentsche Bank and Nederlandsche Handels-Maatschappij merged to form ABN Bank, and Amsterdamsche Bank and Rotterdamsche Bank formed Amro Bank. Finally, the cooperative banks Raiffeisenbank and Boerenleenbank merged and formed Rabobank in 1972.

To strengthen their position in the integrating and increasingly competitive banking field, PCGD and RPS introduced a joint savings and current account in 1968. This commercial cooperation was a reaction to the introduction of a system of guaranteed checks and a current account with interest by the private banks. Because of this commercial cooperation, PCGD and RPS became intertwined and this resulted in the need to coordinate their policies. At the beginning of the 1970s, both firms were placed under a single management team by parent company PTT. Also, a number of competitive restrictions were dismantled by the Dutch government. Around this time, a political debate started on the long-term future of both companies, but it took more than a decade before it was decided that both companies should be officially integrated and privatized. In the meantime, staff departments had already been integrated and a joint logo was introduced. In practice, the two companies operated as a single firm from the 1970s onwards. Finally, in 1986 the two banks merged to form Postbank. In the first three years after the privatization, Postbank operated as an independent bank with the Dutch state as its sole shareholder (Schotsman, 1990; Veluwenkamp, 1986). As explained earlier in this section, NN's predecessors had already been active across the Dutch borders for many decades. After its formation, NN continued its growth through acquisitions in the

Netherlands as well as abroad. In 1977, it acquired an American life and health insurer, and at the end of the 1980s another five acquisitions were concluded in North America and Australia. NN also expanded its operations in the Netherlands with the acquisition of life insurer RVS in 1984 and mortgage bank Westland Utrecht Hypotheekbank in 1985. NMB did not engage in major acquisitions, but from the 1960s onwards it slowly expanded its international operations. In 1990, NMB had over 50 offices in more than 30 countries and it was the third bank in the Netherlands behind ABN and Amro.

In summary, historically, ING's predecessors were active in a single or only a small number of Dutch financial subfields, but they slowly started to expand their product range and entered other Dutch subfields, resulting in the partial integration of these fields.

7.3 Second merger wave: national giants in emerging transnational field

Around 1990, the financial field was, again, restructured by a merger wave. As a result of international acquisitions by various financial corporations across the globe – a development in which Dutch firms actively participated – competition between these companies in the various national financial fields had increased. Together with the deregulation of financial markets and the integration of the various national financial markets in Europe that took place in 1992 as part of the creation of the European Union, this increase in competition resulted in an increase in the significance of the transnational financial field. In order to obtain and sustain a dominant position in this field, it was necessary to achieve economies of scale. This was at least the dominant *communis opinio*; only companies of a certain size were expected to survive. At the beginning of the 2000s, for instance, the executive board of ABN Amro was convinced that they needed to grow from 40 to 100 billion euro in market capitalization in order to survive in the transnational financial field. To do so, they actively searched for possible candidates for acquisitions or mergers (Smit, 2008).

In light of the Euro92 project, the financial sector in the Netherlands – like in many other European countries – experienced a certain degree of deregulation; the Regulatory Regime, for instance, was dismantled. This enabled the second merger wave to consist not only of mergers between banks, such as ABN and Amro in 1990, or insurers, such as AGO and Ennia in 1984, but also of the integration of banks and

insurers. Besides the formation of ING in 1991, in the 1990s insurers AMEV and AG Group and bank VSB merged to form Fortis, and Rabobank acquired insurer Interpolis. Somewhat later, in 1997, bank SNS (result of a merger between different regional savings banks in 1989) and bank-insurer REAAL (result of a merger between a number of small insurers and banks in 1990) merged to form the SNS REAAL Group. In a relatively short time span, the Dutch financial landscape was completely restructured and four integrated financial companies (Fortis, ING, Rabobank-Interpolis, and SNS REAAL), and two specialized banks and insurers (ABN Amro and AEGON) dominated the field.

Besides acquisitions and mergers within the Netherlands, the abovementioned banks and insurers grew across the Dutch borders as well, especially in the United States.¹⁴⁶ As a result, during the 1990s and 2000s these companies became less dependent on the Dutch financial field and experienced an increasing dependence on the transnational financial field.¹⁴⁷

As far back as the end of the 1970s, the executive board of Postbank had been considering the possibility of merging with NMB in order to ensure the long-term continuity of their organization, but it took until 1986 before Postbank was privatized. Three years later, the two companies merged. This merger meant that Postbank could offer banking services to private customers as well as corporate clients, and Postbank's strong position in the retail market gave NMB access to a large amount of cheap capital that could be used to strengthen its position as a corporate bank in the Netherlands and abroad. Together they were able to offer a wide range of banking services to private as well as corporate clients.

Only two years after this merger, the newly formed NMB Postbank Group merged with insurer NN and formed the ING Group. With the abovementioned European integration program of 1992, consolidation in the financial sector, and the fading borders

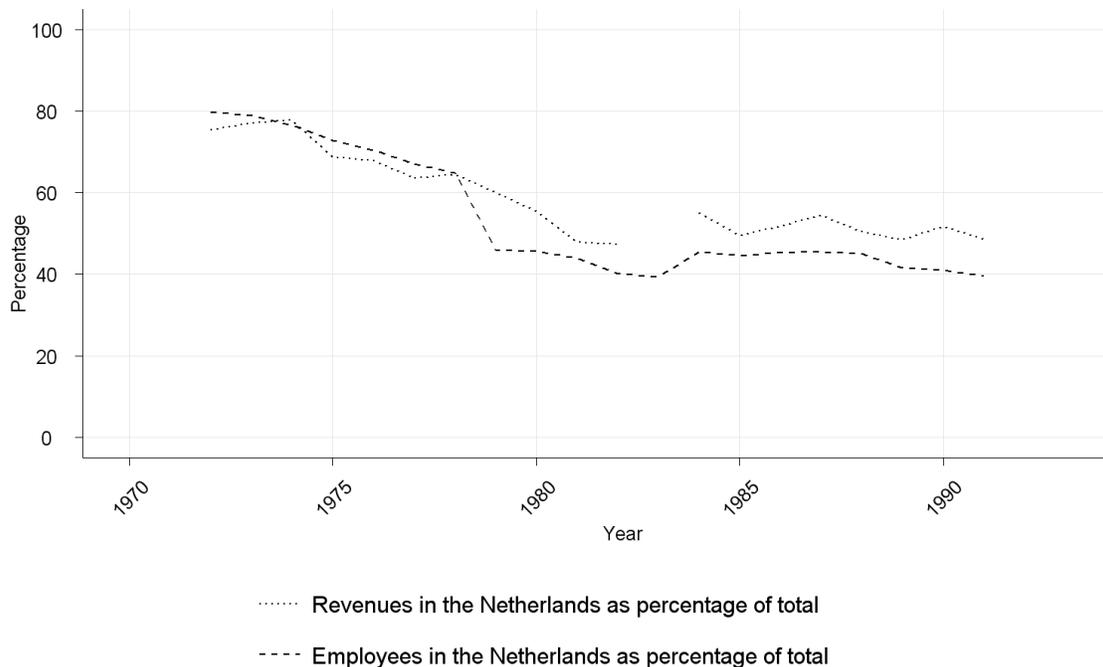
¹⁴⁶ See for instance Westerhuis (2008) for a description and explanation of the expansion of ABN Amro, Rabobank, and NN (ING) to the United States. See also Sluyterman (1998), Barendregt and Langenhuyzen (1995), Gerwen and Verbeek (1995), Vries et al. (1999), and Gales (1986) for a description of the international expansion of ABN Amro, Rabobank, NN, AMEV, and AEGON.

¹⁴⁷ The degree to which different parts of the financial field (e.g. retail banking, wholesale banking, life insurance, etc.) are truly integrated differs. See for figures on the integration of the European financial market, for instance, the European Financial Integration Report (Commission of the European Communities, 2007).

between the banking and insurance field, the two merger partners decided to join forces in order to be better prepared to obtain and sustain a dominant position in the integrated Dutch and the increasingly significant transnational financial field. In comparison with the financial subfields in which the subsidiaries were active, these fields were significantly larger and were expected to be far more competitive.

Postbank did not have any international operations at the time of the merger with NMB and NN, but the latter two had already expanded their operations abroad. In the two decades before the merger, Nationale-Nederlanden's dependence on the Dutch financial field had already decreased significantly. During the period from 1972 to 1991, the percentage of people employed in the Netherlands decreased from almost 80 percent to less than 40 percent, and the percentage of NN's total income arising in the Netherlands decreased from 75 percent to less than 50 percent (see Figure 7.1).

Figure 7.1 Nationale-Nederlanden's dependence on the Dutch financial field (1972–1991)



Source: Financial and Social Annual Reports of NN (1972–1982, 1984–1991). NN's 1983 income figures are missing.

Even though NMB had already expanded across the Dutch borders, it was still highly dependent on the Dutch financial field at the time of the merger with Postbank. In the decade previous to this merger, the percentage of employees outside the Netherlands grew to around ten percent. Postbank was completely dependent on the Dutch financial field. With the formation of ING, a financial giant was created with almost 50,000 employees, more than 60 percent of whom were employed in the Netherlands. From a total of 20 billion euros in revenues, around 60 percent was earned in the Netherlands.

Summarizing, as a result of deregulation and the following mergers and acquisitions in the financial sector, the integration of the financial subfields in the Netherlands was largely completed by the beginning of the 1990s. A single national financial field was created consisting of relatively large financial actors competing for the dominant positions within this field. ING's three nationally embedded predecessors had founded ING in order to obtain a dominant position in this new financial field and in order to be better prepared for the increasing importance of a much larger European and transnational financial field.

7.4 Transnational embeddedness

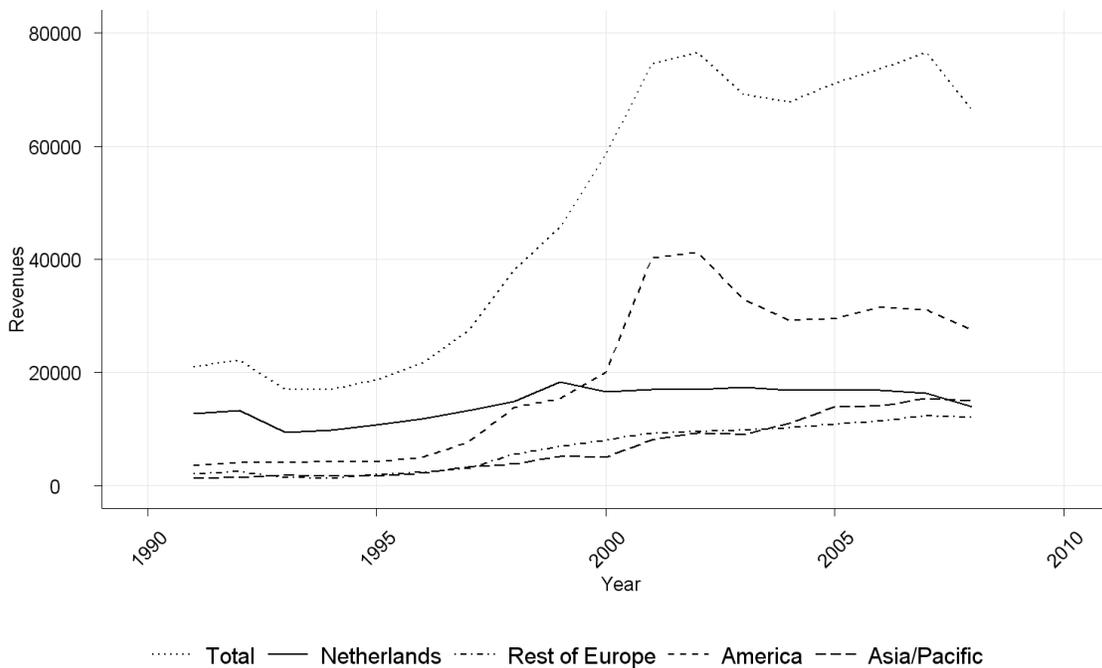
In the first three years after the merger, ING's top management was primarily concerned with the integration of its three Dutch subsidiaries, but from 1995 onwards ING rapidly increased its foreign operations. Through the acquisition of Barings in the UK (1995), BBL in Belgium (1998), a number of banks in Germany, Eastern Europe, and Turkey, and a large number of insurers in, primarily, North and South America,¹⁴⁸ ING increased in size from less than 50,000 employees in 1991 to more than 120,000 in 2008 and from 21 billion to 66 billion in revenues during the same period (see Figure 7.2). ING's transnational expansion and decreasing dependence on the Dutch financial field in terms of revenues and employees is illustrated in Figures 7.2, 7.3, and 7.4.

ING's international ambitions and expansion are best illustrated by the fact that during the 1990s and 2000s the number of employees in the Netherlands remained approximately 30,000 (with a slight decrease since 2004 due to outsourcing projects, see

¹⁴⁸ Including the acquisition of Etna and Reliastar in 2000; this doubled ING's presence and made it the largest foreign insurance company in the US.

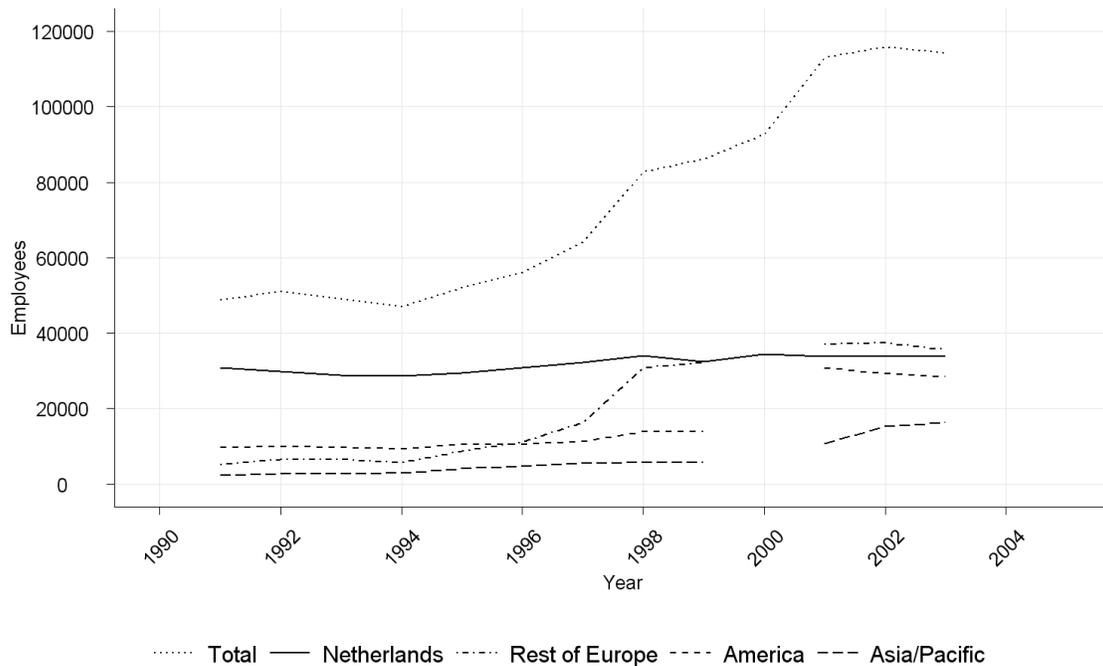
section 8.2), and the number of foreign employees expanded from 18,000 in 1991 to approximately 95,000 in 2008. There are no figures available on the number of employees in the different geographical categories from 2004 onwards. Instead, the number of people employed by the various transnational business units is stated in the annual reports. This in itself can be seen as an indication that ING evolved into a transnational organization, experiencing a decreasing dependence on its origin, the Dutch financial field.

Figure 7.2 Geographical spread of ING’s revenues of ING (1991–2008)



Source: Annual Financial Reports ING (1991–2008)

Figure 7.3 Geographical spread of ING employees (1991–2003)

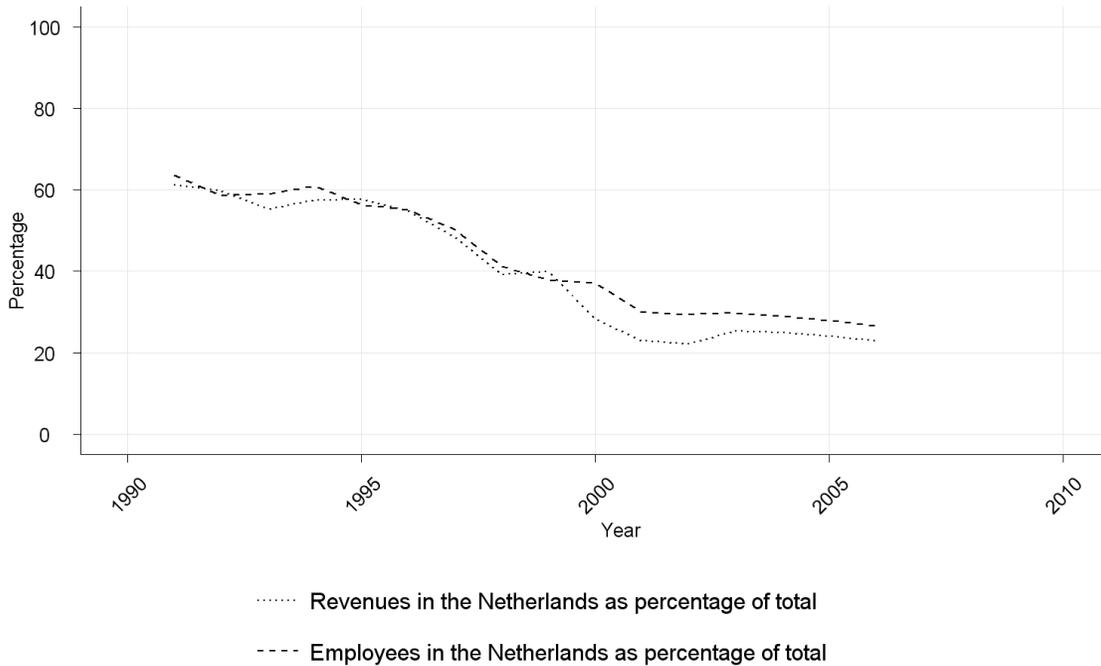


Source: Annual Financial and Social Reports of ING (1991–2003)

ING's increasing dependence on the transnational financial field is not only reflected in the changing composition of its revenues and employees. In 2008, only 20 percent of ING's total shares were owned by Dutch individuals or organizations, whereas the corresponding figure was 48 percent in 1997. Also, after the acquisition of Belgian bank BBL, Michel Tilmant became the first foreign member of the executive board (in 1998). And in 2000, when ING acquired two large American insurers, the first non-Dutch-speaking member joined the executive board. In the following years, the internationalization of the executive and supervisory board continued, and in 2004 Tilmant became the first foreign CEO. At the same time, the structure of the executive board was adapted to standard international business practices. In the Netherlands, traditionally, the executive board is under the direction of a chairman. When Tilmant was appointed, he did not become chairman, but chief executive officer. So, from the mid 1990s, ING experienced a rapid expansion across the Dutch borders and became increasingly embedded in the transnational financial field; ING has, so to speak, progressed from the Dutch premier league to the global league and transformed from 'a

*Dutch organization with foreign subsidiaries (...) into an international organization of Dutch descent.*¹⁴⁹

Figure 7.4 ING's decreasing national dependence (1986–2006)



Source: Financial and Social Annual Reports of NN, NMB Postbank Group, NMB and Postbank (1986–1990) and ING (1991–2006)

Whereas ING's rapid expansion across the Dutch borders took off in 1995, its transformation into an integrated transnational financial service provider started a few years later – around 2000 – with significant acquisitions in the United States, including Reliastar and Etna, and the transformation of the acquired Belgian bank BBL into ING Belgium. As a result of these acquisitions, ING became a financial conglomerate. In order to benefit from the scale of the organization, its strategy was adjusted towards more integration. This is reflected, for instance, in ING's brand policy. Around 2000, a global brand policy was initiated, which meant that, first, ING was added to many local brands and, later, these local brands were substituted by the global ING brand. At the group level, a branding committee was established to oversee this transformation and a

¹⁴⁹ Interview 4 ING NL: HR manager 30 years' experience.

sponsorship deal with a Formula One team was part of a worldwide campaign to promote the ING brand. Besides implementing a single brand policy, in 1999 ING's executive board launched a set of business principles¹⁵⁰ that were used as key values to create one ING culture across the globe. One year later, a promotion and training program was developed to implement these principles in the entire ING group. Both the sponsorship and the training program are examples of a company that is trying to integrate its various subsidiaries, which were scattered around the globe, into a single organization.

In the mid 1990s, ING's financial goals were primarily expressed in terms of growth and return on investment. Even though this language continues to be used today, from around 2000 onwards we see an increasing use of shareholder value terminology. In the annual report, it was given an increasingly important place, and ING's financial results, for instance, became specified in terms of how much ING's shareholder value has grown. An '*American wind of change*'¹⁵¹ became apparent at ING, and increasing shareholder value became the central goal of the organization. A list of nineteen competitors was formulated to which ING would compare its annual total shareholder return.

In summary, during the 1990s and 2000s, national financial fields integrated, resulting in an increasing significance of the transnational financial field consisting of financial corporations from around the globe competing for the dominant positions. ING started its international expansion as a Dutch company still experiencing a strong dependence on the Dutch financial field in the mid 1990s, but from 2000 onwards, and especially from the mid 2000s, ING transformed itself into a transnational financial corporation.

7.5 Crisis and breakup

Like many other financial corporations, ING suffered significantly during the financial crisis of the late 2000s. In 2007, it still seemed like ING would get through this crisis unharmed and could go ahead as it had done in the previous years, but in 2008 ING had to turn to the Dutch government for financial help and was given a ten billion euro

¹⁵⁰ Integrity, entrepreneurship, professionalism, responsiveness, and teamwork.

¹⁵¹ Interview 14 ING NL: Employee HR 3 years' experience.

loan. In 2009, the Dutch government also guaranteed a large part of ING's mortgages in the United States. CEO Tilmant resigned and, under pressure from the European Commission, new CEO Hommen announced a significant restructuring of the company called 'back to basics.' This included the breakup of the company into a European bank focused on retail and corporate banking, ING's regionally controlled insurance activities, and a globally controlled investment management division.

So, as a result of the problems that ING encountered during the financial crisis of the late 2000s, it was forced to renounce its ambition to be a transnational financial corporation offering all possible products to all clients. Instead, it seems that the majority of its operations – banking and insurance – will become regionally embedded.

7.6 Conclusion

In the introduction I explained that in this chapter I would describe and explain the historical development of ING, thereby determining whether I can find support for the first expectation and illustrate the mechanisms at work.

ING is the result of the merger between two banks, NMB and Postbank, and an insurer, Nationale-Nederlanden (NN), around 1990, which were predominantly active in the Dutch financial field. With the exception of the insurer, the operations of ING's predecessors were largely restricted to the Netherlands, and even NN could be characterized as a predominantly Dutch company. These three companies merged because together they expected to be better equipped to compete in the increasingly significant transnational financial field, which experienced rapid development during the 1990s and 2000s. As a result of the deregulation of financial markets by Western governments, financial firms rapidly expanded their operations across national borders because they expected that only firms of a certain size would be able to survive in the increasingly competitive transnational financial field. ING was a prime example of this development and pursued an aggressive expansion strategy. ING's transnational expansion took off in the mid 1990s, but it was especially from 2000 onwards that it rapidly transformed from a national into a transnational firm. Between the mid 1990s and the mid 2000s, ING doubled in size, entered new financial fields, launched new financial services, and implemented transnational policies, for instance with regard to its brand

name. Also, the management team quickly assumed a more international character. So, in response to the changes in its competitive environment, ING (and its predecessors) responded by pursuing an active expansion strategy of mergers and acquisitions and diversified its (their) operations.

Over the course of the late 1980s, the 1990s, and the 2000s, ING (and its predecessors) experienced a shifting emphasis in its (their) *dual embeddedness*. The transnational financial field experienced rapid development, and its structure and characteristics quickly became the defining reality for most financial corporations. It provided ING with the opportunity to expand its operations, and ING responded by grasping the opportunity to grow and become a financial conglomerate. This quick response was enabled by the fact that, after the mergers that led to its foundation around 1990, ING was in a state of transition. ING was the result of the merger of three firms with a long history and a strong corporate culture, but put together there was no collective culture or *habitus* yet. This meant that top management could quickly react to the developments taking place during that time and start an aggressive expansion strategy in line with the idea that to be equipped to obtain a dominant position in the transnational financial field one should grow and offer a wide range of products across the globe.

In this chapter I have analyzed the development of ING (and its predecessors) in line with the second objective of this study, that is, to improve our understanding of the development of transnational firms from the 1980s until the first decade of the twenty-first century using the sociological approach of transnational firms as presented in Chapter 2. The analysis was conducted in relation to the first expectation stated in Chapter 4, that as a result of a shifting emphasis in its dual embeddedness since the second half of the 1990s ING has reorganized its corporate policies and structures to fit this new situation by reinforcing its transnational structures and standardized policies, accompanied by specific goals and targets for its policies to be implemented on the national level, leading to centralization. I focused on the period from the 1980s until the end of the 2000s, enabling us to better understand the development of ING's corporate labor policy in the same period as analyzed and presented in the next chapter.

Chapter 8: Managing the personnel of a financial giant: ING Group

In the previous chapter, I explained how three financial corporations, embedded in different Dutch financial subfields, merged around 1990 and transformed into a financial conglomerate over the course of two decades. In this chapter, I analyze what the consequences of this transformation have been for ING's corporate labor policy, thereby focusing on four components of corporate labor policy as elaborated upon in Chapter 2: work organization, rewards, employee voice, and employee flow (see section 2.5). I do so using the expectations stated in section 4.2¹⁵² and illustrate the working of the mechanisms that explain transnational firms' behavior as presented in Chapter 2.

ING experienced a shifting emphasis in its dual embeddedness in the past few decades. I expect that, as a result of this shift, ING has reorganized its corporate policies and structures to fit this new situation by reinforcing its transnational structures and transnational standardized policies, accompanied by specific goals and targets for its policies to be implemented on the national level, leading to centralization (expectation 1); that this transnational restructuring was accompanied by the restructuring of its personnel department to align corporate labor policy with the general corporate policies of the organization and that its employees and personnel department have become instrumental in the pursuit of the financial goals of the organization (expectation 2); and that risks and responsibilities concerning the factor labor have been shifted to other parties, such as national governments and individual employees (expectation 3).

A corporate labor policy is not a single whole; rather, various differentiations can be expected based on various degrees of national embeddedness. I expect ING's corporate labor policy to consist of a transnational component targeted at employees with transnational responsibilities, a national policy for other employees, and the transfer of activities that do not necessarily have to be performed in a specific country to low cost countries (expectation 4). Further, I expect that as a result of the shifting emphasis in its dual embeddedness (a) with regard to work organization, both the company as a whole and its personnel departments have been restructured on the transnational level; (b) with

¹⁵² In this chapter I deal with expectations 1, 2, 3, 4, 5, 6, and 8. Expectation 7 is dealt with in Chapter 9.

regard to rewards, ING has cut costs and reorganized the way employees are rewarded in line with the interests of its shareholders; (c) with regard to employee voice, ING has introduced various forms of transnational communication but has not introduced employee influence on this level; and (d) with regard to employee flow, ING has outsourced production capacity to low cost countries and centralized training facilities on the transnational level for those employees with transnational responsibilities (expectation 5). Also, I expect that, given the changes in the relationships between the different actors in the Dutch economic field and the American economic field and the changes in the institutional arrangements in these two countries, ING's corporate labor policy in the Netherlands is increasingly starting to resemble its corporate labor policy in the United States (expectation 6).

Finally, I expect that the centralization on the transnational level of ING's corporate labor policy is more limited than the transnational centralization of other domains and it will have experienced only a limited degree of convergence (expectation 8).

I now first describe the general development of ING's corporate labor policy from its predecessors in the 1970s until the first decades of the twenty-first century (section 8.1), before focusing on the four components of corporate labor policy (sections 8.2–8.5) as distinguished earlier in this study (see section 2.5). I conclude this chapter by returning to the expectations and by explaining the working of the mechanisms involved (section 8.6).

8.1 ING's corporate labor policy

As explained in the previous chapter, ING is the result of the merger of two banks and an insurer around 1990. These three firms each had their own particular development.

Postbank¹⁵³ was founded by the Dutch government in order to provide the general public with a number of financial services that private financial corporations did not offer, such as a savings account and a nationwide system of guaranteed checks. In order

¹⁵³ From 1978 onwards, RPS and PCGD worked closely together (see *Chapter 7*) and therefore I speak about Postbank instead of RPS and PCGD separately.

to process the enormous number of transfers, Postbank had facilities in four Dutch cities, Amsterdam¹⁵⁴, Arnhem, The Hague, and Leeuwarden. At these facilities, transfers were primarily processed by hand. The large number of money transfers that had to be processed on a daily basis and the bureaucratic organization of this process were reflected in Postbank's culture: *'we have a lot of work to do and it has to be done precisely, so don't complain we are just going to do it.'*¹⁵⁵ *'Postbank consisted of clear policies, blueprints, and processes. On the basis of these foundations, we worked hard to create a very efficient and well controlled organization. Processes, procedures, rules, efficiency.'*¹⁵⁶ In response to a generous social policy, employees displayed a great deal of loyalty towards the organization. As functionaries of a state-owned company, they experienced a high degree of job security; lifetime employment was the norm. The relationship could even be called paternalistic. For a long time, for instance, Postbank took care of the payment of rent for some of its employees.¹⁵⁷

NMB was one of the smaller Dutch commercial banks with competitors such as ABN and Amro. NMB's employees had a *'cowboy/street fighter'* mentality, *'very direct and commercial.'*¹⁵⁸ They needed to work hard to satisfy their customers, and informal relationships with the customers were of particular importance. The banking business depends on trust and it was therefore very important for NMB's employees to work hard to obtain a trustworthy reputation in the local community. They were often active in local volunteer organizations and sponsored local sports clubs. The importance of informal relationships for NMB's business was also reflected in the culture of the organization. This was characterized by one respondent as follows: *'We need to build up a strong relationship. Let's have dinner and discuss how I can help you. Don't worry; I'll take care of it.'*¹⁵⁹ This was not only the way in which NMB approached its customers; it was also how NMB worked internally. At the same time, it was very clear that NMB was in the business of making money. From 1977 onwards, a table was printed on the front page

¹⁵⁴ Until 1979, the location in Amsterdam belonged to the *Gemeentegiro Amsterdam*, a company that provided a local guaranteed check service in the city of Amsterdam. In 1979, this company merged with the PCGD.

¹⁵⁵ Interview 4 ING NL: HR manager 30 years' experience.

¹⁵⁶ Interview 5 ING NL: HR manager 12 years' experience.

¹⁵⁷ Interview 7 ING NL: HR manager 12 years' experience.

¹⁵⁸ Interview 5 ING NL: HR manager 12 years' experience.

¹⁵⁹ Interview 4 ING NL: HR manager 30 years' experience.

of the annual social report displaying the average cost per employee. In 1984, this was accompanied by a table stating the average added value per employee. Also, in reference to its employees in the annual social report, the term “human potential”¹⁶⁰ was often used.

Competition in the insurance field was relatively mild and, therefore, Nationale-Nederlanden (NN) did not experience high pressure to cut costs. As in the banking business, trust is of great importance in the insurance field. The stable situation in the field in which NN was embedded, its strong financial position, and the importance of sustaining a trustworthy image resulted in a rather conservative and social culture. Radical changes, such as large reorganizations or layoffs, were avoided and, like Postbank, NN had a generous social policy. Employees experienced a high degree of job security, and the culture could be characterized as: ‘*we take care of one another.*’¹⁶¹ This social character of the organization was reflected in its annual social report, which until 1980 started with a remembrance of employees and retirees who had passed away in the previous year. Even though NN merged with Postbank and NMB in 1991, almost two decades later many NN employees still feel attached to NN, they have an ‘*orange heart.*’¹⁶² The economic downturn at the beginning of the 1980s had significant consequences for the insurance field. The economically troublesome times forced NN to cut costs, and this affected its corporate labor policy as well. As a result, the employer–employee relationship became more formal and less generous. At the end of the 1980s, NN started a program to promote more result-oriented behavior based on targets set at the beginning of each year.

After the merger in 1991, at first the three subsidiaries continued to operate as independent companies. From 1994 onwards, ING tried to integrate staff departments as much as possible, but the sales and production departments continued to operate independently. NMB was rebranded as ING Bank, but Postbank and NN continued to operate under their own name. So, even though some staff departments, such as the personnel department, were partly integrated, most employees still felt like they worked for one of ING’s predecessors. As a result, ING’s Dutch subsidiaries preserved their own culture, and this has partly remained the case to the present day. Employees feel closely

¹⁶⁰ Annual Social Report NMB, 1987, page 1.

¹⁶¹ Interview 4 ING NL: HR manager 30 years’ experience.

¹⁶² Interview 4 ING NL: HR manager 30 years’ experience. Orange was NN’s corporate color.

related to their own department but sometimes find it hard to relate to ING as a worldwide financial corporation.¹⁶³

In the increasingly competitive transnational financial field, companies try to distinguish themselves from one another, but, because financial services are easy to imitate, they depend on their employees to do so. Employees have become the most important assets of the organization; a way to achieve a competitive advantage.

Because of intensifying competition and a tough economic climate, from the 1980s onwards, ING's predecessors expected their employees to be flexible and willing to change jobs or location if necessary. With the expected further increase in competition during the 1990s, this did not change. It was also stated that employees should not expect to work at ING their entire career. During the 1990s and 2000s, the idea of lifetime employment came to an end.

With the merger, three companies with their own distinctive company culture came together, and to date these differences are still noticeable within the organization. At the same time, each of these three organizations moved in the direction of more flexible working relations, and individual employees became increasingly responsible for the company's success in the transnational financial field, which was becoming more and more significant for ING's corporate strategy and policies.

I have already explained that ING's international expansion took off in the second half of the 1990s and that in this period it started to organize itself on the transnational level, especially in the United States where it grew significantly in size. Nationale-Nederlanden had already acquired a small number of insurance companies in the US in the 1970s and 1980s, of which Life of Denver was the most prominent. These companies were managed using a holding structure. This meant that these subsidiaries had a lot of freedom to determine their own strategies and policies. From the mid 1990s onwards, ING started a process of extensive transnational expansion, and, in particular, the acquisition of Aetna Financial Services (around 4,000 employees) and Reliastar (around 3,500 employees) brought about a significant increase of ING's US operations. As a result of these acquisitions, ING grew in size from 3,500 employees to 11,000 employees in the US.

¹⁶³ Based upon interview 17 ING NL: Works council member 23 years' experience.

ING managed its US operations as a holding company until the early 2000s. The various acquired companies remained independent; or, as one respondent put it: *'we were good solid companies and we had a sugar daddy in the Netherlands in case we needed some money to do something we can't fund. They don't really bother us, as they don't tell us what to do. At that point they weren't driving policies and practices and governance, we had very little oversight.'*¹⁶⁴ After the acquisition of Aetna and Reliastar, ING changed this strategy because of *'the economies of scale opportunity and frankly a lot of pushing from the headquarters to decrease costs. The only way we were going to do that was really starting integrating businesses.'*¹⁶⁵ It was *'the real flip from a bunch of individual companies that nobody really knew on a big scale to being seen as part of a large international organization.'*¹⁶⁶ Over the course of the 2000s, ING US pursued three different strategies: integration, growth, and reduction. This meant that the personnel department went through these phases as well, because *'HR structure is driven by the business strategy, business drives what HR services need to be.'*¹⁶⁷

First, the various companies had to be integrated, leading to *'much redundancy.'*¹⁶⁸ With the economic downturn after 9/11, this process was speeded up. Within a month of these events, ING *'named a single leader to head up the US and then that leader immediately started the integration.'*¹⁶⁹ Costs were a big factor in that time and, in order to bring costs down, ING tried to *'eliminate redundancies'*¹⁷⁰ in staff departments such as IT and HR. When the integration of the various companies was completed, ING US pursued a growth strategy, which meant that the personnel department focused on recruiting new employees. Finally, in the last three years of the 2000s, with the economic downturn and ING's financial problems, the company again focused on reducing costs, among other things by reducing headcount.

So, in the 1990s, ING's US operations were a bundle of relatively independent companies. After two large acquisitions in 2000, ING attempted to integrate these

¹⁶⁴ Interview 7 ING US: HR manager 5 years' experience.

¹⁶⁵ Interview 6 ING US: HR manager 10 years' experience.

¹⁶⁶ Interview 7 ING US: HR manager 5 years' experience.

¹⁶⁷ Interview 1 ING US: Senior HR manager 15 years' experience.

¹⁶⁸ Interview 1 ING US: Senior HR manager 15 years' experience.

¹⁶⁹ Interview 1 ING US: Senior HR manager 15 years' experience.

¹⁷⁰ Interview 1 ING US: Senior HR manager 15 years' experience.

companies in order to achieve cost advantages; the holding company structure was dismantled and they came under closer control of the corporate headquarters in Amsterdam.

Summarizing, ING's predecessors each had its own distinct corporate culture and this was reflected in their corporate labor policy. After their merger, at first the three companies continued to operate as independent companies, but in the mid 1990s an integration program was initiated. This was accompanied by a change in the corporate labor policy which meant an end to the idea of lifetime employment and increasing need for flexibility.

8.2 Work organization

This section starts by discussing the work organization of each of the entities constituting ING and subsequently deals with the work organization of the merged ING.

During the 1970s and the first half of the 1980s, Postbank formed the business unit *Gelddiensten* (money services) of state enterprise PTT. Until its privatization in 1986, its employees were therefore civil servants. This division had its own social affairs department, but there was also a general personnel department for the entire PTT organization responsible for the recruitment and selection of employees, training, personnel administration, and other core personnel functions. Postbank had four production facilities, personnel and financial administration, a statistical department, and an organizational department (*werkmethoden en procedures*) that was responsible for optimizing the primary processes: the administration of money transfers. The company functioned as a state bureaucracy and was characterized by highly standardized procedures and a strict hierarchy. In order to process the large number of money transfers as efficiently as possible with as few mistakes as possible, the process was characterized by a well developed division of labor and detailed rules and procedures for all tasks concerned. As already mentioned in the previous section, the money transfers were mostly made by hand at four different locations in the Netherlands. At the beginning of the 1980s, Postbank employed around 10,000 people, involved mainly in the processing of transactions in one of these locations. Just like the work processes, policies were highly standardized. All policies concerning the management of personnel were written

down in a number of handbooks called *Voorschrift Personeelzaken* (Regulations for Personnel Management). In these handbooks, all policies were described; if there was no regulation, it was not possible. During the 1970s and the beginning of the 1980s, intensified competition from private banks and the upcoming privatization forced Postbank to become more efficient. The first experiments to partly automate and computerize the processing of money transfers were conducted and a training department (*Vorming en training*) was created to train employees. As a result of this automation, the growth in employee numbers came to a halt in the mid 1980s.

Whereas state enterprise Postbank was organized on the basis of a large number of rules and procedures, the field in which NMB was active demanded a different type of organization. NMB was concerned with servicing small and medium sized businesses, among other things by providing credit. Because of the competitive nature of this field, which intensified during the 1970s and 1980s, and the differentiation in their customers' demands, NMB needed to be able to quickly adjust its services. NMB was organized in regions, and each regional office had a certain degree of autonomy to service its customers in the way it thought best. The result of this organizational structure and policy was an enormous differentiation and growth in the number of products and services. In the 1980s, for instance, NMB offered around 250 types of credit alone. In order to be able to offer all these services, NMB's employees needed to be flexible. If necessary, for instance, the personnel manager would fax an offer for a line of credit to a customer at ten o'clock in the evening. This need for flexibility increased during the 1980s as a result of the difficult economic conditions and the increasing competitiveness of the commercial banking field. NMB expected its employees to show "adaptability, willingness to change, and flexibility."¹⁷¹ For NMB, it was very important for employees to be willing to accept "a different position in a different office."¹⁷² In order to achieve this level of adaptability and flexibility, NMB decentralized responsibilities and gave individual employees the autonomy to organize their work in a way they deemed appropriate. The decentralization of responsibilities was also intended to reduce the

¹⁷¹ Annual Social Report NMB, 1987, page 3.

¹⁷² Annual Social Report NMB, 1982, page 2.

amount of red tape within NMB, which resulted from the rapid growth of the organization and the automation of work processes.

Like Postbank, NN had a number of ‘factories’ at different locations in the Netherlands¹⁷³ where the administrative tasks were primarily performed by hand. The calculation of offers and the administration of insurance policies were very labor intensive, and consequently NN employed a large number of people performing relatively simple tasks. Like Postbank, NN deployed a rather bureaucratic system characterized by a division of labor, extensive rules and procedures guiding everyday work, and a strict hierarchy. And like Postbank and NMB, NN started to automate work processes at the end of the 1970s, but, in contrast to Postbank, it did not finalize this process until 2003–2004. Because of the relatively mild competition in the insurance field, NN had not been forced to do so earlier.¹⁷⁴

When NMB and Postbank merged in 1989, the two subsidiaries were placed under a holding company. The same construction was used again two years later when NMB Postbank Group and NN merged to form ING. They were renamed ING Bank and ING Insurance and were placed under the holding company Internationale Nederlanden Group (ING), which was responsible for the deployment of the group’s financial assets.

At first, the consequences of the formation of ING for Postbank, NMB, and NN were rather limited. Due to pressure from trade unions and works councils during the merger negotiation process, in the first three years after the merger (1991–1993) the three subsidiaries were not integrated in order to give the employees some time to recover from the rapid changes in the previous years. Cooperation between the three subsidiaries was stimulated in order to develop new products and benefit from one another’s strengths, but the three organizations remained independent. The consequence of this agreement was that, as soon as it expired in 1994, ING started a program to reorganize its Dutch operations.¹⁷⁵ One obvious way to cut costs after a merger is by integrating staff departments. In 1994, ING started a program to integrate the personnel departments of NMB, Postbank, and NN and form a single ING personnel department. The NN personnel department used to be called ‘social affairs’, whereas it was called ‘personnel

¹⁷³ Especially in Rotterdam and The Hague.

¹⁷⁴ Based upon Interview 1 ING NL: HR manager 30 years’ experience.

¹⁷⁵ Based upon Interview 11 ING NL: Works council member 35 years’ experience.

and organization' at NMB Postbank Group. In order to do justice to both parties, it was decided that the new department would be called 'personnel affairs and organization'.

So, when the three companies merged at the beginning of the 1990s, most of the newly formed ING was organized on the basis of detailed rules and procedures and a clear hierarchy and division of labor within the organizations.

During the 1990s and 2000s, ING's organization was fundamentally restructured. An important program initiated at the beginning of the 1990s, but which took at least until the mid 1990s to be completed, was Plan PI, with PI being the abbreviation for Product Innovation. In order to be more efficient and cut (labor) costs, this ambitious program was initiated to automate the entire process of money transfers at Postbank. This would be the first time that automation would lead to a reduction in the number of employees. In the course of almost a decade, this program resulted in a reduction of 2,000–3,000 employees.

The PI program was part of the transformation of Postbank from a money transfer processing factory into a direct marketing organization. The back office was automated and later computerized, but Postbank also invested in its front office. Postbank was marketed as a down-to-earth provider of all basic financial products for the entire Dutch population. Its product range was expanded to include savings accounts, insurances, and mortgages. Besides hiring highly skilled personnel to develop and market these products, Postbank invested in its front office to service all these products, resulting in the expansion of its call centers, its new 'factories': '*The processing or production jobs at Postbank are now call center jobs.*'¹⁷⁶ However, despite various programs replacing labor with technology, the number of employees in the Netherlands did not decrease. From the time of the merger in 1991 until the end of the 2000s, the number of employees in the Netherlands fluctuated around 30,000, but revenues increased.

Naturally, this development can be explained by increased labor productivity, but it also illustrates an interesting development with significant consequences for ING's corporate labor policy. In the 1990s and 2000s, ING – like many other financial corporations – introduced more complicated financial products and services to its

¹⁷⁶ Interview 5 ING NL: HR manager 12 years' experience.

customers and entered new financial fields, such as real estate management and asset management. Through the acquisition of the British Barings bank and the growth of its existing business, activities concerning the financing of large corporations and trading on the transnational financial markets increased. These activities are far more complex than processing money transfers and managing insurance policies. Consequently, they demand a highly educated workforce. So, even though the size of ING's Dutch workforce did not change much from the beginning of the 1990s, the composition of the workforce changed quite radically, as can be observed in the rise of the average salary scale from 6.7 in 1993 to 8.0 in 2002 and 8.5 in 2006. ING's collective labor agreement comprises a 15-point salary scale and, from the beginning of the 1990s, the tasks of employees on the first five scales were automated or outsourced, and more highly skilled personnel on scales 9–12 were hired.¹⁷⁷

During the 1990s, ING outsourced parts of its Dutch operations that were no longer considered to be part of its core competences. This included cleaning, catering, security, and also part of the money transfer process. This development continued throughout the 2000s. In 2006 for example, Postbank's print and mail departments were '*brought outside*'.¹⁷⁸ The outsourcing caused a continuing rise in the average salary scale and educational level of employees.

A final important development in the organization of ING in the Netherlands was the integration of Postbank and ING Bank, a process that started in 2007 and took two years to be completed. Until then, the two Dutch banking subsidiaries not only presented themselves independently, but also operated almost completely independent of one another, both in the front and the back office. ING's Dutch IT and Operations division, for instance, had a separate '*internet lane for Postbank and ING Bank*'¹⁷⁹, and even though there were some joint projects there was not any real cooperation between the two, such as the sharing of customer files or cross selling. This was accomplished only very recently, in 2009, through the integration of the two companies. As a result of the

¹⁷⁷ The 15-point salary scale covers all Dutch employees excluding executive and supervisory board members.

¹⁷⁸ Interview 3 ING NL: Senior HR manager 35 years' experience.

¹⁷⁹ Interview 5 ING NL: HR manager 12 years' experience.

integration of the two banks, around 2,500 jobs were lost, almost all through natural labor turnover.

Several attempts were made in the 1990s to have just one integrated personnel department, but none of them really succeeded. ING's predecessors all had their own personnel departments and they were not willing to hand over their authority to a centralized personnel department. As a compromise, a national personnel department was set up, but, at the same time, different policy fields remained the responsibility of the subsidiaries' personnel departments. Postbank's personnel department, for instance, was responsible for personnel administration, and NMB's personnel department was responsible for management development. As part of the integration program, ING intended to centralize all labor policies, gave the central personnel department responsibility for these policies, and created shared service centers for all administrative processes. Even though several attempts were made during the 1990s, it took until the beginning of the 2000s before this was implemented.

In 2000, a new director was appointed to the Dutch personnel department. He did not have a background in personnel policies, but rather had been concerned with the reorganization of departments within ING. Under his management, a restructuring program, called One (an English term rather than Dutch), was started to reorganize all Dutch personnel departments. Employees of the personnel departments, apart from being engaged in the development, execution, and implementation of corporate labor policy, had been concerned with helping employees with all sorts of questions and problems. They partly safeguarded the interests of the employees within the organization. Under the One program, the role of the personnel departments changed from servicing employees to servicing management. The personnel department became a so-called business partner. They became concerned with supporting and advising line managers who themselves became responsible for managing the workforce. Line managers needed to become people managers capable of motivating and stimulating employees, answering their questions, and solving their work-related problems. For advice and assistance they could turn to the personnel department.

One was initiated after an international benchmarking exercise. This revealed that in the Netherlands ING employed one person at the personnel department for every 30 employees in total, while this was 1 to 50 or even 1 to 100 for ING's foreign subsidiaries, competitors, and other large corporations, especially in the United States. By retraining line managers as people managers and making them responsible for their personnel, ING expected to be able to reduce the number of employees working for the personnel department and save costs.

The transfer of tasks from the personnel department to line departments resulted in a reduction in the number of employees working in the personnel department, but, at the same time, line managers were forced to educate themselves in personnel policies and learn all necessary procedures. This meant that the time spent on personnel-related tasks rather than on their core activities, for instance credit analysis, increased. Some people considered this to be a good thing, '*people are your most important asset (...) so you have to be concerned with them for most of the time.*'¹⁸⁰ However, not all line managers shared this vision. This is illustrated by the fact that some of them assigned one of their own employees to perform these tasks. So, the restructuring of the personnel department did result in a reduction in the number of employees working in the personnel department, but whether the time spent on personnel management-related tasks by all ING employees actually reduced is not clear.¹⁸¹ The process of decentralizing personnel management from the central Dutch personnel department to the personnel departments of the Dutch subsidiaries Postbank, ING Bank, and NN, which took place in the 1990s, resulted in an increase in the number of employees concerned with personnel management tasks from 300 to 500. So it can be expected that the displacement of personnel management activities from the central personnel department to line departments did not result in a decrease in the total number of employees concerned with these tasks.¹⁸²

With the changing role of the personnel department, its name was changed from the Dutch *personeelszaken en organisatie* (personnel affairs and organization) to *HR Nederland*. This can of course be explained by the internationalization of ING as a whole.

¹⁸⁰ Interview 2 ING NL: HR manager 35 years' experience.

¹⁸¹ There are no figures available.

¹⁸² Based upon Interview 11 ING NL: Works council member 35 years' experience.

With the transnational expansion of the company, ING also got its first foreign executives on the executive board and, later, the supervisory board. With their entry to the board, ING's corporate language changed from Dutch to English, and HR is the term common in Anglo-Saxon countries to refer to the department concerned with corporate labor policy. I would argue, however, that this change of name primarily represents a changing vision on labor that has taken place in the past two decades. The change from 'personnel affairs and organization' to 'human resources' can be seen as an indication of a change in the way labor is perceived by the organization. Earlier in this section, we have already seen the change from social affairs and personnel administration to personnel and organization. Also, we have seen that NMB often used the term 'human potential' to refer to its employees, and they printed tables with the costs and added value per employee in the 1980s. Furthermore, we have seen that during the 1980s and 1990s ING and its predecessors increasingly expected their employees to be flexible and willing to adapt in order to make sure that ING would be successful in adapting to the changes in the financial fields. Finally, we have seen that employees could no longer expect lifetime employment. They themselves have become responsible for the development of their own career. *'How can we make sure that people who work here now, one way or another, will always have a job, at ING or somewhere else (...) There is still a certain degree of employer responsibility, but part of this responsibility has been transferred to the employee. You have to act, take the initiative, we support it, but you have to do it.'*¹⁸³

These are all indications of a changing vision on labor. From employees as individual human beings that ING's predecessors took care of as long as they were loyal to the company, they have become one of ING's resources that are deployed to obtain and sustain a dominant position in the transnational financial field. This transformation was explained by one of the interviewees as follows: *'Safeguarding the interest of the employees wasn't the sole purpose of the HR department, but with the One program in the Netherlands they moved further away from the employees in the direction of the organization. Many people experienced it like that. It's now called HR; I have become a human resource, instead of a person. A fundamental shift took place: you have to behave in line with the interests of the organization. We agreed on a contract, which means that*

¹⁸³ Interview 17 ING NL: Works council member 23 years' experience.

*you have to do this and this and this, that's what you're paid for. For many employees, it became more businesslike. Also in the sense that HR does not safeguard my interests anymore, it safeguards the interests of the organization. This started before the internationalization of the organization. It was already observable in the Netherlands and we have not yet seen the end of it.'*¹⁸⁴

After the reorganization, in 2004 a new director was appointed to HR Nederland. This new manager had extensive international experience, and knowledge and experience of HR departments functioning as a business partner. He was appointed by CEO Tilmant to further develop the new HR approach. All HR operations in the Netherlands were brought under the umbrella of the national HR department, and this director was given a position on the Dutch executive board coordinating all Dutch operations. *'ING deliberately appointed someone with international experience (...) They wanted to attract international experience and business partner experience, HR models (...) [The new director] was trained to work in the business partnership model, translating the business strategy into the people strategy. [He] became a member of the Dutch management team and was therefore able to influence the decision-making process.'*¹⁸⁵

With the acquisition of Barings in 1995, ING became a well known player in the transnational financial field. Barings was a world-renowned investment bank that was brought to bankruptcy due to the speculation of one of its traders. ING took the opportunity to improve its position and integrated this newly acquired subsidiary into its international financial services unit. From then on, most of ING's international banking activities were managed from London instead of Amsterdam. As we have seen in the previous chapter, in the years following this acquisition, a number of other acquisitions outside the Netherlands caused a shift in ING's center of gravity. ING's Dutch activities became less dominant and, at the end of the 1990s, North America surpassed the Netherlands as ING's primary market. Other European countries – such as Belgium and Poland – and Asia became more important as well.

¹⁸⁴ Interview 17 ING NL: Works council member 23 years' experience.

¹⁸⁵ Interview 18 ING NL: Senior HR manager 5 years' experience.

In 1999, ING adjusted its organizational structure to this new reality. Until then, ING had been organized in five divisions: ING Netherlands, ING International Financial Services, ING Corporate & Investment Banking, ING Asset Management, and, from the acquisition of BBL in 1997, ING Belgium. In 1999, ING introduced a regional structure consisting of ING Europe (including the Netherlands), ING Americas, and ING Asia/Pacific, accompanied by two transnational business units, ING Corporate & Investment Banking and ING Asset Management. From then on, ING's Dutch subsidiaries were managed as part of its European activities. Even though the Dutch activities were dominant within this newly formed part of the entire group (accounting for more than 70 percent of revenues and half of its employees), ING Netherlands was no longer an independent part of the organization. As a result of its expansion across national borders, ING transformed from a Dutch company with international subsidiaries into a transnational financial institution with substantial activities in the Netherlands.

A second restructuring took place five years later. After the installation of CEO, Michel Tilmant, a new corporate structure was introduced. ING's three regional divisions and two specialized global divisions were replaced by three regional divisions on the insurance side (Insurance Americas, Insurance Europe, and Insurance Asia/Pacific) and three transnational divisions on the banking side (retail banking, wholesale banking, and ING Direct). They all became responsible for their own profits and losses and were all managed by a single member of the executive board. So, a purely regional structure was replaced by a transnational/regional structure.

Until 2004, ING's Dutch operations were managed by an executive board member with a national responsibility (until 1999) or a regional responsibility (until 2004). And even though ING's Dutch operations were part of a European division from 1999 until 2004, the size of the Dutch operations ensured that they were dominant in this regional structure. With the introduction of the new organizational structure, ING's Dutch operations were no longer managed in a single division. Instead, these operations were located in two transnational divisions (retail and wholesale banking) and one regional division (Insurance Europe). ING consisted of a transnational structure with divisions being managed by a board member. Each of these business units was responsible for its own profits and losses, and policies were therefore determined and

executed on this level as well. Power and responsibility in the organization shifted from the regional level to the business line, the adage being *'line is leading.'*¹⁸⁶ ING's Dutch banking, insurance, and asset management activities were managed by different business units, but still a national HR department was responsible for corporate labor policy and a national executive board was responsible for the coordination of all operations in the Netherlands. So, a transnational structure was put in place and given power in the organization, but national structures are still responsible for corporate labor policy.

The operations of the three Dutch subsidiaries differ significantly from one another, and this has its consequences for ING's labor policies. They employ different types of employees and therefore have different requirements concerning their labor policies as well. At the same time, in the Netherlands, ING has one personnel department, one collective labor agreement, and one social policy, and this sometimes causes problems. Some years ago, for instance, ING Investment Management (IIM) had a regional structure with Europe being one of these regions. Within Europe, a performance management system was implemented using a 5-point scale. IIM's Dutch employees were rewarded on the basis of the Dutch collective labor agreement and in this agreement a 6-point scale was used. This is only a minor example, but it demonstrates the problems that can occur when a firm implements a transnational structure while labor is still organized on the national level. *'Even though you really want to internationalize as a company, this is still really difficult because of all kinds of structures within your company that are still bounded by country or local laws.'*¹⁸⁷

In line with how ING managed its Dutch operations in the 1990s, ING also used a holding company structure to control its operations in the United States. ING bought the *'company and then let it run itself.'*¹⁸⁸ ING's American operations consisted of insurance activities, investment management, and, even though it is only small in terms of the number of employees, ING's internet bank, ING Direct. After the two big acquisitions in 2000, all US activities, except ING Direct, were placed under the division ING Americas.

¹⁸⁶ Interview 13 ING NL: Trade union official.

¹⁸⁷ Interview 5 ING NL: HR manager 12 years' experience.

¹⁸⁸ Interview 2 ING US: HR manager 20 years' experience.

So, ING's US operations were part of a regional organization (North and Latin America) that determined its own policy and that it dominated in size.¹⁸⁹

The fact that ING US was governed as a holding company throughout the 1990s also meant that each individual company had a full blown personnel department, including payroll, compensation, benefits, recruitment, training, development, and labor relations. Together these departments comprised hundreds of people. The integration of the various companies in the early 2000s resulted in a significant reduction in the number of people working in staff departments such as IT and HR. During the 2000s, the personnel department was fundamentally restructured; it turned from a personnel department with primarily administrative tasks into a human resource department operating as a business partner for line management.

In the 1980s and most of the 1990s, the personnel department of Life of Georgia – a company that Nationale-Nederlanden had already acquired in 1979 – acted as *'the police. We told you what you could do and what you couldn't do. We set all the policies based on what HR wanted, not necessarily on what the business needs were.'*¹⁹⁰ At the same time, they were primarily a paper processing department: *'If you wanted to give somebody an increase, you fill down a nice little paper form and you said: I want to give this employee 10,000 dollars and I want it to be effective on this day and you had somebody sign it. There were three copies. You tore off one and you sent it to us, then you tore off one and kept it for your files, and you tore off one and gave it to your employee. They were pink. The top was white, one was pink and one was blue. It came down at HR and some HR representative was responsible for keying that into the system, making sure it made its way to payroll, filling that into the employee file.'*¹⁹¹

During that same period, the personnel department of Aetna – one of ING US' predecessors – was also primarily responsible for all administrative tasks concerning its employees; *'personnel was very much a paper record keeping kind of practice. That is where pay rolling was done. "Personnel" was where you went down and fill out the application and then you wait to hear if you get the job or not. It is the place that if you had questions about your benefits, you would go to and they would answer the*

¹⁸⁹ The US comprises by far the largest part of ING's operations in North and Latin America.

¹⁹⁰ Interview 8 ING US: HR manager 7 years' experience.

¹⁹¹ Interview 8 ING US: HR manager 7 years' experience.

question.’¹⁹² During the 1990s, the personnel department tried to change its role within the Aetna organization and become more proactive; the HR model started to change. At the end of the 1980s, there had already been a lot of talk about it, but it took until the 1990s before HR slowly tried to transform itself into a business partner: *‘They pulled the processing part out of the business part of HR and said to you [the HR advisors]: I don’t want you helping fill out pay roll forms, I want you talking with the managers, I want you coaching the managers, I want you looking at their business plan and answer: how can HR help them get the job done?’*¹⁹³ *‘Towards the middle of the 1980s, beginning of the 1990s, they really started to change. Because of expense issues we started to downsize HR significantly. They started to build HR consultants, HR advisors, and they centralized processing. Everything that was process oriented became more phone based and then the actual HR advisors and consultants became more partners to the business.’*¹⁹⁴

When ING started to integrate its US subsidiaries at the beginning of the 2000s, a large HR organization was the result. The head of HR, for instance, was supported by various managers, including a head of training and development, a head of staffing, a head of talent management, a head of HR operations, a head of compensation, and a head of benefits. And besides these functional managers, he was also supported by the HR managers of the various businesses in which ING is active in the US, so a head of HR insurance, a head of HR retirement services, and a head of HR investment management. When the different companies were integrated, this also meant that the various HR departments and their policies and systems needed to be integrated. As a result, many employees became redundant. *‘We were focused on synergies, so we were trying to get all the back office operations in place. If you can imagine there were duplicative roles in each one of the organizations. So you had HR in each one of the organizations. There was no standardization around policies, no standardization around procedures, and no standardization around the systems that they used.’*¹⁹⁵

It was not only the integration that caused the reduction in the number of people working in the personnel department; cost pressures caused by the stagnating economy in

¹⁹² Interview 2 ING US: HR manager 20 years’ experience

¹⁹³ Interview 2 ING US: HR manager 20 years’ experience.

¹⁹⁴ Interview 4 ING US: HR manager 31 years’ experience.

¹⁹⁵ Interview 10 ING US: HR manager 12 years’ experience.

the 2002–2003 and 2008–2010 period and changes in the HR model also resulted in a sharp decrease in the number of employees, from around 250 in 2000 to 70–80 in 2010.¹⁹⁶ *‘Every year we face expense pressures. Every year we’re looking at a different model and we’ve got to go through it again. We’re always looking at a different model trying to do more with less. Centralization continues to come up as a hot topic.’*¹⁹⁷ Enabled by technological innovations, various HR processes were standardized, centralized, and, sometimes, outsourced, such as payroll and benefit administration. Instead of HR employees being responsible for all employee-related administration, employees and managers themselves must now log in to the online HR environment and administer working time, training programs, benefits, performance reviews, and employee objectives. *‘What we’ve done now is, we built a lot of technology so if a manager wants to give somebody an increase, change their job, move on to a new supervisor, they all do that online themselves.’*¹⁹⁸ All remaining processing has been standardized and transferred to expert teams, inside (shared service centers) or outside (outsourcing) the organization. There is, for instance, a specialist department responsible for dealing with all job-related problems of individual employees, the HR resolution team. This can be as simple as interpreting pay time policies, to conflicts between employees and managers, and issues concerning the violation of laws and policies: *‘we built a model where employees and managers just call an 1800 number and they get answers to a lot of basic questions.’*¹⁹⁹ The HR advisors are no longer responsible for these tasks. *‘I don’t give employees individual attention like I might have been doing previously. They have to call for it. They have to call and get it online.’*²⁰⁰ Instead, HR wants to have a seat at the *‘table of the business to be an active participant in building business strategy.’*²⁰¹ They want to *‘move away from people who were just: I know how to fill out this form, I will help you.’*²⁰² *‘Today, I’m at the table with the leaders that I support, their leadership team, hearing what their business needs are.’*²⁰³ *‘We want to*

¹⁹⁶ Based upon Interview 6 ING US: HR manager 10 years’ experience.

¹⁹⁷ Interview 4 ING US: HR manager 31 years’ experience.

¹⁹⁸ Interview 8 ING US: HR manager 7 years’ experience.

¹⁹⁹ Interview 8 ING US: HR manager 7 years’ experience.

²⁰⁰ Interview 4 ING US: HR manager 31 years’ experience.

²⁰¹ Interview 1 ING US: Senior HR manager 15 years’ experience.

²⁰² Interview 2 ING US: HR manager 20 years’ experience.

²⁰³ Interview 8 ING US: HR manager 7 years’ experience.

*have a seat at the table, we want our HR advisors to have a seat at the table, we want [to] (...) understand what the business strategy is and provide the tools and processes to facilitate an effective execution of that strategy. We want to make sure that we deliver what our businesses expect from us in the time that they expect of us with the cost parameters we have.*²⁰⁴ *‘We don’t want the business to spend their time on figuring out what type of people they need. We want to tell them what type of people they need, partner with them, help them to understand that. We want to be so intimately in tune with the business and understand their strategy that we can then provide them the recommendations around their people strategy.’*²⁰⁵ HR is *‘not the police anymore.’*²⁰⁶ There is still a specialist team responsible for helping individual employees, but the HR department as such is there to help managers. They provide managers with *‘the tools and resources. And managers: you’re responsible for managing your employees.’*²⁰⁷

Until the end of the 1990s, ING’s corporate labor policy was still developed and implemented on the national level. This changed in 2000 with the establishment of the Global HR department, which was later renamed Corporate HR. The creation of this department therefore can be seen as an indication of the restructuring of ING’s corporate labor policy on the transnational level. It makes sense to think that when a company constructs a transnational structure that is concerned with corporate labor policy, there must be something like a transnational corporate labor policy. Naturally, the first question to ask is what tasks this department will undertake.

In its first years, this department was in the build-up phase. There were some common business principles and ways ING wanted to conduct its business that were stimulated by this department. They, for instance, started a talent management program for future executives, but, still, it was only a small department that formulated some common goals and tried to develop and implement some common policies. In response to the abovementioned question about what this department was going to do after its

²⁰⁴ Interview 10 ING US: HR manager 12 years’ experience.

²⁰⁵ Interview 10 ING US: HR manager 12 years’ experience.

²⁰⁶ Interview 8 ING US: HR manager 7 years’ experience.

²⁰⁷ Interview 8 ING US: HR manager 7 years’ experience.

formation, one respondent jokingly characterized its activities in these first years as *'bothering other people.'*²⁰⁸

Around the same time, and in line with the regional structure that had been adopted in 1999, regional managers were appointed to coordinate and stimulate cooperation between different personnel departments. In Europe, for instance, networks were set up in order to make sure that personnel departments in different countries could learn from one another. It was in this period that the personnel department in the Netherlands was restructured, and the new structure was (partly) based on the experiences of ING abroad. New, foreign managers were given positions at the European level and on the executive board, and they brought their experience from abroad with them to the Netherlands.

In 2004, coinciding with the introduction of the new transnational structure and the installation of a new departmental head, Corporate HR started to expand its activities. First, management development and executive pay were addressed, and systems for worldwide recruitment were developed. Five years later, Corporate HR consisted of four departments: compensation and benefits, talent management, international mobility, and governance and operations. Compensation and benefits was concerned with the executive compensation of the top 200 people in the organization. It also developed general guidelines for the compensation and benefit structure of the entire ING organization. The talent management department was concerned with a yearly talent review, the winning performance culture scan, an engagement research, the ING business school (see section 8.5 employee flow), and different programs to improve the national personnel departments. The international mobility department was concerned with executive recruitment and development. Finally, governance and operations used to be part of the Dutch personnel department, but was transferred to Corporate HR. It was concerned with all IT projects, for instance an online learning center and program management concerning mergers and acquisitions, divestments, and virtual teams. Corporate HR was responsible for the *'deployment, development, and initiation of strategy (...) the implementation takes place at the country level.'*²⁰⁹

²⁰⁸ Interview 5 ING NL: HR manager 12 years' experience.

²⁰⁹ Interview 18 ING NL: Senior HR manager 5 years' experience.

In summary, ING's predecessors were predominantly national organizations, the two largest of which were organized as state bureaucracies. In the first years after the mergers, these companies continued to operate as independent organizations under a holding company. From the mid 1990s onwards, ING experienced a rapid transnational restructuring of its economic environment and actively participated in this development. With its rapid expansion across the Dutch borders during the late 1990s and 2000s, ING was restructured in line with the conditions in the transnational field on which it had become increasingly dependent. Regional (European, American, and Asian) and transnational structures were implemented to reflect the changes in the organizational environment, and responsibilities and decision-making power were transferred to these levels. This did not only have consequences for the division of responsibility and power within the company; various departments were also affected by this development. Some departments, such as the mail department, were outsourced for cost efficiency, whereas others were reorganized.

A corporate (global) HR department was established in the early 2000s, and, from the mid 2000s onwards, this department became more actively involved with all parts of ING's corporate labor policy. Also, the role of the personnel department within the organization changed. From an administrative department that also acted as an advocate for the employees, it was transformed into a business partner for company management.

8.3 Rewards

Because Postbank was part of state enterprise PTT until 1986, its employees were rewarded on the basis of the Decree Rewarding Public Servants (*Besluit Bezoldiging Rijksambtenaren*), which was determined by the Minister of Interior Affairs. When Postbank was privatized in 1986, its employees became employees of a private enterprise. During the political debate preceding this decision, it was decided that this should not lead to a deterioration in their terms of employment. So, in the newly signed collective labor agreement it was agreed that the salary level of every employee would at least match the rewards of the Decree Rewarding Public Servants. At Postbank, rewards

were based upon the employee's function and the number of years worked for the company.

During the 1980s and 1990s, employees of private banks in the Netherlands were covered by a collective labor agreement. This collective labor agreement included the rewards of all regular employees. The rewards of executives were agreed upon in individual labor contracts. During the 1980s, NMB already had a form of performance-related pay; a percentage of the rewards of executives and specialists, such as investment bankers and traders, was based upon their individual and firm performance.

Like NMB, NN was covered by a collective labor agreement, the Collective Labor Agreement Insurers (*CAO Verzekeraars*) and, like the collective labor agreement in the banking sector, this agreement covered the rewards of the majority of NN's employees; only top management and a number of specialists were rewarded on the basis of an individual labor agreement.

When NMB and Postbank merged in 1989, the reward levels were aligned. In general, NMB employees received a higher wage, so the wages of Postbank personnel were increased. From then on, Postbank employees were covered by the collective labor agreement in the banking sector.

Two years later, NMB Postbank Group merged with NN. Because the wages of employees at the lower levels of Nationale-Nederlanden were higher than those of their counterparts at NMB Postbank Group, the latter received a pay increase. The same was true for the salaries of personnel at higher levels within the company. They earned less than their counterparts at NMB Postbank Group and therefore received a pay increase. NN continued to work with the collective labor agreement in the Dutch insurance sector. During the entire 1990s, ING operated with two separate collective labor agreements for its three largest Dutch subsidiaries. In both collective labor agreements, the rewards consisted of a fixed payment based on the job, age, and the number of years an employee worked for the company.

The acquisition of Barings in 1995 not only strengthened ING's position in the transnational financial field, but also meant that ING entered a new local field, London City. The reward system in this field differed fundamentally from ING's reward system in the Netherlands. Not only did most Barings' employees earn much more than ING's

employees in the Netherlands, variable pay was an important part of their reward system too. An individual employee could earn a significant amount of his/her yearly reward on the basis of one or a small number of successful deals, and this was not common at ING. So, with the acquisition of Barings, ING also acquired a different reward system and culture. At first, this resulted in some problems with Dutch employees with comparable jobs. Sometimes people were flown over from London to work in Amsterdam doing the same job as employees in Amsterdam, but *'getting paid twice as much.'* Because these employees *'can be told that they don't have to come to work tomorrow, this did not cause too many problems. In the Netherlands, employees could go to a cantonal judge. This procedure would at least take half a year and would result in the employee being financially compensated.'*²¹⁰

Performance pay was not completely new to ING in the Netherlands though. At the beginning of the 1990s, NN introduced a new job grading and reward system, called Belinda. With this system, employees “were stimulated to take responsibility”²¹¹ for the performance of the organization. NN wanted to be flexible enough to react to market developments, and the old systems did not provide this flexibility. It was not possible to compare “different jobs within the company, and it was not really possible to reward on the basis of individual performance.”²¹²

In 1998, ING Netherlands initiated a performance and competence management program for all Dutch subsidiaries. Despite NN's Belinda program, rewards were still primarily based on job specifications and seniority. In order to be successful in the rapidly changing financial field, ING wanted to stimulate all employees to work towards achieving the company goals. ING wanted to do so by implementing a performance management and competence management system. On the basis of interviews with highly successful employees, for instance the top mortgage salesmen, the competencies desired for each job were determined. Consequently, every year the competencies of all mortgage salesmen are evaluated, and this evaluation affects their rewards. For the performance management program, the goals of all employees are determined on a yearly basis. For most employees, these goals relate to their individual or team performance. The

²¹⁰ Interview 4 ING NL: HR manager 30 years' experience.

²¹¹ Annual Social Report NN 1992, page 7.

²¹² Annual Social Report NN 1992, page 9.

departmental goals in turn are based on the business line goals, and the business line goals on the company goals. In this way, ING has tried to establish a direct connection between the success of the organization as a whole and the individual performance of its employees. Again, at the end of the year the results are measured, and the employees are rewarded on the basis of the outcome of the performance and competence management program.

This program was first initiated around 1998 but it took four years to be implemented. In 2002, variable pay was introduced in ING's collective labor agreement, and this was linked to the performance management and competence management programs. Depending on an employee's individual position, a percentage of his/her reward became dependent on his/her performance and competencies. This fluctuates from one or two months' salary for a large portion of the employees to a quarter, half, or even more for top executives and specialists such as traders. Around 7 percent of the salaries of desk employees of ING's Dutch retail bank, for instance, are dependent upon their individual and team performance, which can be measured in terms of customer satisfaction. About 40 percent of the salaries of senior managers are dependent on their individual, departmental, and company performance. About 60 percent of the salaries of specialized employees such as traders can be dependent on their individual performance. In 2008, ING started the roll out its performance management and competence management program organization wide.

An important development for the rewards system in the Netherlands was the introduction of the collective labor agreement for all ING employees in the Netherlands in 2000. Even though this had already been discussed in the first few years after the formation of ING in 1991,²¹³ as stated above, ING worked with two collective labor agreements in the Netherlands during the entire 1990s. Because these two collective labor agreements differed on a number of points – e.g. the banking collective labor agreement included a 36-hour working week and the insurance collective labor agreement a 38-hour working week, and in the insurance collective labor agreement low level jobs were better rewarded, whereas in the banking collective labor agreement high level jobs were better

²¹³ *Het Financieele Dagblad*, 2 December 1993, "ING Groep wil eigen CAO afsluiten" [ING Group wants to sign own CLA], page 1.

rewarded – it was difficult to implement an integrated corporate labor policy for all Dutch subsidiaries. As a result of these differences, employees were, for instance, willing to transfer jobs from the insurance to the banking side, but not the other way around. Also, as mentioned in section 8.1, in the increasingly competitive transnational financial field, employees had become one of the most important, if not the primary, source of competitive advantage. In the struggles with other companies for the dominant positions in the transnational field, companies relied on the competence and quality of their employees. Corporate labor policy was therefore of great importance and the collective labor agreement was an important part of these policies, but ING's influence on the two collective labor agreements agreed upon at sector level was rather limited. As a result, ING could not independently organize its corporate labor policy in line with the conditions in the financial field, which became increasingly significant. Finally, when competing for qualified personnel with other financial institutions in the Netherlands, ING could not determine its own terms of employment.

As discussed in the previous section, ING created a global HR department in 2000. At first, this department was primarily concerned with talent management and management development, but from 2004 it also became concerned with executive compensation. The rewards of the vast majority of ING's employees are determined by local or national HR departments, but the rewards of the top 200, the management or leadership council, are the responsibility of the corporate personnel department and the personnel departments of the different business lines. Although the terms of employment for the average employee are still the primary responsibility of national or local HR departments, transnational structures have been designed for employees with corporate, transnational, or regional responsibility, and consequently the rewards of the top 200 are determined by transnational departments in line with the conditions in the transnational financial field. However, transnational structures that somewhat constrain the national personnel departments in the design of this component of their corporate labor policy have also been constructed for the rewards system of the rest of ING's workforce. At ING Investment Management (IIM), for instance, at the European level a structure has been developed for the rewards of all employees working at IIM in Europe. A regional

reward structure has been created, consisting of a standard salary, performance-related pay, and possible bonuses that are applied at the national level in line with national regulation.

The Dutch collective labor agreement contains a salary scale from 1 to 15, with the Dutch top management falling into categories 13 to 15. Despite the fact that salary scales are available for all employees falling into categories 13 to 15, ING does not use them. A large proportion of these employees are tied to a certain country because they do not have the intention of working abroad. In that case, their salaries are based on what is common in, for instance, the Netherlands. Some jobs, however, such as traders, legal experts, and executive pay experts are part of a transnational labor market, and, despite the fact that they are working for ING in the Netherlands, their salaries are based on a regional (e.g. European) or transnational labor market. The compensation and benefits department of the corporate personnel department and the personnel departments of the business lines are responsible for the criteria on the basis of which these employees are rewarded.

Finally, pensions constitute an important part of the total labor costs. Pension plans are developed at the national level and, because these are often highly embedded in national labor fields, the corporate personnel department does not concern itself with the specific rules of the various national pension plans; but because these plans can result in a significant financial risk for the organization as a whole, in recent years, pension committees have been installed at the national level as well as the transnational level. These committees are chaired by the national HR director, and the national financial officer is responsible for the costs and risks involved. At the group level, this committee is chaired by the CFO rather than the HR director because the group level is more *'financially driven.'*²¹⁴ The type of pension plan is determined at the national level in order to make sure that it is in line with the conditions in the national labor markets, but at the group level the consensus is that the risks involved need to be minimized. Therefore, there are talks about converting the pension plans from a defined benefits system to a defined contribution system.

²¹⁴ Interview 2 ING NL: HR manager 35 years' experience.

So, in the past, rewards were determined on the basis of the conditions in the national fields in which the various parts of the ING organization were embedded, and for a significant number of ING's employees in the Netherlands this is still the case. In the 2000s, ING introduced variable pay for all its employees – something that has become common in the Netherlands – but which was introduced to ING when it started its international expansion in the mid 1990s. With the establishment and growth of a corporate HR department in the previous decade, ING also started to develop policies regarding rewards on the transnational level. Among other things, this department concerns itself with the risks attached to pensions around the globe.

If we now look at what the consequences of the introduction of Corporate HR are for ING's rewards system in the United States, we get the following picture.

The reward package of US corporations consists of compensation and benefits. ING's compensation package in the US consists of a base salary, bonuses, and, depending on the employee's position in the organization, stock options and a retention policy (restricted stock²¹⁵ awarded in a period of three years). The most important parts of the benefit package are healthcare and pension.

Like many American companies, Aetna already had a system of pay for performance in the 1980s and 1990s. This means that their employees are not automatically compensated for changes in the cost of living (inflation); instead, their salaries are based upon individual performance.²¹⁶ The stock option program was first introduced to employees in middle management positions at the end of the 1980s. Over the course of the 1990s, it was introduced further down the corporate ladder as well. Changes in government regulation were an important reason for their introduction and subsequently for their decreasing use in recent years. *'What changed it? Tax laws changed. That's what happened. What happened was: I could give you options and I did not have to book that expense the year I gave it to you, I could do it over time. Tax laws*

²¹⁵ Restricted stock can only be transferred to another if certain conditions have been met. An employee being granted restricted stock, for instance, first has to work for the company for a certain period of time, or the company has to reach certain financial goals.

²¹⁶ Based upon Interview 4 ING US: HR manager 31 years' experience.

*changed again five years ago and said: I give you those options and I have to book that expense, all of it, that year. The market changed because the tax law changed.*²¹⁷

Until the mid 2000s, the reward systems of ING's US operations were not at all influenced by the fact that these firms had been acquired by a foreign corporation. *'Pre 2004, there was essentially no globalization as regards to rewards in the ING environment. We did our thing, we did not review anything with Amsterdam'* but, with the expansion of the corporate HR department around that time, *'a little bit more global consistency'*²¹⁸ was introduced; *'there is a little more governance from their standpoint. When I say governance it is not just approve or not approve, but how we do certain things. Mainly in the executive pay category of what we call the long-term equity program, the top 200.'*²¹⁹ *'In 2004, group [corporate HR department] implemented the first global rewards program, which is now called LEO, long-term equity ownership. That was the first time we did anything from a rewards perspective on a global level.'* *'Then between 2004 and say, a year and a half ago [mid 2008], there were occasionally some additional reviews. There were a few attempts to globalize the management system, at least at a more senior level. Things like, for example, for the management council – that is our top 200 people – they would publish required objectives that are to be built in the management council members performance plans and in our performance management system.'*²²⁰ *'After that I would say it is still more of a local flavor; again, with approval and guidance from the group. I think group is still somewhat hands off.'*²²¹

With the financial crisis at the end of the 2000s and especially the problems ING experienced during these years, the reward policies of all subsidiaries have come under the close scrutiny of Corporate HR. They want to know more about what and how exactly ING US is rewarding its employees, thereby especially focusing on pay increases, bonuses, stock options, and retention policies for the top 200. *'Since a year and a half ago, it is completely different in a sense that we are moving more, or attempting to move much more to a global set of principles, set of philosophies, and, potentially over time, to structures. What we are trying to do is see if we can come up with some international*

²¹⁷ Interview 2 ING US: HR manager 20 years' experience.

²¹⁸ Interview 6 ING US: HR manager 10 years' experience.

²¹⁹ Interview 2 ING US: HR manager 20 years' experience.

²²⁰ Interview 6 ING US: HR manager 10 years' experience.

²²¹ Interview 2 ING US: HR manager 20 years' experience.

remuneration principles that can be applied globally to ING. So, some examples: performance management. We just communicated a brand new global performance management system that group (...) actually, they took the computer system that we had implemented in the United States a few years ago, and they used the same system but have built into it a set of categories or objectives that they want to be common around the globe.’²²² Another ‘example: they [Corporate HR] are requiring that some positions [top 200] have a change in their compensation mix. Right now the ratio between base salary, short-term incentive plan, STIP, and long term incentive plan, LTIP, would be a third, a third, a third. They [Corporate HR] are mandating that the third, third, third becomes one to one; one base salary, one the combination of STIP and LTIP (...) In the US context that is a very challenging thing to implement because it has always been believed that variable pay is good. That is how this country was built; incentives to get people motivated. The sense right now, especially in the European context, is that STIP, the variable pay, is not good. It creates risk, it creates bad behavior.’²²³ Finally, the bonuses of the top executives of ING US are increasingly based on the overall development of ING across the globe, instead of being based on their individual and country performance. This policy is dictated from corporate headquarters in Amsterdam.

Because the United States is not characterized by extensive welfare arrangements as most European countries are, their healthcare and pension benefits are an important part of the total reward package for employees in the United States. ‘What we offer in terms of the health and welfare benefits are very consistent with the rest of the large organizations (...) Its costs are roughly 8,000 dollars per employee, per year. We pay 70 percent of the costs and the employee pays roughly 30 percent of the costs. Those are rough numbers, but, if you have a wife and four kids, it is basically 8,000 times six, so it is a very large number. We do cover less on the family side than we do on the employee side, but we do pick up the majority of the cost.’ Our ‘basic benefit strategy is to be at the median of the competition, but be slightly higher on the retirement side and to be a little lower on the medical side.’²²⁴

²²² Interview 6 ING US: HR manager 10 years’ experience.

²²³ Interview 6 ING US: HR manager 10 years’ experience.

²²⁴ Interview 6 ING US: HR manager 10 years’ experience.

In recent years, some alterations have been made to both the pension and the healthcare benefits. *‘One of the big changes we made (...) recently, this is not a common approach, we adjusted the amount you pay for the medical benefits in line with how much you make. The more you make, the more you have to pay. It is not a common approach in the United States, but it is more maybe a reflection of the philosophy of our senior management team.’*²²⁵ *‘On the retirement side we offer two retirement plans. A defined contribution plan and a traditional defined benefits plan (...). We do have (a defined benefits plan) still, but on January 1st 2009 we froze it for any new hired employee. The strategy for the longer term is to freeze it across the board. We didn’t freeze it across the board for everybody on January 1st of 2009 because we would have to take an unrecognized loss of 460 million dollars. It was an ironic thing because so many of the assets fell so much in value that had we frozen it the way the accounting works, we would have had a 460 million dollar hit so we said: let’s keep the plan! But it will die at some point when 460 becomes less. It is just a matter of time. All of our competitors – we look at the benchmarks all the time – have eliminated their plans as well.’* And *‘I think the global approach at ING has been to kill defined benefits plans, to eliminate the defined benefits plans. As a matter of fact, they came out with a mandate, recently the board did. They said: you are not allowed to create any defined benefits plan at this point. In fact, you should seek to destroy them, going forwards where you can. That is definitely a global principle. And the issue is not because we don’t want people to get security, it is the volatility of the expenses associated with DB plans that just kill insurance companies.’*²²⁶

So, it seems that, in the US, ING has decided to completely change its pension system to a defined contribution system; whether this process will actually take place is not clear yet.

In summary, for the vast majority of ING’s employees, the reward package is still determined on the national level. Primarily the top executives have been affected by the introduction of a transnational policy concerning the rewards component of corporate

²²⁵ Interview 6 ING US: HR manager 10 years’ experience.

²²⁶ Interview 6 ING US: HR manager 10 years’ experience.

labor policy, especially in the late 2000s. Corporate headquarters is demanding more oversight on executive pay packages and has developed transnational principles with which these packages have to comply. Also, there are talks within the organization about changing the pension system from a defined benefit to a defined contribution system. This would create more certainty about the annual costs of the system and would therefore be more in line with the demands of the financial markets. To date, this change has not taken place, something which is not surprising given the significance of the national economic field concerning this component of the firm's corporate labor policy.

8.4 Employee voice

As a state enterprise, and as its employees were civil servants, Postbank did not have works councils as all large private companies²²⁷ are obliged to have in the Netherlands since the enactment of the Works Council Act in 1950 and the important adjustments that were made in 1971 (see section 3.4). Instead, public organizations such as Postbank had commissions representing Dutch civil servants.²²⁸ These commissions had fewer rights than works councils, such as those at NMB and NN, and their position within the organization was therefore weak. At Postbank, commissions represented employees at the office level in, for instance, the four main processing centers, but there was no umbrella commission discussing company policies with management. Therefore, they did not have any say in policies concerning the general development of the organization. Most members had been working for Postbank for many years and were *'assertive and not afraid to speak up,'* but issues on which they had any say were primarily on the level of *'which food was served in the canteen.'*²²⁹

When Postbank was privatized in 1986, works council elections were held. In line with the Works Council Act, works councils were established at both the office level and the organization level. In general, employees that were elected to these councils were union members working at one of the 'production' facilities, the four offices where the money transfers were processed. Many of these members were also involved in the

²²⁷ More than 100 employees.

²²⁸ Since 1995, the Works Council Act is applicable to most government agencies as well.

²²⁹ Interview 1 ING NL: HR manager 30 years' experience.

negotiations for the collective labor agreement and were therefore well aware of developments in the organization. Because of the many changes after the privatization, the works councils were busy with the many requests for advice (*adviesaanvragen*) and approval (*instemmingsverzoeken*) – two important rights of works councils in the Netherlands – and this resulted in rather tough negotiations between the works councils and Postbank management.

Because NMB and NN were private companies, they both had works councils at the office and organization level. Negotiations between the works councils and management of NMB were described as consultations, rather than as negotiations, by the members themselves.²³⁰ The works councils at NMB had a more multiform character with members from all layers of the organization and were therefore better informed about the development of NMB at large than those at Postbank.

The culture at NN – which was based on trust and the idea of taking care of one another – resulted in relatively intense contact between management and works councils. The Works Council Act mandates that certain issues must be discussed, but it was not only these mandatory issues that were discussed on the NN works councils. The integration of departments and certain terms of employment were also discussed, even though this was not mandatory.

The process of integrating NMB and Postbank could possibly have led to conflicting interests for the works councils of both organizations, and it was therefore decided that, at first, they would operate independently of each other. The merger between these companies was ‘*a very difficult process*’²³¹ and resulted in the installation of a new structure and the alignment of conditions of employment.

Three years after the merger of NMB and Postbank, a group works council was established to represent employees of both organizations. With the installation of this group works council, the separate works councils of NMB and Postbank were dismantled. The works councils at the office level were dismantled as well; instead, new works councils were installed at business unit level. This new structure was believed to do more justice to the organization of NMB Postbank Group.

²³⁰ NMB Postbank Group Annual Social Report, 1991.

²³¹ Magazine NMB Postbank Group October 1991, page 4.

When NMB Postbank Group and NN merged, a new employee voice structure needed to be designed. Because ING was structured as a holding company with two Dutch subsidiaries – ING Bank and ING Insurance – the group works councils of NMB, Postbank, and NN stayed in place and continued their work and talks with the executive board of ING Bank and ING Insurance (members of these two boards also formed the executive board of the holding company). Also, a central works council was elected, representing the employees of NMB, Postbank, and NN during meetings with the group executive board.

In 1994, the European Commission issued a directive calling for the establishment of a European works council for all companies with more than 1,000 employees in at least two countries that were part of the European Union. This directive was put into law by the Dutch government in 1997, but in 1996 ING had already installed such a works council. As a European works council consists of members from different countries, it could be said that this meant the introduction of a transnational structure to the employee voice component of corporate labor policy, although, in this case, it is more accurate to speak of an Europeanization or regionalization of corporate labor policy. At the same time, as with the creation of Corporate HR, the first question is what exactly this works council is going to be concerned with. And, also, what exactly will its position be within the organization?

First of all, a European works council's legal position is relatively weak, especially when compared with the legal position of a works council in the Netherlands. Also, the way this European works council functioned in the first few years was characterized as '*talk, talk, talk*' and '*window dressing*' by a respondent.²³² Because not all members spoke English, it was often also an '*interpreter party*,'²³³ which did not help discussion within this council and its credibility. They did have a yearly obligatory plenary meeting with a member of the executive board who presented the figures for the previous year, but there were no thorough '*discussions about company policies and*

²³² Interview 19 ING NL: HR manager 5 years' experience.

²³³ Interview 12 ING NL: Senior HR manager 20 years' experience.

strategy.²³⁴ Also, in the first few years, members from several Eastern European countries were not elected by local employees; instead, they were employees working at the local HR department and appointed by local management. Countries such as Bulgaria, the Czech Republic, and Romania did not have regulation obliging local or national works councils or a similar form of employee voice and therefore HR employees were delegated.

In line with upcoming European regulation, ING initiated national works councils in all European countries in 2006. Also, in recent years, the European works council has formed commissions that discuss matters concerning different divisions with their respective responsible executive board member. The European works council now meets twice every year for three days and the presentation of the yearly figures has become less prominent. Instead, general company policy and strategy is given more emphasis. To conclude, the position of the European works council has been strengthened but is still relatively weak when compared to the situation in the Netherlands.

In 2003, the structure of employee voice in the Netherlands was altered, an alteration that resulted from a discussion at ING about how employee voice should be organized in a company with extensive operations across national borders. Until 2003, the Dutch central works council was linked to the group executive board and had regular meetings with members of this board. This was obligatory and in line with the structure regime in the Netherlands and the Dutch Works Council Act. Since the mid 1990s, ING had grown from a Dutch company with international subsidiaries into a transnational corporation of Dutch descent, and ING wanted this transformation to be reflected in its works council structure. The executive board argued that it was not fair that the Dutch central works council was linked to the executive board while employees in other countries in which ING was active were not represented at this level. Also, with the newly proposed law in 2001 – a proposal by the Social Economic Council – the Dutch works council would get the right to appoint one third of all members of the supervisory board. Because of the restructuring of the organization on the transnational level, the executive board wanted to abandon this typically Dutch employee voice structure. To

²³⁴ Interview 19 ING NL: HR manager 5 years' experience.

facilitate this transformation, the legal structure of the organization was altered. An additional legal level was created between the ING holding company and its Dutch subsidiaries, and the Dutch Works Council Act would apply to this new layer instead of to the holding company.

The argumentation behind this shift was that the executive board had become concerned with ING's transnational operations and no longer concerned itself with individual nations. Representatives of employees in an individual country should speak to those responsible for the operations in that country, in this case the Dutch executive board. Because this meant a diminution of the central works council's existing rights, a covenant was agreed upon, stating that the Dutch central works council has a right of advice for all decisions taken by the group executive board with significant consequences for the Dutch operations and employees. In this new structure, the Dutch works council would not have the right to appoint any members of the supervisory board, but the executive board's standpoint was that it would be in line with the ING culture and employment relations to have a system of voluntary representation on the supervisory board. For members of the Dutch works council, the alteration in the participation structure sometimes causes problems because decisions taken by the executive board can have significant consequences for the ING's Dutch operations, but Dutch works council members have access only to the Dutch management team and not the executive board.

Employee voice can be organized in various ways. Whereas in the Netherlands works councils play an important role, in the United States legislation calling for the establishment of this form of employee participation does not exist. On the contrary, management is almost completely autonomous in its decision-making process, 'managers rule,' but this does not mean that employee voice in the United States is nothing more than one-way communication from management to employees. In unionized sectors of the economy, trade unions play an important role. In the 1980s and at the beginning of the 1990s, many non-unionized companies had installed an employee advisory council. An example of such a company was Aetna, acquired by ING in 2000. However, when

they experienced severe downsizing at the beginning of the 1990s, this council was dismantled; instead, town-hall meetings²³⁵ and an electronic survey were used.

During the 2000s, ING US continued the electronic survey and town-hall meetings to facilitate interaction between top management and the general employee population. After the appointment of Tilmant as CEO in 2004, a program was started to create a more integrated company. One of the things he did was introducing ‘*the winning performance culture survey*. *We had our own surveys for a period of years (...) we were doing employee surveys every couple of years. When Michel Tilmant came in, he started to move to more of a winning performance culture and we started communicating that, what does it mean? We were still using our own surveys to assess our employee engagement and over the course of the last two, three years, we’ve actually gone to a group-wide winning performance culture scan. It’s run by the group, it is administered by the group, we have a liaison on that team, group gets our results and disseminates them out and then our managers are responsible for building actions to improve.*’²³⁶ Through this program and the associated annual survey, ING tries to implement and communicate a certain type of culture throughout the transnational organization and national organizations, including the United States.

As regards the position of individual employees and their development within the organization, primarily development plans and the annual performance review are of great importance. This system has been in place in the United States for a long time already and this has not changed in this recent decade.

Finally, we have already seen that during the 1990s and 2000s the personnel department was transformed from ‘the police’ into a business partner helping managers make business decisions. Instead of the employee relations department and HR advisors being approachable by individual employees, they now have to get into contact with a small specialized team in the event of job-related problems. In the mid 2000s, ING US set up the HR resolution team as the responsible department to deal with grievance procedures.

²³⁵ A meeting with all employees in, for instance, the cafeteria where one of the executives explains the developments within the company and where employees have the opportunity to pose questions and express their opinions.

²³⁶ Interview 8 ING US: HR manager 7 years’ experience.

In summary, in the Netherlands, ING has always had an extensive network of works councils to represent its employees. A first form of employee representation to be implemented above the national level was the European works council in the mid 1990s. Because of the weak legal position of this council and, especially in the first years after its foundation, some language problems, members of this works council did not secure a strong position within the corporate structure. Also, as a result of the transnational restructuring of the organization, in 2003 the Dutch works council was decoupled from the executive board; instead, the Dutch works council now has the board of ING's Dutch operations as its speaking partner.

Employee voice in the US differs fundamentally from that in the Netherlands (and many other Western European countries): management rules. The personnel department has become a management vehicle. Besides the adoption of the global employee survey, there are no consequences of the shifting emphasis in ING's dual embeddedness for the employee voice component of ING's corporate labor policy in the United States.

8.5 Employee flow

The rather hierarchical nature of the Postbank organization was reflected in the careers of its employees. For most employees there was no need for career planning. They worked for Postbank their entire career (lifetime employment was the norm) and, because vacancies within Postbank were filled on the basis of seniority, it was often clear which career path they would follow as soon as they entered the organization. The personnel department of PTT – of which Postbank was a part until its privatization in 1986 – had a personnel services and career planning department (*Personeelsvoorziening en Loopbaanontwikkeling*) that registered the number of years that every employee had held a particular position. Vacancies were filled on the basis of these lists: '*They didn't pay attention to employees' competencies; you just had to work hard.*'²³⁷

Career paths at NN were roughly the same as at Postbank, but at NMB things were slightly different. At NMB, there was more room for individual employees to determine their own career; performance was more important than seniority.

²³⁷ Interview 7 ING NL: HR manager 38 years' experience.

Even though during the first years after the formation of ING the three Dutch subsidiaries were not yet integrated, a number of employees became surplus to requirements as a result of reorganizations caused by the automation and computerization of administrative processes. ING and the trade unions signed an agreement that ING would try to find new jobs for these employees for 18 months, but if nothing promising came along after around nine months they sat down with individual employees to work out a deal.²³⁸ The automation and computerization of Postbank during the 1990s resulted in a reduction in the number of employees of between 3,000 and 3,500. Because the average Postbank employee was relatively old, many employees left the organization on the basis of an early retirement package.

ING was formed in a period of intensifying competition and during these years ING stated that employees should not expect to work for the company their entire career, at least not in the same job. The era of lifetime employment was coming to an end, and employees themselves became responsible for their career. From the 1980s onwards, there had been a transformation in the relationship between ING (and its predecessors) and its employees. Whereas in the past employees were loyal to the organization and in response the employer took care of its employees for their entire career, at the turn of the twenty-first century employees themselves had become responsible for their career development. They constantly need to improve their knowledge and skills in order to make sure that they stay attractive to ING as their employer. ING at the same time is responsible for facilitating its employees' development by offering interesting and stimulating positions and providing its employees with the necessary means to develop themselves.

In general, employees do not often shift between jobs in different countries. Only a small percentage of ING's employees work abroad: primarily top executives, high potentials, and specialists such as investment bankers, finance specialists, risk managers, compliance officers, and legal experts. Of the more than 100,000 employees working at ING in 2007, around 500 people had an expat contract, which is less than half a percent. With the growth of the corporate staff, the number of foreigners working in the

²³⁸ Based upon Interview 1 ING NL: HR manager 30 years' experience.

Netherlands grew, but still the majority of people working at ING do not transfer jobs across borders.

In 2004, ING introduced the concept of a winning performance culture in an attempt to create a culture of excellence and become more successful in the transnational financial field. Under three headers – shared direction, performance execution, and human capital – ING differentiates 21 drivers. Shared direction is supported by seven drivers: business principles, goals, change, communication, strategy, knowledge management, and vision. Performance execution is supported by eight drivers: risk management, customer centric, cost management, decision making, execution, accountability, performance management, and processes. Finally, human capital is supported by six drivers: leadership, relationships, teamwork, rewards, learning, and talent management. Since 2007, an annual global survey has been conducted to measure whether employees believe that ING is performing badly, mediocrely, solidly, or winningly on each of these drivers. In the most recent survey, questions were added to measure whether employees feel engaged with the organization. *‘Engagement is the new trend in the HR world, so ING pays attention to it as well. You want to know whether your employees feel committed to the organization, whether they are passionate about their work, and whether they are willing to work just a little bit harder. Therefore you ask questions such as: Are you proud of this company? Did you ever have plans to leave this company?’*²³⁹ The results of this survey are used when the performance of ING’s management is being reviewed.²⁴⁰

In the United States, the transformation of the personnel department had significant consequences for various parts of employee flow.

At the beginning of the 1990s, Aetna employed around 100 people in the training and development department alone. Now, at ING US there are only a handful of people working in this department. This reduction in headcount and costs was accomplished in three ways. First, individual employees and managers themselves have become responsible for employees’ training. If they decide that an employee should take a certain

²³⁹ Interview 18 ING NL: Senior HR manager 5 years’ experience.

²⁴⁰ Based upon Interview 17 ING NL: Works council member 23 years’ experience.

course, they do not go to the personnel department and ask them to arrange this. Instead, they have to log onto the online HR environment and arrange it themselves. Second, the training and development functions of the various national organizations are supported by the ING business school in Amsterdam. The talent management program for ING's high potentials has been transnationalized. And third, ING US has, like many other US-based companies, outsourced part of its training and development to its competitors. *'We outsource employee development. We do not invest much in employees' development ourselves. We let them move to another job at another company and after he has learned some new things we re-hire him for a higher wage.'*²⁴¹ This is facilitated by the relatively loose relationship between employers and employees in the US.

After the integration at the beginning of the 2000s, the staffing and recruitment department, talent management, and training and development were centralized and standardized, but this has primarily been done on the national level; only a small portion of these processes have assumed a transnational character.

Staffing and recruitment have remained nationally or even locally organized, except for the top 200 executives. In recent years, Corporate HR has become increasingly involved in the hiring and compensation process of new executives and employees with large responsibilities in the risk department. After candidates have been screened by the American organization, they then have to be interviewed by the group. And when the decision to hire someone has been made, discussions about the compensation package are started between the American organization and corporate headquarters. In the United States, it is common to reward employees, especially executives, with significant bonus programs (see section 8.3). At the same time, in recent years ING has been put under a magnifying glass in the Netherlands after receiving financial support from the Dutch government, and bonus programs have become very controversial.

The same is true for the talent management and training and development programs. Since 2004, Corporate HR has been putting in place more consistency with regard to leadership development, talent management, and international mobility of (future) top executives. *'The thing that I've seen the most (...) [is] around talent*

²⁴¹ Interview 3 ING US: HR manager 4 years' experience.

management and sort of a global awareness of who our people are. Not everybody, but who are top talents across the globe. One of the things, for me, that they've done is: they created reporting expectations and standards, the competencies. They said: these are the competencies that we want all of our ING leaders across the globe to have.' *'There is a lot more reporting from a talent people standpoint and we have been rolling that up.'*²⁴² Still, enforcement of these policies is not strict, yet. As long as the guidelines implemented by Corporate HR are high level principles, national organizations, such as the US, are able to customize them to fit their situation and needs, while at the same time being able to fit into the general framework designed by Corporate HR.²⁴³

Summarizing, the increasingly competitive nature of the transnational financial field on which ING became increasingly dependent resulted in a need to become more flexible and in the end of lifetime employment for its Dutch employees. Also, employees themselves became responsible for their career development. In order to monitor whether employees are still motivated to remain working for ING now that they can no longer count on the company to take care of them for their entire career, ING conducts an annual survey among all its employees across the globe.

In general, the centralization of the employee flow component of corporate labor policy on the transnational level is limited. Recruitment and staffing are still organized on the national level. It is especially with regard to present and future top executives that ING has installed transnational policies.

8.6 Conclusion

In the previous chapter, I explained how the transnational financial field became increasingly significant for the corporate strategy and policies of financial firms, especially from the 1990 onwards. ING's predecessors expected to be better equipped to compete in this transnational field by merging and expanding abroad. From the mid 1990s, ING actively participated in the transnational expansion of the financial sector and

²⁴² Interview 8 ING US: HR manager 7 years' experience.

²⁴³ Based upon Interview 3 ING US: HR manager 4 years' experience.

rapidly expanded its operations across the Dutch borders. From the 2000s onwards, this also became reflected in its corporate labor policy.

During the first half of the 2000s, ING was restructured twice, first from a national to a regional organization and, second, from a regional to a regional/transnational organization. This two-step change resembles ING's increasing transnational dependence from the mid 1990s onwards. As part of this development, power and responsibilities were transferred and centralized from the national to the regional/transnational level. Also, some company activities were outsourced, but not on a large scale, possibly because the financial services that ING offers often require personal contact between its employees and its customers and a more highly educated work force. As a result, ING did not experience a sharp decrease in the number of employees working for ING in the Netherlands and the United States. This, however, does not mean that no jobs were lost. In order to be able to compete in the competitive transnational financial field, large parts of ING's 'production process' were automated. This resulted in the loss of a significant number of jobs, but because many of them were dealt with by natural labor turnover and this process took an extensive period, major layoffs did not occur. At the same time, this development resulted in a significant change in the composition of ING's workforce.

Coinciding with this development was the change in the personnel department from an administrative department taking care of the employees into a business partner for company management and the creation of a transnational personnel department that became involved with an increasing number of issues over the course of the 2000s. As part of its transnational restructuring, ING developed and implemented a transnational structure and policies with which the various national departments have to comply.

ING was restructured in line with the competitive conditions in the transnational financial field. This also affected the position of employees and the personnel department within the firm. Employees became increasingly seen as a strategic asset of the firm, to be used to pursue company goals. Instead of being developed with the Dutch labor field as a reference point, these corporate policies have become increasingly developed as part of overall corporate policies. The personnel department has become instrumental in the

pursuit of the financial goals of the organization, instead of having a more plural role as an advocate for the employees, servicing employees, and advising line managers.

The transfer of risks from ING as an employer to the employees or other actors is relatively modest. Under pressure of the competitive conditions in the transnational financial field, lifetime employment as a norm came to an end, and employees themselves became responsible for their own careers. Also, ING seems to be in the process of changing its pension system from a defined benefits system to a defined contribution system, but this has not yet been decided. In general, the degree of risk shift is modest.

Even though Corporate HR developed rules and procedures on various components of ING's corporate labor policy that apply to all employees, it is primarily concerned with ING's present and future top executives. As a result of ING's expansion across national borders and its transnational restructuring in the past decade, more managers have become responsible for operations that extend beyond national borders. To train these present and future top executives, training facilities have been developed by Corporate HR. At the same time, for the vast majority of ING's employees, the national personnel department is primarily responsible. ING's corporate labor policy has experienced a differentiation, consisting of transnational policies for the higher levels within the organization and national policies for the majority of its employees within the boundaries set on the transnational level.

If we focus on the four components of corporate labor policy as distinguished in section 2.5, we must conclude that all four components have been affected in different ways. After ING started a process of extensive transnational expansion, transnational and regional structures were introduced. This implied a transfer of power and responsibilities from the national to the regional and transnational level. Alongside this process, a transnational personnel department was established, thus implying the centralization of policies regarding this aspect of the firm on the transnational level. With regard to rewards, for instance, this department developed transnational principles that influence the reward packages of all employees. Even though rewards continue to be heavily affected by the institutional arrangements in the national fields in which ING is active, ING tries to control these policies through transnational guidelines. Employee voice

remains largely unaffected by the company's transnational shift in emphasis. As a result of EU legislation, ING set up a European works council, and in recent years ING has been conducting an annual employee survey across the globe. This does not mean, however, that employee participation is now also organized on the regional and transnational level. On the contrary, ING has changed its legal structure to make sure that its Dutch works council no longer talks to the executive board, but instead has ING's Dutch board as its speaking partner. With regard to employee flow, we can say that, as a result of the competitive nature of the transnational financial field, employees themselves have become responsible for their careers, and lifetime employment has come to an end. At the same time, various other aspects, including recruitment and staffing, have remained largely unaffected. It has been with regard to current and future top executives that transnational policies have been developed.

So, each component of ING's corporate labor policy has been affected by its transnational shift in emphasis in different ways, with work organization being significantly centralized on the transnational level, rewards experiencing the introduction of transnational guidelines for national policies, employee voice still primarily taking place on the national level, and employee flow experiencing a certain degree of differentiation between different levels of employees.

We can observe enduring differences between the corporate labor policy of ING in the Netherlands and in the United States. These differences can be explained by differences in the institutional arrangements concerning labor in both countries. Both employee participation and employee flow are good examples of this. At the same time, with regard to work organization, and to a lesser extent rewards, similar developments are taking place in both countries. In general, we can say that because the institutional arrangements in the United States imply fewer constraints, ING's corporate labor policy in the United States is more significantly affected by the shifting emphasis in its dual embeddedness than its corporate labor policy in the Netherlands, especially because in the United States shareholders are in a more dominant position. However, in the Netherlands the development of the institutional arrangements and the weakened position of the trade unions in the past three decades imply fewer constraints as well. This can be

observed in the development of ING's corporate labor policy in the Netherlands. It is slowly developing in the direction of ING's corporate labor policy in the United States.

So, different components of ING's corporate labor policy have been affected by its transnational shift in different ways. At the same time, it is clear that the institutional arrangements in the national economic fields are still of significant importance for this aspect of this transnational financial giant. In contrast with, for instance, ING's marketing policies, the centralization of its corporate labor policy on the transnational level is modest. This does not mean that there is no evidence of any convergence. In both the United States and the Netherlands, ING's HR model has developed from an administrative organization taking care of its employees into a business partner. Also, because of transnational guidelines, the composition of some elements of ING's reward package has become aligned. In the end, however, I would argue that the centralization of ING's corporate labor policy on the transnational level is moderate.

Now, we can conclude that, between the 1990s and the mid 2000s, ING experienced the centralization of certain components of its corporate labor policy, a differentiation between different components of its corporate labor policy, between different levels, and between countries, the transfer of power and responsibilities from the national to the regional and transnational level, the instrumentalization of labor and the personnel department, the shift of responsibility for careers to its employees, the weakening of the position of employee representation, and in general a centralization of its corporate labor policy on the transnational level that is moderate in comparison with other domains. How to explain these developments?

ING experienced a rapid shifting emphasis in its *dual embeddedness* in the past two decades, consisting of an increasing dependence on the transnational financial field and a decreasing dependence on national economic fields. This means that ING experienced an increasing need to adapt its policies to the competitive conditions in this transnational field, entailing a need to cut costs and an increasing focus on financial criteria. At the same time, it implies a decreasing dependence on the other actors in the national economic fields in which it is embedded, and this provides ING with the opportunity to organize its corporate labor policy more independently. The *centralization*

of certain components of its corporate labor policy can be explained by both the need to cut costs and the desire to control these policies on the transnational and regional level when these levels become the defining reality within the firm. However, despite this need and desire, certain components of corporate labor policy continue to be embedded in the relevant national economic fields to a significant degree. Therefore, ING has not completely organized these policies on the transnational and regional level. Also, the costs of certain components of corporate labor policy, such as employee voice or training, would only increase if they were organized on the transnational level. Therefore, certain components of ING's corporate labor policy have become organized on the transnational level, whereas others have not, resulting in a *differentiation* between different parts, between different levels, and between different countries. Financial criteria have become an increasingly dominant decision-making mechanism. This also applies to ING's corporate labor policy, which resulted in the *instrumentalization* of this part of the firm. Finally, the decreasing dependence on other actors in the national economic fields has enabled ING to decouple employees' representation from company management and shift risks to other actors.

Part III

The dual embeddedness of transnational firms

Chapter 9: Conclusion and discussion

In this study, I have researched the consequences of the shifting emphasis in the dual embeddedness of transnational corporations between the 1980s and the 2000s for their corporate labor policy. In doing so, I have (1) contributed to a sociological approach to transnational firms, used this approach (2) to improve our understanding of the development of two transnational firms between the 1980s and the 2000s, and (3) to improve our understanding of the consequences of these developments for these firms' corporate labor policy. In this chapter, I summarize what we have learnt from this endeavor by systematically dealing with these three objectives (sections 9.2–9.4) and addressing the expectations (see section 4.2), before reflecting on the total study (section 9.5). I start by briefly introducing the background to this study (section 9.1).

9.1 Introduction

The significance of economic transactions crossing national borders has fluctuated ever since the rise of capitalism as the dominant system of production in the Western world, displaying a wavelike process during the past centuries. The twentieth century was characterized by such a wave. After the First World War, the communist revolution of 1917, the stock market crash of 1929, and the subsequent economic crisis, national governments took measures to protect their home markets and companies from foreign competition. These policies remained in place after the Second World War. As a result, during the first three decades after that war, economic transactions in the Western world primarily took place within the borders of nation states; national borders, to a large extent, functioned also as economic borders.

During the 1970s, a number of events caused a dramatic change in this situation, and this period can, therefore, be seen as a turning point in the economic and political development of most Western countries. First, the United States, followed by other Western countries, ended the gold standard, resulting in the dismantlement of the Bretton Woods agreement and in fluctuating currencies. This was soon followed by the first oil crisis, causing rapidly increasing prices and stagnating economic growth. National governments reacted to these developments by actively pursuing Keynesian policies of

economic stimulation, as they had done in previous recessions; but this time this reaction did not deliver the desired results. Instead, the 1970s were characterized by stagnating economic growth and rampant inflation (also known as stagflation). The ability of national governments to steer the development of their domestic economies appeared to be limited, and they were forced to reconsider their economic and social policies. Driven by a neo-liberal ideology and facilitated by technological innovations, a process of deregulation of product, service, financial, and labor markets and privatization of state-owned companies was set in motion. This process has continued well into the first decade of the twenty-first century and has a global reach.

Companies responded to this development by expanding their operations across national borders, thereby reducing the significance of national borders for economic activity and increasing the significance of the transnational economic field for their corporate policies. They became less dependent on the national economic fields that had been of primary significance for the development of their corporate policies in the wake of the Second World War, and the transnational economic field became increasingly significant for their strategy and policies.

In most Western countries, national governments and organized labor expanded their role in this post-war period. The degree to which this happened differs across countries, but in most of the Western world various welfare arrangements concerning healthcare, disability, poverty, unemployment, and aging were developed. This resulted in a redistribution of income, risks, and responsibilities concerning labor. As part of the neo-liberal agenda initiated to deal with the economic problems of the 1970s, various Western welfare states underwent a process of extensive reorganization and cutbacks during the last quarter of the twentieth century and the first decade of the twenty-first century. Also, most Western labor markets experienced a process of deregulation.

In the 1990s, a debate unfolded about the consequences of the abovementioned transnational restructuring of economic activities for employees of companies operating across national borders and for the sustainability of Western countries' advanced welfare states. It was argued that firms had become 'footloose' and 'disembedded' from the national fields in which they had been founded, managed by a transnational management team and stateless, without a national identity. It was also argued that, as a result, these

companies no longer have to take the policies of national governments and organized labor into account when designing and implementing their corporate policies. The (transnational) market 'rules', and interests of other actors have become subordinate to those of the firm and its owners. The consequence of this development was said to be a 'race to the bottom'; wages, working conditions, and the protection of employees provided by the welfare state were said to be undermined by companies' transnational restructuring, and it was thought that a downward spiral would be inevitable.

In this study, I contribute to this debate by analyzing the development of the corporate labor policy of two transnational firms between the 1980s and the 2000s. Labor continues to be primarily organized on the national level through various institutional arrangements, such as legislation, collective labor agreements, labor markets, social security systems, educational systems, and employee relations systems. Consequently, I argue that companies cannot independently organize their labor policy in line with the requirements of the transnational competitive environment on which they have become increasingly dependent, as some of the management literature prescribes. When designing and implementing their labor policy in different countries, transnational firms have to take into account the institutional arrangements in the countries in which they operate.

Transnational firms operate in multiple countries and compete with other firms in the transnational marketplace. In order to be successful in this highly competitive arena, they have to adjust their corporate policies and strategies to its competitive conditions, but they must also take into account the existing national institutional arrangements. When the corporate labor policy of these firms is being analyzed, it is therefore important to pay attention to the social structures within which these activities take place at both the national and the transnational level. In order to explain the behavior of transnational firms, we need an approach that does justice to the complexity both of the multiple environments in which these organizations operate and of these firms themselves.

9.2 A sociology of transnational firms

In recent decades, various economic and political approaches to transnational firms have been developed. However, even though these approaches point to relevant

explanations for the behavior of transnational firms, they do not provide a convincing overarching framework that does justice to the complexity of these types of firms and the multiple environments in which they operate. Most economic and political approaches assume that, under the same circumstances, all actors act alike. They display an “atomized, undersocialized conception of (...) action” (Granovetter, 1985: 483) and reduce transnational firms to rational and unified actors. And, finally, they ignore the possibility of constraints, independent of direct interaction, caused by a firm’s historical development. To overcome these problems and convincingly explain the behavior of transnational firms, I argue that we need a more sociological approach to transnational firms.

The notion of embeddedness, as explained by Granovetter, is an interesting starting point for such an approach. It is a central concept in the new economic sociology, a rapidly growing section of the sociological field. Arguing against the undersocialized and oversocialized conception of action, Granovetter claims that economic actors do not act as “atoms outside of a social context, nor do they slavishly adhere to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations” (1985: 487). With this notion, he opposes the decontextualized notion of rationality embodied in most economic approaches and emphasizes the importance of social structures for economic action.

At the same time, the notion of embeddedness has its limits. First, it does not provide an explicit theory of action, probably because it assumes that under the same conditions all actors behave in the same way. Second, it cannot properly account for structural constraints independent of direct interaction. However, by connecting the notion of embeddedness to the theory of fields as developed by Fligstein and Bourdieu, I can add to a sociological approach that tackles these problems and provides a more differentiated overarching framework for the understanding of the behavior of transnational firms (see sections 2.2 and 2.3 for a detailed description).

Following Fligstein, I argue that firms are embedded in fields, “situations where organized groups of actors gather and frame their actions vis-à-vis one another” (2001b: 107). Besides firms, any other actor with an interest in a specific field – including local,

national, and regional governments, research centers, universities, and financial institutions – is embedded in the field as well. The various actors embedded in the field struggle with one another for the dominant positions within the structure of the field. Those actors with a dominant position can use the structure of the field to assure their own survival, which is their ultimate goal. Dominant actors can use their position to force other actors to act in line with their interests.

The stability of the field can be threatened by price competition and internal power struggles. Because the situation within the field is uncertain, a particular conception of control – a “vision of how to make the corporation work internally and how to interact with its main competitors” (Fligstein, 2001a: 69) – is developed, on the basis of which decisions are made. A conception of control is an interpretation of the situation in the field and functions as a decision-making mechanism. Because these conceptions of control become collectively acknowledged within the field, the functioning of the field is cultural in character. Besides being cultural, fields are political; first, because actors struggle for the dominant positions within the field, and, second, because governments play an important role within fields. Modern markets are closely linked to nation states. In order to be able to organize, compete, cooperate, and exchange, markets need rules, and these rules are designed, implemented, and enforced by (national) governments.

What does this combination of the notion of embeddedness with Fligstein’s version of field theory mean for the behavior of transnational firms?

Transnational firms are embedded in fields consisting of other firms and non-corporate actors, including governments and organized labor. They struggle with these actors for the dominant positions within these fields. Actors with a dominant position can use the structure of the field for their own benefit and thereby force other actors to display a certain type of behavior. Because the situation within a field is uncertain, a conception of control is developed and adopted by the various actors embedded in the field. And because conceptions of control are collectively shared by the actors in the field, they result in different actors within the field acting in similar ways, causing isomorphic tendencies.

Whereas Fligstein's theory of fields is intended to explain the working of markets and firm behavior, Bourdieu uses the notion of fields in a more general manner to explain human behavior, but he also applies it to the behavior of economic actors (see Bourdieu, 2005). According to Bourdieu, actors are embedded in fields in which they compete for specific stakes. These fields are created through the interaction of the various actors, while, at the same time, the existing structure of the field structures the behavior of the different actors embedded in the field. All actors possess a certain amount of capital, consisting of the usual forms of financial capital, but also of technological, social, and symbolic capital. The volume and structure of the capital that an actor possesses determines the position of that actor within the field.

The economic field is a socially constructed space in which transnational firms are embedded and struggle with other actors for the dominant positions. Those actors with a relatively large share of the total amount of capital dominate the field. They have obtained a dominant position within the field and through this position they can exert pressure over other actors. They use their position rather than direct intervention to exert this pressure. Actors possessing a dominant position in the field benefit from the structure of the field and, therefore, they try to sustain this structure. Because they have the necessary capital to accomplish this and have obtained a dominant position, the structure of the field has a tendency to reproduce itself.

Actors' behavior is influenced not only by their position in the relevant field and the amount of capital they possess, but also by their habitus, or what business scholars might call company culture. An individual actor is a social as well as a collective actor, which means that its preferences are shaped by its own and its environment's historical development. Like a conception of control, a shared historical development can result in similar (re)actions of different actors, again resulting in isomorphic tendencies. At the same time, an actor's individual historical development results in that actor making unique decisions. Consequently, not all actors behave in a similar manner under similar conditions.

What does Bourdieu's theory of fields add to the notion of embeddedness and Fligstein's theory of fields explained above?

Like Fligstein, Bourdieu argues that the structure of the field is one mechanism to explain the behavior of actors within fields; dominant actors exert pressure over other actors to sustain their position within the field. Whereas Fligstein's notion of conception of control implies that various actors within a field act alike, Bourdieu's notion of habitus suggests both similar and different reactions. Actors embedded in a specific field have experienced a shared historical development in the sense that they have all experienced the development of that specific field. This shared historical development can lead to similar reactions. At the same time, each actor also has its individual historical development, resulting in a specific habitus. On the basis of this individual historical development, various reactions to similar situations can be expected. Both the collective and the individual historical development can lead to a process of path dependency, either in a collective or an individual sense.

Now, building on Granovetter's notion of embeddedness and the theory of fields as developed by Fligstein and Bourdieu, and keeping in mind the development of economic activities and transnational firms in recent decades as presented above, what might a sociology of transnational firms look like?

Transnational firms are collective actors possessing a unique historical development. They try to obtain and sustain a dominant position within the multiple national and transnational economic fields in which they are embedded. They are more complex than most economic and political approaches give credit for, because they are multilayered (and do not simply function in line with the narrowly defined concept of rationality of some economic approaches to the firm) in the sense that they operate in multiple environments, fields, to which they need to adjust their corporate policies and strategies. Also, they are collective actors consisting of various parts with different and, sometimes, conflicting interests. Their actions should not be simply understood as the rational pursuit of financial and economic profit; rather, their actions need to be understood as attempts to secure the continuity of the organization by obtaining and sustaining a dominant position in the various fields in which they are embedded.

Although in the first three decades after the Second World War economic activities crossing national borders were severely limited in comparison to the period of

laissez-faire capitalism at the end of the nineteenth and the beginning of the twentieth century, after the economic crises of the 1970s Western governments pursued a strategy of deregulation. As a result, economic transactions increasingly took place across national borders. On the basis of these developments, I argue that transnational firms have experienced a shifting emphasis in their *dual embeddedness*; they have experienced a decreasing dependence on the national economic fields in which they are embedded, while, at the same time, experiencing an increasing dependence on the transnational economic field in which they are also embedded. The significance of the national economic fields for the strategy and policies of transnational firms has decreased, whereas the significance of the transnational economic field for these policies and strategy has increased. Companies operating across national borders have always been embedded in national economic fields as well as in the transnational economic field, but in recent decades the balance between the two has shifted in the direction of the latter. I am not arguing that, as a result of this development, companies have become ‘footloose’ or ‘disembedded’ from national economic fields; companies are still embedded in national economic fields, but in recent decades their dependence on the other actors in these national fields, including national governments and organized labor, has decreased. Transnational firms’ dual embeddedness also implies a multiple embeddedness, they are embedded in multiple national economic fields as well as the transnational economic field.

As a result of this multiple and dual embeddedness, transnational firms are confronted with the opposing forces of transnational integration and national differentiation. In order to be successful in the transnational economic field, transnational firms have to adjust their policies to the competitive conditions in this field. At the same time, labor is still primarily organized on the national level through a wide range of institutional arrangements. Therefore, these firms have to adjust their labor policy to the conditions in the multiple national fields in which they are still embedded. Firms deal with this problem through a wide variety of integration mechanisms, including goal setting, performance control, cultural control, centralization, and standardization. So, the dual embeddedness of transnational firms and the resulting opposing forces of the transnational and national economic fields force transnational firms to balance their labor

policy to the conditions in both fields. Their dual embeddedness is, therefore, a first mechanism to explain the behavior of transnational firms, and more specifically, the changes in their corporate labor policy. The second mechanism to explain their behavior is the dominant *conception of control* in the fields in which these firms are embedded. Because the situation within these fields is uncertain, transnational firms will develop or adopt a particular conception of control on the basis of which decisions are made. These conceptions of control are collectively shared views on the situation in the field and can therefore result in isomorphic behavior. The issue at stake will determine whether the national or the transnational field's conception of control will dominate. Finally, a firm's own historical development and the development of the fields in which it is embedded (its *habitus*) is the third explanatory mechanism leading to different responses to similar events.

The next question is what these national and transnational fields look like and how they constrain firms in the design of their corporate labor policy and provide them with opportunities.

During the first three decades after the Second World War, trade barriers and monetary control meant that national governments had the ability to steer the development of national economic fields and gave them a dominant position within these fields. As a result, national economic fields functioned relatively independently of one another. Competition within these fields was often mild, with a relatively small number of companies competing for the dominant positions in the entire field, and often dominating a niche or subfield (see, for instance, section 7.2). Trade unions occupied a relatively strong position within these fields, and in many Western countries rather extensive welfare states were put in place to protect citizens from the risks associated with the capitalist system of production.

In response to the economic crises of the 1970s, many Western governments started a process of deregulation and privatization. This affected the national economic fields in a number of ways. First of all, in most Western countries, labor markets were rendered more flexible to make them more adaptive to structural changes in economic conditions. Second, many governments altered their social security systems (and other

parts of the welfare system) to keep them affordable and adjust them to the changing labor market conditions. Third, in various national fields a certain degree of decentralization of the industrial relations system took place, giving individual firms more opportunities to develop their policies in line with the competitive conditions in the fields in which they are embedded.

On the national level, various institutional arrangements constrain transnational firms in the design of their corporate labor policies, even though there are clear differences between the national fields of the Netherlands and the United States (the two countries central in this study). In the Netherlands, the institutional arrangements attached to the state and trade unions impose significant constraints on firms when designing their corporate labor policy. They have to take into account, among other things, the social security system and the collective system of labor agreements when determining their reward policy, and legislation concerning works councils when designing their employee voice system. Also, when deciding upon employee flow, they need to take into account labor legislation protecting workers. In the United States, these arrangements are less significant or even absent, with the exception of legislation against discrimination. On the other hand, in the United States, the position of shareholders is stronger than in the Netherlands; this means that in the design of their corporate policies US firms have to take the interest of these actors into account.

The transnational economic field differs significantly from the national economic fields. First, it contains more firms struggling for the dominant positions, resulting in more intense competition. Second, the position of regulating bodies, governments, and trade unions in the transnational economic field is weak in comparison to their position in the national economic fields. This means that their policies and interests are also less significant for transnational firms when they are designing and implementing their corporate policies. Finally, a development that took place alongside the shifting emphasis from national to transnational embeddedness is the increasing significance of financial markets, resulting in the rise of shareholder value as a dominant business principle. Together, these characteristics of the transnational field constrain firms in the sense that they need to be more cost sensitive in the design and implementation of corporate labor

policy as a result of the intense competition, and that financial criteria play a more dominant role in this process as a result of the importance of the financial markets.

In Part I of this study, I presented eight expectations (section 4.2) derived from the sociological approach to transnational firms (see above and section 2.3) and the general description of the transnational and national economic fields (see above and Chapter 3). I have used these expectations as sensitizing concepts; this means that I have not tested them in the traditional hypothetico-deductive way, but, instead, used them to give direction to the analysis of the empirical part of this research. They provide a reference point and have guided me through the empirical study.

9.3 The transnational restructuring of the firm...

Above I argued that a sociological approach to transnational firms is best suited to convincingly explain their behavior. What does this approach tell us when used to study the development of transnational firms since the 1980s?

I selected two case study firms and studied them in two countries. First, I selected the –originally Dutch – producer of electronic equipment Royal Philips Electronics, which had already expanded its operations abroad at the end of the nineteenth century and experienced rapid growth during the first three quarters of the twentieth century. Over the course of the twentieth century, Philips transformed into an industrial conglomerate and became the “embodiment of the age of mass production” (Sluyterman, 2005: 129), “one of the few truly global companies in the world” (Atzema et al., 2008: 186). Still, it was primarily organized on the national level. Philips experienced deteriorating profit margins and heightened competition from the 1960s onwards and, in response, started a process of extensive restructuring in the final quarter of the twentieth century. This process is continuing to the present day. As a second case study company, I selected financial giant ING Group. ING is the result of the merger of three Dutch financial firms around 1990 and experienced rapid transnational growth and restructuring in the following two decades. I expected these two companies to clearly demonstrate the consequences for their corporate labor policies of the change in their dual embeddedness.

Both companies were studied in the Netherlands and in the United States. The Netherlands was chosen because, as a small and open economy, it can be expected to clearly demonstrate the changes in the international economic environment. The United States was chosen as a comparison case because of the clear distinction between the two countries in the way labor is organized. Whereas in the Netherlands institutional arrangements significantly constrain firms in the design of their corporate labor policy and the country is seen as a coordinated market economy, the United States is the prime example of a liberal market economy, which means that firms largely depend on market arrangements to coordinate their activities.

The two selected companies (in the case of ING its predecessors) were founded in the Netherlands at the end of the nineteenth century and the beginning of the twentieth century. Even though both significantly expanded their operations across national – Dutch – borders and are nowadays active in countries across the globe, there is a clear difference between the two with regard to (1) the timing of this expansion and the resulting transnational restructuring of the firm and (2) the reason for doing so.

Almost immediately after its founding at the end of the nineteenth century, Philips expanded its operations across the Dutch borders. It became embedded in, and struggled with other firms in, various national economic fields and competed with other producers of electronic equipment for the dominant positions in the transnational electronics field. However, Philips' transnational expansion during this period did not result in the restructuring of its corporate labor policy. The structure and dynamics of the national economic fields in which it was embedded continued to be of primary significance for its corporate policies.

The dominant conception of control that enabled Philips to obtain a dominant position within the transnational electronics field during the first three quarters of the twentieth century was to produce and sell a wide range of products across the globe and control the entire production chain; Philips was an industrial conglomerate. However, despite the transnational character of its operations, Philips was governed and controlled on the basis of a 'national' structure until the 1980s. Philips' national organizations bore

most of the responsibilities and power within the organization with regard to marketing, production, and personnel policies.

After the Second World War, competition within the transnational electronics field (a subfield of the transnational economic field) became more intense and, as a result, became more significant for Philips' financial performance. But despite the fact that this development was already apparent from the 1960s onwards – Philips experienced deteriorating profit margins during the 1960s, 1970s, and 1980s – it took until the end of the 1980s before it was reflected in Philips' corporate strategy and policies. From the beginning of the twentieth century, Philips had slowly built up a strong position in the transnational electronics field and various national fields across the globe. When the competitive conditions within these fields changed dramatically, it took some two decades before Philips reacted to this development and adjusted its structures and policies to fit the new competitive conditions. Over the course of the 1970s and 1980s, it became clear that Philips' strategy was no longer a success. Philips, therefore, started to develop a new strategy that was more in line with the shareholder value conception of control that had become dominant in the Western world from the 1980s. From the 1970s onwards, this strategy included (1) the transfer of significant parts of the production process to low cost countries in Eastern Europe, Latin America, and Asia, (2) the outsourcing of significant parts of the production process to other firms, (3) (after initially investing in various new technologies) a focus on a relatively small number of product markets, and (4) the fundamental transnational restructuring of the company, resulting in a shift of power and responsibility to the transnational level. These changes did not take place overnight – something that cannot be expected of a company that has been very successful over the period of almost a century. Philips' individual development and the development of the fields in which it is embedded (Philips' habitus) caused a process of path dependency and prevented Philips from quickly changing its strategy and policies. Instead, these changes constitute a development that spans various decades and has still not been completed. We can conclude, however, that Philips has reorganized its policies and structures to fit the competitive conditions in the increasingly significant transnational economic field.

ING's predecessors had, with one exception, limited their operations to the Dutch financial field for most of the twentieth century. As a result, they were embedded in the Dutch financial field and struggled with other firms for the dominant positions within this national field.

From the economic crisis of the 1930s until the beginning of the 1990s, the financial sector in the Western world was highly regulated, especially concerning the transfer of financial products and services across national borders. As a result, competition between financial firms predominantly took place within national fields. With the upcoming integration of the European markets in 1992, various forms of regulation were dismantled in the EU countries during the late 1980s and early 1990s. Financial firms active within the various national economic fields responded to this development by expanding their operations abroad.

ING's predecessors were rather specialized companies focusing on a single or small number of product and geographic markets. With the integration of the national financial fields in general and the European financial sector in particular, the dominant idea around 1990 was that only companies of a certain size would be able to obtain a dominant position and survive. Therefore, many banks and insurers started a process of extensive expansion across national borders. ING was a prime example of this development and started acquiring various foreign banks and insurers from the mid 1990s onwards. ING's strategy to obtain a dominant position was to become a financial conglomerate offering all financial services to all customers across the globe.

From the beginning of the 2000s, ING's transnational expansion became reflected in its policies and structures. First, in 2000, ING was restructured from a national into a regional organization. In 2004, it was once again restructured, this time into a regional/transnational organization. These developments included the transfer of power and responsibility from the national to the regional/transnational level. It was at the end of the 1990s and the beginning of the 2000s that shareholder value became a dominant business principle at ING. During the financial crisis of the late 2000s, it was decided that ING would be split up into two separate companies: banking and insurance. This decision was taken under pressure from the European Commission after ING had to ask the Dutch

government for financial assistance. This, once again, clearly shows the dominant role of governments in the functioning of markets.

Both case study companies experienced a shifting emphasis in their dual embeddedness and an increasing dependence on their respective parts of the transnational economic field. In response, they, as expected (expectation 1), adjusted their corporate structures and policies, consisting of a *centralization* of decision-making power on the transnational level and the development of transnational policies for their operations across the globe. However, despite this, both the timing of, and the reason for, these developments differ.

The difference in timing can be explained by the differences in the structures of the transnational and national fields and subfields in which the two companies were embedded; but the timing was also influenced by their *habitus*. It was only in the 1990s that an increasing number of financial firms started to compete in the transnational financial field and ING experienced a shifting emphasis in its dual embeddedness, whereas Philips had already experienced this shift in the 1960s and 1970s. ING responded rather quickly to this situation, but it took a considerable amount of time before Philips did. This can be explained by the fact that Philips had built up and instituted a specific strategy and culture over the course of at least three quarters of a century, which did not change overnight. ING, at the other hand, had just been formed through the merger of three companies and was therefore in a state of transition.

The reasons for the restructuring of the two companies derive both from developments in the structures of the fields in which the two companies are embedded and from their ideas on how to respond to these developments. Philips experienced and suffered from intensifying competition from foreign, primarily Asian, competitors and decided defensively to restructure its organization on the transnational level. Around this time, it was the dominant idea within the business world that firms should focus on their core competencies and sell all other parts. Firms should be 'lean and mean,' and Philips adopted these ideas. ING's reason was more offensive; by restructuring itself on the transnational level, ING expected to be better equipped to obtain a dominant position in the increasingly significant transnational financial field.

So, the development of transnational firms in the past few decades should not be simply understood as a process of globalization, in the sense of becoming ‘disembedded’, ‘footloose’, or ‘stateless’. Rather, transnational firms have experienced a shifting emphasis in their *dual embeddedness*, resulting in a change in the relationship between the various actors within national and transnational fields, including national governments and trade unions. To understand their behavior we must study this dual embeddedness and the mechanisms relating to this approach.

9.4 ... and its consequences for their corporate labor policy: centralization, instrumentalization, and polarization

The competitive conditions in the transnational economic field have become more significant for the strategy and policy of both case study firms. Also, both firms have been restructured at the transnational level. How has this affected their corporate labor policy?

In the introduction to this study, I explained that in the past two decades many scholars have argued that the transnational expansion and restructuring of firms would lead to a ‘race to the bottom’, consisting of deteriorating working conditions and terms of employment and the dismantling of redistribution mechanisms, such as the social security system. Given the preceding analysis of the corporate labor policies of two transnational firms in two countries (see Chapters 6 and 8), I argue that this race to the bottom hypothesis is too simplistic. Instead, I argue that the development of the corporate labor policy of transnational firms experiencing a shifting emphasis in their dual embeddedness towards the transnational level can best be described as *centralization*, *instrumentalization*, and *polarization*.

Just as both firms experienced the centralization of decision-making power on the transnational/regional level, both firms also experienced the partial centralization of their corporate labor policy and the structures supporting these policies on the transnational level (expectation 1), even though it is not a universal process.

Philips outsourced and centralized its production capacity, resulting in a significant reduction in the number of employees, whereas ING primarily automated

significant parts of its services, resulting in a change in the constitution of its workforce. Both companies implemented and reinforced the transnational structures concerned with their labor policies – a transnational personnel department. This department became concerned with various components of corporate labor policy, implementing guidelines for the national personnel departments.

The reinforcement of the transnational structures concerned with corporate labor policy was accompanied by a significant change in these structures as well. Personnel departments traditionally had a plural role in the sense that they were responsible for servicing employees, acting as their advocate towards company management, and advising line managers. During the 1990s and 2000s, however, this changed significantly at the two case study companies. Their personnel departments became responsible for aligning corporate labor policy with the general corporate policy of the firm. The personnel department and employees in general became instrumental in the pursuit of the financial goals of the organization. In line with the increasing importance of financial criteria (the rise of shareholder value as the dominant business principle), labor is increasingly viewed as one of the resources of the firm that needs to be deployed in order to obtain the optimal return (expectation 2).

During the first three decades after the Second World War, the employment relationship at both case study companies was characterized by lifetime employment. People typically started working for the company at a young age and remained loyal for their entire career. In return, these companies took care of their employees through a wide variety of arrangements and took responsibility for their career development. Over the course of the 1980s and 1990s, this relationship started to change. The concept of lifetime employment as the ideal situation for both employer and employee came to an end. Instead, employees were increasingly expected to be flexible and adjust when the economic conditions forced firms to change their corporate policies and strategies. Also, employees themselves became responsible for the development of their career, and the employer took on a more facilitating role. Employees need to make sure that they remain attractive to their employer (expectation 3).

The end of the long-term commitment between employer and employee is also demonstrated by the (desired) change in the pension system at both companies, from

defined benefit to defined contribution. The latter system has a higher degree of predictability, something that is highly valued on the financial market. This change implies that the company knows exactly what the pension system costs every year and that it no longer runs the risk of extra pension costs in the future (but neither can it reap the potential benefits of lower than expected costs in the future, for instance as a result of higher than expected results on the stock market for the pension fund.) So, it seems that both the career risk and the pension risk have been, or are planned to be, transferred from the employer to the employee (expectation 3).

The restructuring process that Philips set in motion at the end of the 1980s and the beginning of the 1990s included the centralization and outsourcing of production capacity. This resulted in a sharp reduction in the number of employees in most Western countries in which Philips had production capacity. ING also outsourced some (small) parts of its production process during the 2000s, but not on the same scale as Philips. The number of people working for ING in the Netherlands and the United States did not decrease.

The transfer of production capacity is one component of a differentiation in the corporate labor policy between different levels of employees within the company (expectation 4). Those parts of the production process that can be conducted more efficiently through outsourcing or automation, were, to a significant extent, transferred abroad to low cost countries, or labor has been replaced by technology. Employees with national responsibilities are being serviced by the personnel departments on the national level through policies that are modified to fit the situation in the specific national field, and those employees with transnational responsibilities are being serviced by the transnational personnel department.

Besides a differentiation between different levels of employees, the two case study companies also display a differentiation between the various components of their corporate labor policy (expectation 5). The various components are dependent on the institutional arrangements in the national economic fields in various ways and to different degrees. The organizational structure of both case study companies, including their personnel departments, have been fundamentally altered in line with the requirements of the transnational economic field in which both companies have become increasingly

embedded. A centralization of power and responsibility took place at the transnational level, resulting in the introduction of transnational guidelines constraining policies developed at the national level. Contrary to expectations, the reward systems of both companies have also experienced a significant degree of centralization. Rewards of individuals or groups of employees are still primarily determined on the national level (in the Netherlands for instance often on the basis of a collective labor agreement), but the development and deployment of transnational guidelines affects both the level and composition of the reward system. The recruitment, hiring, training, and dismissal of employees are still largely conducted on the national level in line with the institutional arrangements in the national economic fields. It is primarily for employees with transnational responsibilities, such as current and future top executives, that firms construct transnational guidelines and policies. Finally, the influence of employees on the way they conduct their everyday work and on broader company affairs has weakened since firms were restructured on the transnational level. Despite initiatives that transcend national borders – such as the European works council and global employee surveys – the position of workers in both the Netherlands and the United States has weakened.

The institutional arrangements in the national economic fields of the Netherlands and the United States differ and therefore constrain firms in different ways and to different degrees, as well as providing them with different opportunities (expectation 6). In general, in the United States, when organizing their corporate labor policy, firms are less constrained by state regulation and the position of trade unions, but at the same time, they have to take into account the relatively strong position held by shareholders. Looking at the case study companies, we can observe enduring differences between their corporate labor policies in the Netherlands and in the United States. The way employee participation, for instance, is organized in the Netherlands and in the United States differs significantly, and this difference can be traced back to the constraints firms experience in the Netherlands. This is, however, also the case for the other three components of corporate labor policy. With regard to rewards, firms are constrained by collective labor agreements and the social security system in the Netherlands, whereas they experience a greater degree of freedom in the United States. The same is true for employee flow. Whereas in the Netherlands firms are constrained by legislation arranging the relations

between employers and employees, in the United States employees primarily work on the basis of what is called employment by will. At the same time, under the influence of the transnational restructuring of the firm and changes in the institutional arrangements in the national economic fields, we can also observe some increasing similarities between the corporate labor policy in the two countries, for instance in the way the personnel departments are organized and in relation to transnational guidelines for the reward systems in both countries. In the Netherlands, state regulation and the position of trade unions have become slightly less constraining for the corporate labor policy of firms and the position of shareholders has strengthened somewhat. This has caused the case study firms to alter their labor policy in the Netherlands in the direction of their policy in the United States.

When ING and Philips are compared (expectation 7), three significant differences catch the eye. First of all, whereas ING provides financial services, Philips produces physical products. This is an important difference because the production of services is not easily transferred abroad to, for instance, a low cost country, something Philips has done extensively. Second, whereas Philips has been exporting its products around the globe for more than a century and restructured itself to become a truly transnational organization throughout the 1980s and 1990s, ING intensified its expansion across national borders in the mid 1990s and it took until the mid 2000s before it was restructured into a transnational organization. Finally, ING is the result of a merger around 1990, whereas Philips was founded at the end of the nineteenth century.

Philips and ING are embedded in different transnational subfields, which both became increasingly significant for the strategy and policies of the two companies, but not simultaneously. The transnational electronics field had already become more significant during the third quarter of the twentieth century, but it took until the end of the 1980s and the beginning of the 1990s for the transnational financial field to do so. As a result, the two companies experienced both a shifting emphasis in their dual embeddedness and a need to change their corporate labor policy at different points in time. The corporate labor policy of both companies developed in rather similar ways in the same national economic fields, but, again, not simultaneously. This difference can be explained by the fact that they experienced the same constraints from the national

economic fields in which they are embedded, and similar demands from the transnational subfields in which they are embedded, at different points in time.

Taken together, I would argue that, even though the corporate labor policy of both firms experienced a certain degree of centralization on the transnational level, it was more limited than that of other domains, such as marketing, finance, and production (expectation 8). Not only did different components of corporate labor policy experience different degrees of centralization, this centralization also differed between different levels of employees, between different national economic fields, and between companies from different sectors. The centralization of the corporate labor policy of transnational firms on the transnational level was accompanied by a polarization of this policy. Finally, I would argue that the transnational restructuring of these firms was accompanied by the instrumentalization of labor and the department responsible for corporate labor policy.

Now, the question remains as to how we can explain these developments. I therefore return to the mechanisms part of the sociological approach to transnational firms as presented above (see also Chapter 2).

From the 1980s to the 2000s, transnational firms experienced a shifting emphasis in their dual embeddedness, consisting of an increasing dependence on the transnational economic field and a decreasing dependence on the national economic fields in which they are embedded. This increasing transnational dependence consisted of an intensification of competition, more opportunities to design their corporate policies as they saw fit as a result of a decreasing dependence on organized labor and national and local governments, and the rise of shareholder value as the dominant business principle as a result of the increasing importance of financial markets. In order to be successful in this transnational economic field, transnational firms were forced to adjust their corporate policies to the competitive conditions in this field; they centralized decision-making power on this level. By doing so, they also expected to be able to save costs, which was necessary to obtain and sustain a dominant position in this field.

Despite their increasing transnational dependence however, transnational firms have not become disembedded from the relevant national economic fields, especially with regard to labor. The institutional arrangements in these fields continue to constrain

firms from different industrial sectors in different national economic fields in different ways, leading to a polarization in their corporate labor policy.

Finally, in their endeavor to save costs and as a result of the increasing use of financial criteria as a decision-making mechanism, labor and the department responsible for the policies concerning this ‘resource’ have experienced a process that I call instrumentalization.

9.5 The dual embeddedness of transnational firms

As discussed in Chapter 1, in the past two decades, various scholars predicted that the transnational restructuring of economic activities would cause a ‘race to the bottom’ in wages, working conditions, and collective redistribution mechanisms such as the social security system. Firms operating across national borders were said to have become ‘disembedded’, ‘footloose’, and ‘stateless’. They would no longer depend on other actors in national economic fields in which they were embedded, such as the national government and organized labor; and they would now be able to independently determine their policies and strategies without taking into account the competitive conditions of the national economic fields. On the other hand, it was argued that regional, national, and local differences would continue to exist. Despite the transnational restructuring of economic activities, there are enduring differences between the institutional arrangements in various national economic fields. Firms are constrained by these institutional arrangements and, as a result, it can be expected that their corporate labor policy will continue to display enduring differences.

In this study, I argue that both approaches are too simplistic to describe the development of transnational firms and their corporate labor policy. Instead, I argue that in the past three decades corporate labor policies have experienced processes of *centralization*, *polarization*, and *instrumentalization*. To explain these developments, we need a more sophisticated approach to firm behavior than those provided by the standard economic and political models. Therefore, I argue for a sociology of transnational firms, the central argument of which is that transnational firms experience a *dual embeddedness* in national and transnational fields that needs to be taken into account when trying to explain their actions. Transnational firms’ behavior should not be simply understood as

the pursuit of financial goals. Instead, the mechanisms explaining their behavior are (1) the structure and dynamics of the multiple fields in which they are embedded on the national and transnational level (their *dual embeddedness*), (2) the dominant *conception of control* within these fields, and (3) and their *habitus*. Now, if we focus on the development of the selected companies, what exactly does this approach contribute to our understanding of transnational firms?

Philips experienced the increase in competition in the transnational electronics field from the 1960s onwards, but it took until the end of the 1980s and the beginning of the 1990s before it started a process of fundamental restructuring and its structures and policies began to be brought into line with the competitive conditions in the transnational electronics field. At the same time, Philips' corporate labor policy displayed a process of centralization, differentiation, and instrumentalization. How can we explain this two decade difference in timing and the developments in Philips' corporate labor policy?

If we take the sociological approach to transnational firms as explained in this study as a starting point, we can argue that Philips' habitus delayed the adaptation of its corporate policies to the competitive conditions in the transnational economic field. From its foundation at the end of the nineteenth century until the first decades after the Second World War, Philips grew to become an industrial conglomerate with its own specific corporate culture. Philips was very successful with this business model and its strategy and policies had become institutionalized within the company. When the conditions in the transnational electronics field changed, these policies and structure could not be changed overnight. It took a considerable amount of time and a severe economic crisis before this process was set in motion. So, even though the outcome of this process might be in line with what we might expect from a standard globalization perspective – Philips altered its policies and structure in line with the changes in its economic environment – the process leading to this development can only be explained using an approach that takes the structure of the fields in which the company is embedded and its habitus into account.

But it is not only the timing of the changes in Philips' corporate labor policies that is not as one might expect; the way these policies have developed cannot be accurately explained by a standard globalization perspective or by claiming that they primarily

resemble local or national differences in institutional arrangements. Philips' corporate labor policy displays processes of centralization, polarization, and instrumentalization, and this requires a more differentiated approach. This centralization can be explained by the increasing significance of the transnational economic field, and the polarization resulting from a differentiation between different components, different levels, and different countries can be explained by the variations in the institutional arrangements in the national economic fields in which Philips is embedded. Finally, the instrumentalization of its corporate labor policy is in line with the increasing importance of financial criteria in the decision-making process, and especially the rise of shareholder value as the dominant business principle.

Like Philips, ING also experienced the increasing significance of the transnational economic field and adjusted its strategy and policies accordingly. But, also like Philips, the way this process unfolded is not in line with the standard globalization thesis, nor can it be sufficiently explained by looking at the differences in the institutional arrangements in the various national fields in which ING is embedded.

Until the 1990s, competition between financial firms predominantly took place within national economic fields. It was only at the beginning of the 1990s that a shifting emphasis took place and the transnational financial field became the defining reality for most financial firms in the Western world. This process was set in motion by the deregulation of the financial sector, which means that national governments and trans- and supranational organizations played a significant role within this process. Since the start of the financial crisis in 2007, the trend seems to be reversed. Instead of an increasing transnational dependence, interventions by national governments and supranational organizations seem to have started a process of nationalization or regionalization within the financial sector. In an attempt to understand the consequences of this development for ING's corporate (labor) policies, the sociological approach central in this study provides a convincing explanation by taking into account the competitive conditions in both the transnational and the national economic fields and the shifting emphasis between the two.

As with the Philips case, the consequences of this shifting emphasis for ING's strategy and corporate labor policy can be explained by the mechanisms inherent in the

sociological approach. The shifting emphasis in ING's dual embeddedness towards the transnational financial field is reflected in the centralization of decision-making power on the transnational level, which took place at the end of the 1990s and the beginning of the 2000s, and the introduction of transnational policies and guidelines. This was accompanied by the increasing importance of the financial markets and the rise of shareholder value, as reflected in the instrumentalization of labor and the personnel departments. And, finally, the polarization of its corporate labor policy can be explained by the differences in the various institutional arrangements affecting different components of corporate labor policy in different ways.

So, the idea that, as a result of their expansion across national borders, firms became 'stateless', 'footloose', and 'disembedded' does not accurately describe the development of transnational firms in the past three decades. Nor can their development be explained by solely focusing on variations in the institutional arrangements in different national economic fields affecting their corporate policies. It is more accurate to speak of the *dual embeddedness* of transnational firms.

For most of the twentieth century, national economic fields were the dominant spaces to which firms adjusted their strategy and policies and in which they struggled with one another for the dominant positions. This does not mean they did not compete in the transnational field, but it is only since the 1970s that transnational firms have experienced a shifting emphasis towards the transnational field and firms started to adapt their strategy, policies, and structures to the competitive conditions in this field. The transnational field has become the defining reality for most of their corporate policies. This, in turn, does not mean that national fields have lost their significance altogether. Transnational firms are still embedded in national fields, for instance with regard to labor, and struggle with the other actors for the dominant positions within these fields.

The increasing significance of the transnational economic field is not a universal process resulting in disembeddedness and in firms not experiencing any constraints in the design of their corporate policies. The competitive conditions in both the transnational economic field and the national economic fields in which firms are embedded constrain firms in the design of their corporate strategy and policies. This implies that a 'race to the bottom' in working conditions, wages, and spending on social benefits is not likely to

take place; and neither is it an accurate way of describing the development of the corporate labor policy of transnational firms in recent decades. However, neither are transnational firms' strategies and policies exact representations of the specific local or national conditions in which they operate. Transnational firms experience a dual embeddedness in the transnational and national economic fields, and they adjust their corporate strategy and policies to the competitive conditions in these fields. With regard to their labor policies, the shifting emphasis in recent decades has resulted in processes of *centralization, polarization, and instrumentalization*.

This process is not irreversible though. In the introduction to this study, I mentioned that economic trade and activities across national borders have experienced various cycles of expansion and decline over the course of the past five centuries. An opposite shifting emphasis in the dual embeddedness of transnational firms is therefore not unlikely to occur. Since the beginning of the financial crisis in 2007, for instance, governments around the globe have assumed a more dominant role, altering the structure of the financial fields by introducing various constraints and, as is the case with ING, reinforcing the importance of national and regional regulation.

And it is likely, and I would argue necessary, that further interventions by regulating bodies, either on the national, regional, or transnational level will be introduced in the coming years, not only with regard to the financial markets, but also, for instance, with regard to labor markets. The transnational restructuring of economic activities in recent decades was not accompanied by the introduction or reinforcement of regulation on the same level. Economic activities increasingly took place on the transnational level, but the necessary regulation to control these activities was underdeveloped. In the past few years, we have witnessed the consequences of this situation. It can therefore be expected that in the coming years regulation will be developed and reinforced on the same level as economic activities take place. I would argue that not only is it desirable but also essential to do so.

Modern markets need a well-developed system of regulation to function properly. For most of the twentieth century, this regulation was provided by nation states; but the restructuring of these markets on the transnational level was not sufficiently balanced by the introduction of regulation on the same level, despite regional initiatives such as the

European Union. I would argue that it is necessary and about time for this mistake to be corrected. More strict regulation will not prevent (all) future crises, but their consequences might be less devastating.

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Dutch summary

Transnationale ondernemingen en hun arbeidsbeleid

Case studies over Philips en ING in Nederland en de Verenigde Staten, 1980-2010

In dit proefschrift wordt, gebruik makend van een sociologische benadering van transnationale ondernemingen, het arbeidsbeleid van twee van oorsprong Nederlandse ondernemingen, Philips en ING, onderzocht in Nederland en de Verenigde Staten voor de periode 1980-2010.

Deel I: Een sociologische benadering van transnationale ondernemingen

Hoofdstuk 1 biedt een inleiding op deze studie, bestaande uit een korte beschrijving van de economische ontwikkelingen van Westerse landen sinds de jaren zeventig van de twintigste eeuw, de mogelijke consequenties hiervan voor de organisatie van arbeid, en de doelstellingen van deze studie.

De jaren zeventig van de twintigste eeuw vormen een keerpunt in de economische en politieke ontwikkeling van veel Westerse landen. In reactie op de economische crises van dit decennium voerden veel Westerse overheden een ‘neoliberaal’ geïnspireerd beleid, onder andere bestaand uit de deregulering van financiële, productie-, diensten- en arbeidsmarkten, de privatisering van staatsbedrijven en de reorganisatie van verzorgingsstatelijke arrangementen, waaronder het stelsel van sociale zekerheid. Ondernemingen maakten op grote schaal gebruik van de mogelijkheden die de combinatie van dit neoliberale beleid en de technologische ontwikkelingen in de communicatie- en transportsector hen boden en breidden hun activiteiten sterk uit, in hoge mate ook buiten de landsgrenzen. Als gevolg hiervan behalen zij hun omzet en winst niet langer in één of slechts een beperkt aantal landen; zij behalen deze nu verspreid over de hele wereld. En ook hun werknemersbestand, aandeelhouders en managementteam hebben een meer internationaal karakter gekregen.

Deze ontwikkelingen resulteerden in een *afnemende nationale en een toenemende transnationale afhankelijkheid van transnationale ondernemingen*. Transnationale ondernemingen zijn minder afhankelijk geworden van nationale economieën (nationale economische velden), terwijl zij in toenemende mate afhankelijk zijn geworden van de transnationale markt (het transnationale economische veld). Meer specifiek, deze ondernemingen zijn minder afhankelijk geworden van de actoren (waaronder nationale overheden en vakbonden) en institutionele arrangementen (waaronder wetgeving, de arbeidsmarkt, collectieve arbeidsovereenkomsten, het sociale zekerheidsstelsel en het stelsel van arbeidsverhoudingen) van de nationale economische velden waarin zij opereren, terwijl zij in toenemende mate afhankelijk zijn geworden van de actoren (waaronder supra- en transnationale organisaties en buitenlandse concurrenten) en institutionele arrangementen (waaronder transnationale financiële markten en landenoverstijgende regulering) van het transnationale economische veld. Transnationale ondernemingen reageerden op deze structurele wijziging in afhankelijkheidsrelaties door hun beleid in toenemende mate af te stemmen op de condities van het transnationale economische veld. In deze studie wordt onderzocht wat de consequenties hiervan zijn geweest voor het beleid betreffende een deel van deze ondernemingen dat nog altijd in hoge mate wordt beïnvloed door de actoren en institutionele arrangementen van de nationale economische velden: arbeid.

Ondanks het toenemende belang van het transnationale economische veld moeten transnationale ondernemingen bij de ontwikkeling en implementatie van hun arbeidsbeleid rekening houden met de variëteit in institutionele arrangementen en actoren van de verschillende nationale velden waarin zij opereren. Het is de spanning tussen deze beide ontwikkelingen - de toenemende noodzaak tot afstemming van het bedrijfsbeleid aan de condities van het transnationale veld en de noodzaak tot aanpassing van het arbeidsbeleid, als onderdeel van dit algemene bedrijfsbeleid, aan de condities in de verschillende nationale velden - welke centraal staat in dit onderzoek. Verschillende auteurs hebben beargumenteerd dat als gevolg van hun toenemende transnationale afhankelijkheid transnationale ondernemingen onafhankelijk ('footloose' of 'disembedded') zijn geworden van de nationale economische velden en dat dit zou leiden tot een 'race to the bottom' in het arbeidsbeleid van deze organisaties. Tegelijk hebben

andere auteurs beargumenteerd dat de nationale economische velden weerstand bieden aan de krachten van het transnationale economische veld en het arbeidsbeleid als gevolg hiervan een differentiatie tentoonspreidt die in lijn is met de condities van deze nationale velden. In deze studie worden deze claims onderzocht.

Deze studie heeft drie doelstellingen: (1) bijdragen aan een sociologische benadering van transnationale ondernemingen die, mijns inziens, beter recht doet aan de complexiteit van deze organisaties en de velden waarin zij opereren dan andere, economische en politieke, benaderingen; (2) gebruik makend van deze benadering bijdragen aan ons begrip van de ontwikkeling van transnationale ondernemingen in de periode 1980–2010; en (3) gebruik makend van deze benadering bijdragen aan ons begrip van de consequenties van deze ontwikkeling voor hun arbeidsbeleid gedurende dezelfde periode.

In *Hoofdstuk 2* worden (de beperkingen van) economische en politieke benaderingen van transnationale ondernemingen behandeld, wordt bijgedragen aan een sociologische benadering van transnationale ondernemingen en wordt uitgelegd wat in deze studie wordt bedoeld met het begrip arbeidsbeleid.

Economische en politieke benaderingen van transnationale ondernemingen bieden geen overtuigende verklaring voor het beleid en de ontwikkeling van transnationale ondernemingen en de velden waarin zij opereren. Deze benaderingen gaan er van uit dat actoren onder dezelfde omstandigheden op dezelfde manier reageren. Ze hebben een ‘undersocialized conception of (...) action’ (Granovetter, 1985: 483) en reduceren deze ondernemingen tot rationele, ééndimensionale actoren. Ook bieden zij geen ruimte voor beperkingen die niet het gevolg zijn van de directe interactie tussen actoren, zoals de historische ontwikkeling van ondernemingen en het veld waarin zij opereren. In dit hoofdstuk wordt beargumenteerd dat een meer sociologische benadering van transnationale ondernemingen een oplossing biedt voor deze problemen en een meer realistische analyse mogelijk maakt van de ontwikkelingen en het beleid van deze actoren.

Granovetter (1985) benadrukt het belang van sociale structuren voor gedrag en, voortbouwend op zijn werk, wordt in deze studie beargumenteerd dat economisch gedrag

is ingebed in een stelsel van concrete en duurzame sociale relaties. Deze notie van *embeddedness* wordt gekoppeld aan de *veldtheorie* van Fligstein (1996 en 2001a) en Bourdieu (2005). Ondernemingen zijn ingebed in velden, plekken waar actoren samenkomen en hun beleid op elkaar afstemmen. Het economische veld bestaat uit ondernemingen en alle andere actoren met een belang in dit veld, waaronder overheden, onderzoekscentra, vakbonden en financiële instituten. Dit veld, en dus ook zijn structuur, zijn het resultaat van de interactie tussen deze actoren terwijl de structuur van het veld het gedrag van de actoren structureert. Actoren bezitten een bepaalde mate aan kapitaal, financieel, maar ook technologisch, sociaal en symbolisch, en strijden om de dominante posities in het veld. Actoren die een dominante positie bemachtigen en behouden, kunnen de structuur van het veld gebruiken om het gedrag van de andere actoren te beïnvloeden en hun eigen positie en continuïteit veilig te stellen, wat hun uiteindelijke doel is. Omdat de situatie in het veld onzeker is, ontwikkelen actoren een *conception of control*, een visie op hoe de onderneming moet worden geleid en hoe moet worden omgegaan met de andere actoren in het veld. Transnationale ondernemingen zijn collectieve actoren die zowel een individuele (de ondernemingen zelf) als een collectieve (het veld) ontwikkeling hebben doorgemaakt. Zij proberen een dominante positie in de nationale economische velden en het transnationale economische veld te verwerven en behouden. Transnationale ondernemingen zijn complexe organisaties bestaande uit verschillende afdelingen die elk hun eigen belangen najagen. Hun gedrag kan dan ook niet (geheel) verklaard worden als een rationele zoektocht naar het optimale financiële resultaat.

Gebaseerd op het *embeddedness* concept, de *veldtheorie* van Fligstein en Bourdieu en de veranderende nationale en transnationale afhankelijkheden, zoals uitgelegd in Hoofdstuk 1, wordt in deze studie beargumenteerd dat transnationale ondernemingen in de afgelopen drie decennia een structurele verandering in hun *dual embeddedness* in nationale en transnationale economische velden hebben ervaren. Ze zijn minder afhankelijk geworden van de nationale economische velden terwijl zij in toenemende mate afhankelijk zijn geworden van het transnationale economische veld. Deze *dual embeddedness* is het eerste verklarende mechanisme voor de ontwikkelingen van transnationale ondernemingen, waaronder hun arbeidsbeleid. Het tweede mechanisme is de dominante *conception of control* in het veld. Omdat de situatie in het

veld onzeker is, ontwikkelen actoren een gedeelde visie op dit veld dat kan leiden tot isomorfisch gedrag. *Habitus*, een set van gewoonten, gebruiken en overtuigingen die zich gedurende de ontwikkeling van de onderneming hebben gevormd en welke richting geven aan het beleid, vormt het derde verklarende mechanisme. Door bedrijfskundigen wordt hiervoor ook wel de term bedrijfscultuur gebruikt.

Gebaseerd op de HRM-literatuur wordt in deze studie een onderscheid gemaakt tussen vier onderdelen van het arbeidsbeleid van transnationale ondernemingen: *work organization*, *rewards*, *employee voice* en *employee flow*. *Work organization* heeft betrekking op de manier waarop de taken en verantwoordelijkheden van medewerkers zijn georganiseerd als onderdeel van de gehele organisatie. Meer specifiek richt deze studie zich op de formele structuur van de onderneming en de personeelsafdeling. *Rewards* heeft betrekking op de geldelijke beloning van medewerkers en de manier waarop deze beloning wordt bepaald. *Employee voice* heeft betrekking op de interactie tussen werkgever en werknemers over de manier waarop de organisatie wordt bestuurd en het werk is georganiseerd. *Employee flow*, tot slot, heeft betrekking op processen die zorgen voor de doorstroom van mensen door de organisatie, waaronder werving, selectie, ontwikkeling, promotie en ontslag.

Hoofdstuk 3 biedt een overzicht van de ontwikkeling en dynamiek van de nationale en transnationale economische velden en de manieren waarop deze velden transnationale ondernemingen beperken en kansen bieden in de organisatie van de vier verschillende onderdelen van hun arbeidsbeleid.

In de Verenigde Staten ondervinden ondernemingen minder beperkingen als gevolg van overheidsregulering dan in Nederland. Ook de positie van vakbonden is er zwakker en zorgt dus voor minder beperkingen. Tegelijkertijd hebben aandeelhouders in de Verenigde Staten een sterkere positie dan in Nederland en worden ondernemingen dan ook in grotere mate beperkt door private actoren. In beide nationale velden zijn het verschillende institutionele arrangementen (waaronder wetgeving betreffende ondernemingsbestuur, het sociale zekerheidsstelsel, collectieve arbeidsovereenkomsten en wetgeving betreffende arbeidscontracten en ondernemingsraden) die de vier verschillende onderdelen van het arbeidsbeleid op verschillende manieren beïnvloeden.

In het transnationale veld zijn het vooral private actoren die het beleid van ondernemingen beïnvloeden. Er is voor de meeste ondernemingen sprake van een hoge mate van concurrentie en de wereldwijde financiële markten zetten ondernemingen onder druk om goede financiële resultaten te behalen, resulterend in een toenemend belang van financiële criteria in de ontwikkeling van beleid.

In *Hoofdstuk 4* worden de onderzoeksvragen, de verwachtingen en de onderzoeksopzet behandeld.

De centrale vraag luidt als volgt: *wat zijn de consequenties van de structurele verandering in de dual embeddedness van transnationale ondernemingen sinds 1980 voor hun arbeidsbeleid geweest, gegeven de voortdurende nationale inbedding van arbeid, en hoe kunnen deze ontwikkelingen worden verklaard?*

Dit leidt tot een drietal onderzoeksvragen: (1) *hoe zijn de nationale en transnationale economische velden waarin transnationale ondernemingen zijn ingebed gestructureerd, en hoe hebben deze zich ontwikkeld sinds 1980?*; (2) *hoe hebben transnationale ondernemingen gereageerd op de beperkingen en mogelijkheden die de structurele verandering in hun dual embeddedness heeft veroorzaakt?*; en (3) *wat zijn de consequenties van deze verandering geweest voor hun arbeidsbeleid?*

Op basis van de sociologische benadering van transnationale ondernemingen, zoals gepresenteerd in Hoofdstuk 2, en de ontwikkelingen in de nationale en transnationale velden, zoals gepresenteerd in Hoofdstuk 3, zijn acht verwachtingen geformuleerd die richting moeten geven aan het empirische onderzoek. Samengevat komen deze verwachtingen er op neer dat (1) het beleid van transnationale ondernemingen meer en meer wordt gecentraliseerd op het transnationale niveau, dat (2) de personeelsafdeling van dit type ondernemingen is gereorganiseerd op hetzelfde niveau en, net als de medewerkers, in toenemende mate instrumenteel wordt ingezet voor het behalen van de (financiële) doelstellingen van de onderneming, dat de (3) risico's met betrekking tot de factor arbeid zijn verschoven van de onderneming zelf naar andere actoren, er sprake is van een differentiatie (4) in het arbeidsbeleid naar verschillende niveaus binnen de organisatie, (5) tussen de vier verschillende onderdelen van het arbeidsbeleid, (6) in het arbeidsbeleid tussen de onderzochte landen en (7) in het

arbeidsbeleid tussen industriële ondernemingen en ondernemingen uit de dienstensector, en dat (8) de centralisatie van het arbeidsbeleid op transnationaal niveau beperkt is in vergelijking met beleid betreffende andere domeinen van de organisatie.

Dit is een theoretisch gedreven, exploratief onderzoek dat vraagt om een kwalitatieve aanpak. Er is gekozen voor een gedetailleerd onderzoek van twee ondernemingen, Philips en ING, in twee landen, Nederland en de Verenigde Staten door middel van archiefonderzoek en interviews. De keuze voor Nederland is ingegeven door de openheid van het Nederlandse economische veld, waardoor kan worden verwacht dat de transnationale herstructurering van economische activiteiten duidelijke consequenties zal hebben voor het arbeidsbeleid van transnationale ondernemingen die zijn ingebed in dit nationale economische veld. De Verenigde Staten is gekozen als vergelijkende casus vanwege de grote verschillen die er tussen beide landen bestaan in de institutionele arrangementen die op het arbeidsbeleid inwerken. Philips is gekozen vanwege de internationale spreiding van haar activiteiten gedurende de twintigste eeuw en de transnationale herstructurering in het laatste kwart daarvan. ING is als vergelijking gekozen omdat het juist pas in het laatste decennium van de twintigste eeuw de transnationale expansie van haar activiteiten onderging. Daarnaast was één van ING's voorgangers een staatsbedrijf waardoor het arbeidsbeleid van ING in de afgelopen decennia waarschijnlijk een snelle ontwikkeling heeft doorgemaakt wat het interessant maakt om te onderzoeken in het kader van deze studie. Tot slot maakt de vergelijking tussen deze twee ondernemingen het mogelijk om een industriële onderneming te vergelijken met een onderneming uit de dienstensector.

Deel II: Een sociologische analyse van transnationale ondernemingen en hun arbeidsbeleid

Hoofdstuk 5 biedt een sociologische analyse van de historische ontwikkeling van Koninklijke Philips Electronics N.V. (Philips). Het zwaartepunt van de analyse ligt bij de onderzoeksperiode van deze studie, 1980–2010, maar voor een goed begrip van de ontwikkeling van Philips gedurende deze periode wordt haar historische ontwikkeling vanaf het eind van de negentiende eeuw onderzocht.

Philips is aan het eind van de negentiende eeuw in Eindhoven opgericht als producent van gloeilampen en concurreerde in de eerste decennia van haar bestaan met een groot aantal binnenlandse en buitenlandse producenten in markten over de gehele wereld. Gedurende de eerste decennia van de twintigste eeuw breidde Philips, net als verschillende concurrenten, haar productenpakket, productiecapaciteit en verkooppunten sterk uit, zowel in Nederland als ook (ver) daarbuiten. In reactie op de economische crisis van de jaren dertig beschermden vele Westerse overheden hun eigen markten en ondernemingen tegen buitenlandse concurrentie en werd de internationale handel in hoge mate gereguleerd. De nationale economische velden werden belangrijker en Philips paste dan ook in toenemende mate het beleid aan de condities van deze velden aan. Philips ontwikkelde een zogenaamde 'local-for-local' strategie; het presenteerde zichzelf en functioneerde als een lokale producent. Tot aan de jaren zeventig maakte Philips een sterke groei door en werd een wereldwijd opererend elektrotechnisch concern met 400.000 werknemers. Ondanks dat een groot deel van de omzet en winst in deze periode in het buitenland werd behaald en ook de meeste werknemers buiten Nederland werkzaam waren, kon Philips nog altijd gekarakteriseerd worden als een Nederlandse onderneming; alle hoofdkantoren waren in Nederland gevestigd en ook het management was grotendeels van Nederlandse afkomst.

Vanaf de jaren zestig nam de concurrentie van buitenlandse producenten sterk toe, resulterend in afnemende winstmarges. Samen met de deregulering van de internationale handel leidde dit tot een toenemend belang van het transnationale elektronische veld (onderdeel van het transnationale economische veld). Dit proces zette zich in de daaropvolgende decennia voort en leidde tot een fundamentele verandering in Philips' dual embeddedness. In reactie hierop voerde Philips een drietal wijzigingen in haar strategie door. Philips nam afscheid van haar diversificatiestrategie en richtte zich op een beperkt aantal productmarkten (verlichting, medische producten en consumentenproducten). Philips startte een grootschalig proces van verplaatsing en uitbesteding van productiecapaciteit. En de macht en verantwoordelijkheid binnen de organisatie werd van de landenorganisaties naar de wereldwijd opererende divisies verplaatst.

Philips heeft in de twintigste eeuw tweemaal een significante verandering in haar strategie doorgevoerd. Deze veranderingen kunnen verklaard worden als strategische aanpassingen aan de fundamentele veranderingen in haar *dual embeddedness*. Waar Philips zich aan het begin van de twintigste eeuw met een ‘local-for-local’ strategie aan het toenemende belang van de nationale economische velden aanpaste, betekenden de strategische wijzigingen aan het eind van de twintigste eeuw juist een aanpassing aan de condities van het transnationale economische veld. En waar de heersende gedachte in het internationale bedrijfsleven, de dominante *conception of control*, aan het begin van de twintigste eeuw juist was dat een bedrijf een diversificatie- en integratiestrategie moest volgen, was dit in het laatste kwart van de twintigste eeuw juist een specialisatie- en uitbestedingsstrategie. Tot slot, kan het feit dat Philips deze nieuwe strategie pas rond 1990 grootschalig inzette, terwijl er al sinds de jaren zestig sprake is van teruglopende winstmarges en toenemende concurrentie in het transnationale veld, verklaard worden door het derde mechanisme, Philips’ *habitus*. Philips was gedurende lange tijd zeer succesvol met haar diversificatie- en integratiestrategie en het duurde dan ook enige tijd voordat dit doorbroken kon worden.

In *Hoofdstuk 6* worden de consequenties van de ontwikkeling van Philips en de velden waarin zij is ingebed voor het arbeidsbeleid in de periode 1980–2010 geanalyseerd.

De strategische herstructurering die Philips in het laatste kwart van de twintigste eeuw heeft ingezet, onderging rond 1990 een versnelling. Productiecapaciteit werd gecentraliseerd, uitbesteed en/of verplaatst naar lagelonenlanden, wat resulteerde in een sterke afname van het aantal werknemers (van ongeveer 400.000 in 1970 naar ongeveer 120.000 in 2010). In de loop van de jaren negentig, en vooral na 2000, is deze transnationale herstructurering ook terug te zien in de organisatie van de afdelingen die verantwoordelijk zijn voor het arbeidsbeleid. ‘Corporate HR’ (afdeling die het wereldwijde arbeidsbeleid overziet) is zich in toenemende mate gaan bemoeien met verschillende onderdelen van het arbeidsbeleid, door het ontwikkelen van beleid dat wereldwijd wordt geïmplementeerd en door het uitvaardigen van richtlijnen waarbinnen de nationale organisaties hun beleid moeten ontwikkelen. Ook hebben deze afdelingen

een andere functie gekregen. Arbeid wordt steeds meer instrumenteel benaderd; het is een 'asset' geworden die moet worden ingezet op een manier die het optimale (financiële) resultaat levert voor de organisatie, een ontwikkeling die in lijn is met de condities van het transnationale economische veld. Waar deze afdelingen eerder verantwoordelijk waren voor het helpen van werknemers, het behartigen van hun belangen en het adviseren van het management, richten zij zich tegenwoordig vooral op deze laatste rol.

In de afgelopen decennia zijn er bij Philips, in beperkte mate, risico's rondom de factor arbeid verplaatst. Voorheen werkten medewerkers (bijna) hun gehele leven bij Philips, 'lifetime employment' was de norm, en zorgde men er ook voor dat werknemers carrière konden maken binnen de organisatie. Sinds de jaren negentig zijn medewerkers in toenemende mate zelf verantwoordelijk geworden voor de ontwikkeling van hun carrière. Daarnaast is men recentelijk begonnen met een verandering in het pensioenbeleid (een verandering van 'defined benefits' naar 'defined contribution'), waarbij een deel van de risico's naar de medewerkers wordt verplaatst.

In de afgelopen decennia heeft er op verschillende manieren een differentiatie in het arbeidsbeleid van Philips plaatsgevonden: naar de vier verschillende onderdelen (zoals onderscheiden in Hoofdstuk 2), naar verschillende niveaus (transnationaal beleid gericht op de medewerkers in de hogere lagen in de organisatie, nationaal beleid voor de overige medewerkers en de verplaatsing van functies die niet specifiek in één land moeten worden uitgevoerd naar lagelonenlanden) en tussen Nederland en de Verenigde Staten (waarbij het beleid in Nederland langzaam in de richting van het beleid in de Verenigde Staten evolueert). Tot slot, is er bij het arbeidsbeleid in mindere mate sprake van centralisatie op het transnationale niveau dan bij het beleid betreffende andere domeinen in de organisatie (zoals bij het marketingbeleid of bij productiebeslissingen).

Ook de ontwikkeling van Philips' arbeidsbeleid kan worden verklaard aan de hand van de mechanismen zoals beschreven in Hoofdstuk 2. De gedeeltelijke centralisatie van het beleid kan verklaard worden uit de noodzaak tot het beperken van de kosten die gepaard gaan met het toenemende belang van het transnationale veld en de noodzaak het beleid op dit niveau te organiseren nu het transnationale veld het referentiepunt is geworden. De meer instrumentele benadering van arbeid is in lijn met het toenemende belang van financiële criteria, dat gepaard gaat met het toenemende belang van het

transnationale veld. En de mogelijkheid om enkele risico's rondom arbeid te verplaatsen hangt samen met de afnemende afhankelijkheid van de nationale velden. Dat de institutionele arrangementen van de nationale velden echter nog wel degelijk van grote invloed zijn op het arbeidsbeleid blijkt uit de differentiatie die er bestaat tussen de verschillende onderdelen van het arbeidsbeleid, tussen het beleid in verschillende landen en tussen verschillende niveaus.

Hoofdstuk 7 biedt een sociologische analyse van de ontwikkeling van de tweede casus, ING Groep (ING). Het zwaartepunt van deze analyse ligt ook in dat geval bij de onderzoeksperiode van deze studie, 1980–2010, maar voor een goed begrip van de ontwikkeling van ING gedurende deze periode wordt ook de ontwikkeling van haar voorgangers in de voorafgaande periode onderzocht.

ING is het resultaat van de fusie van twee banken en een verzekeraar rond 1990. Deze drie voorgangers waren vooral in Nederland actief en verwachtte door de fusie beter in staat te zijn om te concurreren in het zich snel ontwikkelende transnationale financiële veld (onderdeel van het transnationale economische veld). Het dominante idee in die tijd was dat alleen financiële ondernemingen van een bepaalde grootte zich zouden kunnen handhaven in dit veld en ING startte midden jaren negentig dan ook een agressieve expansiestrategie. Binnen een tijdsbestek van één decennium ontwikkelde ING zich van een Nederlandse bank/verzekeraar in een wereldwijd opererend financieel conglomeraat. Dit leidde er niet alleen toe dat het management van ING een meer internationaal karakter kreeg, ook werden wereldwijd opererende divisies ingesteld van waaruit de activiteiten werden aangestuurd. Het sterk Nederlandse karakter van ING verdween hierdoor op de achtergrond.

Aan het eind van de jaren tachtig en begin van de jaren negentig vond er in de financiële sector een snelle verandering in de *dual embeddedness* in transnationale en nationale economische velden plaats; het transnationale financiële veld werd in korte tijd de maatstaf voor beleid. ING startte een expansiestrategie die er toe moest leiden dat men een dominante positie zou verkrijgen in dit veld. Deze expansie was in lijn met de dominante visie dat men een bepaalde schaalgrootte moest behalen om succesvol te kunnen concurreren. Na de fusies die leidden tot de vorming van ING, was de organisatie

in een staat van verandering. Het is dan ook niet vreemd dat het in het daaropvolgende decennium mogelijk was om de organisatie in hoog tempo om te bouwen naar een transnationale organisatie.

In *Hoofdstuk 8* worden de consequenties van de ontwikkeling van ING en de velden waarin zij is ingebed voor het arbeidsbeleid in de periode 1980–2010 geanalyseerd.

ING's voorgangers waren alleen of voornamelijk in Nederland actief en waren ook op dit niveau georganiseerd. Nadat ING midden jaren negentig met haar expansiestrategie begon, is de onderneming binnen één decennium tweemaal geherstructureerd. Eerst is de macht en verantwoordelijk van de nationale organisaties naar regionale organisaties (Europa, Noord-Amerika en Azië) verplaatst en vervolgens is de bankenkant geherstructureerd in drie wereldwijd opererende divisies. Dit betekende een verplaatsing van macht en verantwoordelijkheid binnen de organisatie van het nationale niveau naar het regionale/transnationale niveau. Gedurende deze periode zijn er in beperkte mate activiteiten uitbesteed en het aantal medewerkers is dan ook ongeveer gelijk gebleven. Dit betekent echter niet dat er geen veranderingen hebben plaatsgevonden in het werknemersbestand. Als gevolg van de automatisering van veel administratieve functies zijn veel laaggeschoolde banen verloren gegaan, tegelijkertijd zijn er veel hoogopgeleide banen bijgekomen.

In de jaren negentig is ING begonnen met de hervorming van de afdelingen die verantwoordelijk zijn voor het arbeidsbeleid. Dit stond eerst vooral in het teken van de integratie van de personeelsafdelingen van haar drie voorgangers. Vanaf 2000 heeft de geïntegreerde personeelsafdeling een grote verandering ondergaan. Van een grotendeels administratief centrum dat zich ook richtte op de vertegenwoordiging van het personeel richting het management, heeft het zicht ontwikkeld naar een 'business partner' voor het management. Ook is er een 'Global HR' afdeling opgericht welke zich met een steeds groter deel van het arbeidsbeleid is gaan bemoeien door richtlijnen en beleid op te stellen welke moeten worden toegepast en geïmplementeerd door de nationale organisaties. Aan deze ontwikkeling is ook de veranderende positie van werknemers binnen ING verbonden. Zowel de afdelingen verantwoordelijk voor het arbeidsbeleid als de

werknemers zelf worden steeds meer instrumenteel benaderd. Tot slot is deze verandering ook samengegaan met een beperkte mate van het verplaatsen van risico's. Het zijn nu vooral de werknemers zelf die verantwoordelijk zijn geworden voor de ontwikkeling hun carrière, terwijl eerder de onderneming een groot deel van deze verantwoordelijk op zich nam.

ING's arbeidsbeleid vertoont als gevolg van de transnationale uitbreiding sinds het midden van de jaren negentig, en vooral sinds 2000, op verschillende vlakken een differentiatie. Voor personeel met verantwoordelijkheden die boven het nationale niveau uitstijgen, is er transnationaal beleid geformuleerd, terwijl de overige medewerkers onder de verantwoordelijkheid van de nationale organisaties vallen. Er is sprake van een sterke mate van differentiatie in de centralisatie van de vier verschillende onderdelen van het arbeidsbeleid op transnationaal niveau. Tot slot, is er nog altijd een duidelijk verschil in de manier waarop het arbeidsbeleid van ING in Nederland en de Verenigde Staten is vormgegeven, hoewel het beleid in Nederland wel langzaam in de richting van het beleid in de Verenigde Staten aan het bewegen is. Tot slot moeten we concluderen dat de mate van centralisatie van het arbeidsbeleid op transnationaal niveau beperkt is in vergelijking met andere beleidsdomeinen.

Het toenemende belang van het transnationale financiële veld resulteerde in een intensivering van de concurrentie, de noodzaak om kosten te beperken en een toenemend belang van financiële criteria in het beslissingsproces. De noodzaak tot het beperken van kosten en beleid te coördineren resulteerde in de gedeeltelijke organisatie van het arbeidsbeleid op transnationaal niveau. Tegelijk blijkt dat verschillende delen van het arbeidsbeleid nog altijd in hoge mate worden beïnvloed door de institutionele arrangementen van de nationale economische velden. Dit geldt in mindere mate voor bijvoorbeeld het onderdeel 'employee participation' waar juist gebruik wordt gemaakt van de afnemende nationale afhankelijkheid om de invloed van individuele medewerkers in landen en hun vertegenwoordigers te verminderen. Voor het onderdeel 'rewards' zijn er juist duidelijke transnationale richtlijnen opgesteld. Samen resulteert dit in een differentiatie in het arbeidsbeleid. Het toenemende belang van financiële criteria komt naar voren in de meer instrumentele benadering van zowel de afdeling die verantwoordelijk is voor het arbeidsbeleid als de medewerkers zelf.

Deel III: De *dual embeddedness* van transnationale ondernemingen

Tot slot wordt in *Hoofdstuk 9* een samenvatting van deze studie geboden en worden de resultaten bediscussieerd.

Dit is een studie naar de ontwikkeling van het arbeidsbeleid van transnationale ondernemingen in de periode 1980–2010, een periode waarin deze ondernemingen een structurele verandering in hun *dual embeddedness* in nationale en transnationale economische velden hebben ervaren. Deze ondernemingen zijn minder afhankelijk geworden van de actoren en institutionele arrangementen van de nationale economische velden, terwijl zij in toenemende mate afhankelijk zijn geworden van de actoren en institutionele arrangementen van het transnationale economische veld. Tegelijkertijd wordt arbeid nog altijd in hoge mate beïnvloed door de actoren en institutionele arrangementen van de nationale economische velden. De vraag is wat de consequenties hiervan zijn geweest voor het arbeidsbeleid van deze ondernemingen.

In deze studie is gebruik gemaakt van een sociologische benadering van transnationale ondernemingen welke gebaseerd is op het *embeddedness*-concept van Granovetter en de *veldtheorieën* van Fligstein en Bourdieu. Transnationale ondernemingen ervaren een *dual embeddedness* in nationale en transnationale economische velden en passen hun beleid aan de competitieve condities van deze velden aan om een dominante positie te bemachtigen en behouden en hun continuïteit te waarborgen. Deze strijd is niet zozeer economisch van aard, maar politiek en cultureel. Politiek vanwege de belangrijke rol van regulerende instanties in deze velden en de strijd binnen en tussen ondernemingen. En cultureel omdat de situatie in het veld gekenmerkt wordt door onzekerheid en actoren een *conception of control*, een visie op de situatie in het veld, ontwikkelen of overnemen welke breed wordt gedragen door de verschillende actoren en welke wordt gebruikt om de strijd tussen en binnen ondernemingen te beslechten. Transnationale ondernemingen zijn collectieve actoren bestaande uit verschillende afdelingen met afwijkende, en soms tegengestelde, belangen. Ze hebben een specifieke ontwikkeling doorgemaakt en hun gedrag kan niet afdoende verklaard worden op basis van rationale benaderingen die uitgaan van het optimaliseren van

economische/financiële opbrengsten. Ze zijn ingebed in verschillende omgevingen, velden, en stemmen hun beleid op de condities van deze velden af. De sociologische benadering van transnationale ondernemingen die in deze studie wordt gebruikt, omvat een drietal verklarende mechanismen: de *dual embeddedness* van transnationale ondernemingen in nationale en transnationale economische velden, de dominante *conception of control* in deze velden en hun *habitus*.

Beide onderzochte ondernemingen hebben in de periode 1980–2010 een significante verandering in hun *dual embeddedness* ervaren en hun bedrijfsstrategie en bedrijfs beleid aan de condities van het transnationale veld aangepast, onder andere door een centralisatie van macht en verantwoordelijkheid op dit niveau. De timing en reden voor deze aanpassing verschillen echter tussen beide organisaties. Het verschil in timing kan verklaard worden aan de hand van de verschillen in de transnationale subvelden waarin beide organisaties zijn ingebed en aan de hand van hun *habitus*. Tot aan de jaren negentig was de financiële sector in hoge mate gereguleerd en het was pas toen deze regulering (deels) werd ontmanteld dat financiële ondernemingen, en ING was hiervan een goed voorbeeld, hun activiteiten sterk uitbreidden buiten de landsgrenzen, het transnationale veld aan belang won en ondernemingen hun bedrijfsstrategie en bedrijfsbeleid in hoge mate aan dit veld aanpasten. ING reageerde snel op de verandering in haar *dual embeddedness*; dit gold niet voor Philips. Philips onderging vanaf de jaren zestig een toenemend belang van het transnationale elektronische veld, maar pas vanaf eind jaren tachtig werd het beleid hier echt op aangepast (ondanks dat er wel al kleine veranderingen plaatsvonden in de jaren zeventig). Dit kan verklaard worden door Philips' *habitus*. Philips was gedurende een halve eeuw zeer succesvol geweest met een strategie die grotendeels was aangepast aan de condities van de nationale economische velden waarin zij opereerde en dit kon niet gemakkelijk worden veranderd. Waar Philips' aanpassing aan het transnationale veld defensief van aard was, Philips stond onder druk van buitenlandse concurrenten, was ING's aanpassing meer offensief van aard. ING wilde gebruik maken van de mogelijkheden van het transnationale financiële veld en een dominante positie in dit veld verwerven.

Verskillende auteurs beargumenteerden dat als gevolg van de transnationale herstructurering van economische activiteiten in het laatste kwart van de twintigste eeuw,

een proces dat vaak wordt aangeduid als (economische) globalisering, transnationale ondernemingen niet langer verbonden zijn aan de nationale economische velden waarin zij zijn ontstaan en opereren. Zij zouden ‘disembedded’ of ‘footloose’ zijn geworden, ze zouden niet langer beïnvloed worden door de actoren en institutionele arrangementen van de nationale economische velden en hun beleid geheel aanpassen aan de condities van het transnationale economische veld. Gegeven de hoge mate van concurrentie in dit veld, zou dit leiden tot een ‘race to the bottom’ in, onder andere, het arbeidsbeleid van transnationale ondernemingen. In de empirische hoofdstukken van dit onderzoek wordt echter duidelijk dat de actoren en institutionele arrangementen van de nationale economische velden nog wel degelijk van groot belang zijn voor de organisatie van het arbeidsbeleid. Behalve dat transnationale ondernemingen sinds de crises van de jaren zeventig van de twintigste eeuw dus niet ‘disembedded’ zijn of ‘footloose’ zijn geworden, maar zij een structurele verandering in hun *dual embeddedness* in nationale en transnationale economische velden hebben ervaren, is er ook geen sprake van een ‘race to the bottom’ in hun arbeidsbeleid. De ontwikkelingen in het arbeidsbeleid van de twee onderzochte ondernemingen kunnen beter omschreven worden als processen van *centralisering*, *instrumentalisering* en *polarisatie*. Er is sprake van een gedeeltelijke centralisering van het arbeidsbeleid op transnationaal niveau doordat wereldwijd opererende afdelingen op verschillende onderdelen van het arbeidsbeleid actief zijn geworden door zelf beleid te ontwikkelen of richtlijnen uit te vaardigen voor het beleid van de nationale afdelingen. Dit is geen universeel proces, het beleid met betrekking tot andere domeinen binnen de onderzochte ondernemingen heeft een veel hogere mate van centralisering op transnationaal niveau ervaren en op sommige onderdelen van het arbeidsbeleid wordt er juist expliciet nationaal beleid gevoerd. Er is echter wel degelijk sprake van enige mate van centralisering op transnationaal niveau. De afdelingen verantwoordelijk voor het arbeidsbeleid werden tegelijkertijd ook geherstructureerd en hun rol veranderde. Terwijl hun rol eerst meervoudig was - helpen van medewerkers, opkomen voor de belangen van medewerkers en adviseren van het management - werd er, zeker in het afgelopen decennium, meer en meer gefocust op de laatste rol. Dit betekende een instrumentalisering van de afdelingen die verantwoordelijk zijn voor de ontwikkeling en implementatie van het arbeidsbeleid, een ontwikkeling die ook van

toepassing is op de medewerkers zelf. Dit laatste wordt onder andere geïllustreerd doordat werknemers zelf grotendeels verantwoordelijk zijn geworden voor de ontwikkeling van hun carrière. Waar de werkgever vroeger nog een groot gedeelte van deze verantwoordelijkheid op zich nam, is het tijdperk van 'life-time employment' ten einde gekomen. Ook met de (voorgestelde) veranderingen in het pensioenstelsel, van 'defined benefits' naar 'defined contribution', wordt de relatie die ondernemingen met medewerkers aangaan verkort en de risico's en verantwoordelijkheid voor de onderneming beperkt. De polarisatie in het arbeidsbeleid bestaat uit een differentiatie op vier verschillende vlakken. Ten eerste is er sprake van differentiatie naar niveaus binnen de onderneming, transnationaal beleid voor medewerkers met verantwoordelijkheden die het nationale niveau te boven gaan, nationaal beleid voor de andere medewerkers en de verplaatsing van functies naar lagelonenlanden die niet gebonden zijn aan een lokale of nationale context. Een tweede vorm van differentiatie vindt plaats tussen de vier in deze studie onderscheiden onderdelen van het arbeidsbeleid. De derde vorm van differentiatie vindt plaats tussen de verschillende landen waarin ondernemingen opereren, waarbij er bij de ondernemingen in dit onderzoek sprake is van het beleid in Nederland dat enigszins op het beleid in de Verenigde Staten gaat lijken. En, tot slot, is er sprake van differentiatie tussen de twee onderzochte organisaties dat kan worden verklaard door het karakter van de organisatie (een industriële onderneming ten opzichte van een onderneming uit de servicesector). De centralisering, instrumentalisering en polarisatie in het arbeidsbeleid kunnen verklaard worden aan de hand van de mechanismen behorende bij de sociologische benadering van transnationale ondernemingen die wordt gebruikt in deze studie. De toenemende transnationale afhankelijkheid leidde tot een centralisering van beleid op dit niveau, maar omdat arbeid nog altijd in grote mate wordt beïnvloed door de actoren en institutionele arrangementen van de nationale economische velden, is deze mate van centralisering minder sterk dan bij andere domeinen en is er ook sprake van polarisatie in het arbeidsbeleid. Met het toenemende belang van het transnationale economische veld is een toenemend belang van financiële criteria gepaard gegaan en dit komt naar voren in de instrumentalisering van het arbeidsbeleid.

Voor een volledige analyse van het beleid van transnationale ondernemingen, en dan met name hun arbeidsbeleid, is het noodzakelijk om hun *dual embeddedness* in

nationale en transnationale economische velden te onderzoeken. Transnationale ondernemingen hebben sinds de economische crises van de jaren zeventig van de twintigste eeuw een structurele verandering in deze *dual embeddedness* ervaren. Het transnationale economische veld is dominant geworden en deze ondernemingen pasten hun beleid aan de condities van dit veld aan. Tegelijkertijd is arbeid nog altijd een deel van deze organisaties dat in hoge mate wordt beïnvloed door de actoren en institutionele arrangementen van de nationale economische velden waarin zij opereren. Het arbeidsbeleid van deze ondernemingen heeft in de periode 1980-2010 dan ook een ontwikkeling ondergaan die kan worden gekarakteriseerd als *centralisering*, *instrumentalisering* en *polarisatie*.

About the author

Sander Quak (1981) obtained his master degree in Business Administration at Erasmus University Rotterdam, the Netherlands, in 2004. One year later, he obtained his master degree in Sociology at the same university. After conducting an internship in Pune, India, he started his PhD research on the development of the corporate labor policy of transnational firms in 2006. While finishing his dissertation, he worked as a scientific lecturer, in 2010, and policy researcher at a commercial bureau for social science research, in 2011. Currently, he works as a postdoctoral researcher at the Erasmus Center for Economic Sociology (ECES) on a project entitled 'The Value of Vaccines in the Eye of the Beholder'.