An analytical framework for comparing national restructuring processes in Europe: labour markets and social partners in national contexts.[1]

Prof. Dr. Valeria Pulignano
Katholieke Universiteit Leuven
(Belgium)
valeria.pulignano@soc.kuleuven.be

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[1] This paper is based on the European Social Partners' research project "Joint Study on the Role of the Social Partners in restructuring in ten countries in the EU15". The project was developed under the financial support of the European Commission. The research group who worked on the project consisted of 5 national experts (including the author) and a general coordinator.

Introduction

The aim of this paper is to highlight the relevance of particular institutions, such as labour markets regimes in order to comparatively examine restructuring processes and outcomes of international businesses in national contexts in Europe. We use the distinction between 'negotiated' and 'market' regimes in labour market systems to illustrate that labour market institutional differences within Europe are important – among the other factors – to shape the processes of restructuring in multinational companies (MNCs). In particular, the paper argues that different labour markets regimes, associated to the use of different workforce adjustment systems (including wage flexibility, internal and external flexibility) in the event of company restructuring, can put in explaining different restructuring processes undertaken by international businesses in national contexts in Europe.

International industrial relations literature has focused on the role of the national institutions while examining restructuring in multinational contexts in Europe. However, the focus has been mainly on the influence of diverse workers representation systems on company restructuring. In particular, the way management is required to consult and negotiate with their workforce as well as national systems of corporate governance, especially the way firms are financed and owned, have been indicated as crucial to explaining diversity in the patterns of corporate restructuring in Europe (Edwards, 2004). Moreover, differences in national business systems in both the 'country of origin' and the various 'host countries' where firms are located as well as the material interests of the organizational actors and the resources they can deploy in the local contexts they operate, have also been used to explain divergences in corporate restructuring processes and outcomes (Edwards et al., 2006). In particular, by referring to the former there is much empirical evidence that national institutions restraint the behaviour of MNCs: distinctive laws, regulations, and customs create 'host country effects' which lead multinational corporations to adapt their approach to managing labour to national contexts (Rosenzweig and Nohria, 1994). However, the literature also indicates that subsidiaries are often under pressure from the corporate center to adopt practices from the home country, the so-called 'country-of-origin' effect (Ferner, 1997). MNCs often possess the strength and resources to establish new 'rules of the game' in host business systems (Djelic and Quack, 2003) and some literature claims that there is a predominance of country of origin effects over host country effects (Geary and Roche, 2001).

Using the distinction between 'negotiated' and 'market' regimes the paper illustrates that labour market institutional differences in Europe are important to explain diversity in restructuring processes undertaken by multinational companies in national contexts in Europe. More specifically, it is argued that different ways of functioning of national labour markets, their system of employment regulation and social protection, can have an influence in leading to different restructuring challenges and opportunities for local social partners to respond to change in Europe. This would suggest, firstly that local social partners response to change is shaped within the institutional national labour market framework where firms are located. In particular, local social partners tend to 'manage transitions' or 'protect jobs' depending on the different labour markets regimes and the workforce adjustment systems in use, which are country specific. Thus, as the varieties of capitalism approach (Hall and Soskice, 2000) suggest, firms adapt to this institutional framework. However - and this is the second analytical contribution of the paper - the paper illustrates that local and national social partners, as well as the state, are trying a range of interventions to influence the processes and outcomes of company restructuring. Hence, the paper presents some evidence (i.e. the 'third way' of Italy and France or the dynamic position of the Netherlands) which seems to highlight the need to probably revisit the dichotomy of the VoC approach while positioning the countries on some 'continuum' which allows for more than two types. Moreover, as Allen (2004:105) points out although "the VoC approach to political economy is actor-centred, differences between firms are irrelevant". The empirical research presents some evidence with regards to the influence different firm-based structures can have on the management of company restructuring. However, in accordance to Hall and Soskice (2000) firms' diversity seem to operate within national institutional frameworks.

In the next sections, we explain the key concepts guiding our analysis and discuss our research methods. We then provide some details on the 10 case studies of corporate restructuring in the 7 European countries covering diverse sectors we have analyzed. The aim is to explore the cross-national and sectoral (within the same country) similarities and differences with regards to how the process of corporate restructuring has been dealt with by the national social partners and what in practice has been done in order to cope with its social consequences and the results it has produced. We illustrate that the diverse patterns of restructuring which result from the comparative cross-national and cross-sector (within the same country) analysis can be explained only in part by the distinctive features of the corporate and the national business and industrial relations systems. More specifically, we underline that an attention to the different labour market regimes and their system of employment regulation in explaining the diverse patterns of restructuring is also necessary. The conclusion draws together the findings and their implications for further analysis.

Conceptual framework, hypotheses and research method

A challenge for institutionalist approach is to account for diversity in welfare systems, and more specifically for labour market differences in diverse national settings. The functioning of national labour markets reflects diversity in the way institutions operate, specifically joint regulation with regards to systems of workers adjustments and flexibility. Thus, a focus on how the different ways of functioning of national labour markets, and more specifically flexibility regimes in different national settings in Europe, may lead to different corporate restructuring processes and outcomes is a necessary complement within an institutional analysis. One possible contested issue is the extent of impact of the national system of workforce adjustment on restructuring processes and outcomes. Typically, for example, it may be expected that in case of decentralized wage adjustments culture, coherent with a limited role for labour market policies, the role of specific initiatives leading to volume adjustments and mobility of the workforce under industrial change may be easily encouraged. The result should be the use of 'severance pay', which implies a limited role of the state and the national social partners in managing the transition. The hypothesis is this being typical of national contexts characterized by deregulated labour market, no wage compression and the use of external numerical and wage flexibility. Conversely, in a centralized wage adjustment system, which is not based on volume but on quality adjustments of the workforce, we expect state and social partners being actively engaged in giving collective support to training and retraining of workers as well as in finding innovative solutions to the problem of restructuring. The aim is to make the workforce re-employable in the labour market while producing and maintaining in-house 'added-value jobs'.

Hence, in summary, an emphasis on national institutions while analyzing diversity in processes of corporate restructuring must not exclude the focus on the functioning of labour markets. Labour markets as institutions set constraints within the national contexts where firms and social actors operate. This is the basis on which we explore how far the restructuring process in 10 case studies firms in 7 different national contexts in Europe, which are characterized by different labour market regimes, is shaped by national distinct patterns of industrial relations, which exclude the relevance of the functioning of labour market and employment regulation. Nevertheless, the idea of the labour market, which is given in the paper is not of a market without any influence. We are aware of the fact labour markets depend on growth pace and macro-economic performance and policies, productive specialization choices and innovation policies. As such, we examine the role of labour markets within the diversity of macro economic developments across diverse countries in Europe. Moreover, we acknowledge the role of the social actors (i.e. social partners) in the process of restructuring. In particular, we focus on a specific dimension with regards to the role of the social partners in restructuring, such as the practical and policy approaches of the national social partners to the issue of 'job protection' and 'job transition'.

The countries selected for analysis differ considerably in the regulation of welfare and labour markets systems as well as in the regulation of employment issues in respect to restructuring in particular, and in the key features of their national industrial relations system, more in general. They are: the Netherlands, Italy, France, Austria, Denmark, Ireland and Sweden. The countries also represent a broad spread of economic and social shapes and sizes with a variety of models of social partnership. As a result, the countries broadly cover the two types of LME and CME (Soskice and Hall, 2001) a well as the four types of welfare regimes indicated by the literature: the liberal, the social-democratic, the corporatist and the Latin (Esping-Andersen, 1990; 1999). We began our fieldwork by conducting 150 interviews with representatives of employers and trade unions in the 10 case studies of multinational organizations operating in diverse sectors (i.e. manufacturing, telecommunication, transport, food, finance) which have been undertaken significative process of restructuring of diverse nature (e.g. M&A; delocalization; internal consolidation and changes in work organization; closure) in 7 countries in Europe (see Appendix 1 for a synthesis of the main features of the case studies).[2] The variety of restructuring cases represents strength, not least because it offers scope to assess the extent to which there is an asymmetry across the diverse research sites with regards to the way change has been managed and the outcomes it has produced. Between January 2007 and June 2008, 7 national seminars and 1 final international conference have been organized to discuss the research outcomes. More than 200 representatives of the national employers and the trade unions organizations and their local representatives in the whole 10 countries attended the seminars, and 10 organisations (including private international companies) attended the seminars and the final conference. We used an interview schedule with some flexibility to allow unanticipated issues to be pursued, revising this iteratively during the course of the research to reflect new findings, but retaining a core set of questions. All 150 interviews were recorded and transcribed, and many were undertaken by multiple interviewers from across the countries.

Restructuring in the 10 case studies in Europe

All sites we investigated as part of the empirical research were classified as "product production sites" (providing high volume final products also for supply) or "service production sites" (providing services to the customer).They were also production (or service) unit within the corporate. Moreover, each of the seven units of analysis was based in the country-of-origin of the multinational company, that is where the central headquarter of the multinational is placed. For example, the Swedish site represented the unit of production of the Swedish-based multinational company operating in the metal and machinery sector in manufacturing. Likewise, the Irish site was based on the country-of-origin of the multinational operating in the food sector. The same situation characterized all the remaining analysed cases.
Comparative research findings across (and within) the seven countries illustrate that different labour market regimes, and the diverse workforce adjustments arrangements associated with it, contributed to shape the way the local social partners differently responded to corporate restructuring. More specifically, two diverse responses by the social partners were empirically identified: 'managing transitions' and 'protecting jobs'. The former (i.e. 'managing transitions') indicates a proactive approach by the local social partners to restructuring. This is typical of national contexts characterized by 'negotiated' labour market regime. The latter are based on the existence of centrally regulated systems of wage flexibility, which implies that the scope for wage flexibility at the company level is governed by provisions relating to the application of sector-wide wage norms. Moreover, external flexibility is used in 'negotiated' market regimes in combination with internal and functional flexibility, which have to do with working time and the use of organizational flexibility, such as organization of operations and management and training activities. In these contexts regulated or organised labour markets are the norm and the role of collective support of labour market policy towards displaced workers in the labour market is strong. Conversely, the second response (i.e. 'protecting jobs') reflects a defensive approach by the national social partners to corporate restructuring. It is characteristic of 'market' regimes which make specific use of variable pay systems as the main form of wage flexibility at the plant level combined with the use of external flexibility (i.e. job dismissal) as the main channel of quantity workforce adjustment. Here deregulated (or disorganized) labour markets predominate.

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[2] The project "Joint Study on the Role of the Social Partners in restructuring in ten countries in the EU15" involved overall 10 European countries (the ones presented in this paper plus United Kingdom, Spain and Greece) and 25 organisations overall. The case studies (25 in total) covered national and international companies of all size from the public and the private sector. For the purpose of this paper we have focused the analysis only on the multinational (international) companies in the private sector operating across 7 diverse national settings. For privacy reasons the companies are treated as unanimous.

For example, in the Netherlands, we observed that independently from the diversity of the sector and the strong role of the national industrial relations level institutions, such as the legal basis for the establishment of works councils and their rights with regards to participation, it was the relatively restrictive national legal requirements in the labour market relating to job dismissal and social protection regulation which influenced positively the social partners while encouraging them to develop at the firm-level innovative and responsible shared responses to the management of the transition under restructuring. This resulted in both the elaboration of policy outcomes at the macro level (for example, active policies facilitating mobility and workforce replacement) and the engagement in developing 'innovative' solutions at the micro-level, which are mostly to do with the use of internal flexibility, such as working time and organizational flexibility, or outplacement services as supporting measures for the dismissed workers. Hence, whilst the trade unions in the Netherlands share the notion that economic success is born out of embracing change through better anticipation and management, employers are encouraged to enter into dialogue with the unions as national rigid employment regulation in the area of labour market constraint their possibility of unilateral decision-making. As one respondent at the multinational headquarter (HQ) of N1 in the Netherlands, for example, puts it:

"(..) Mass dismissals are difficult to implement in the Netherlands in the absence of agreement with representatives of workers. Whatever we do in order to initiate a process of restructuring we have to listen and reach an agreement with the works councils on how to handle the restructuring process. In the Netherlands there are strict rules in place which protect employees against mass dismissal so we cannot do anything alone, we have to search for consensus with the works councils and find innovative solutions together with them on how to handle restructuring and its social consequences (..)"

From the case studies N1 and N2 in the telecommunication and the manufacturing sector we developed in the Netherlands it emerged that a 'social plan' is foreseen in order to regulate the social outcomes of the restructuring and make valuable job proposals for the redundant workers. In both the Dutch cases examined the latter has included the conclusion of agreements between the social partners to support training and job placement services as a relevant and proactive measure to manage the transition in the two concrete company cases. In the Netherlands social partners see restructuring as a normal part of the process of the country's economic growth believing that high performing economies are those that embrace the challenge of remaining internationally competitive. This is illustrated by the fact that almost 800,000 jobs are lost and replaced in the Dutch economy each year and displaced people find new jobs at the similar high rate to those experienced in the USA and 20% faster than the EU average (ARITAKE-WILD National report – The Netherlands – 12 June 2007, Den Haag).
Likewise, in the Swedish case study S1 in the metal sector restructuring was managed with the support of the Swedish trade unions. As a HR plant manager in S1 explained: "the positive and proactive attitude of the Swedish trade unions was very important for us in order to find concrete joint solutions for the people affected by restructuring". Specifically, what makes the Swedish case distinguishable is the considerable leeway for social partners to 'negotiate flexibility' in order to adapt the rather rigid national regulatory framework to sectoral and enterprise conditions. In other words, in Sweden it is possible to deviate from the law if it results from an agreement reached by the social partners. As a result, almost uniquely to Sweden, collective agreements can be reached that reduce protection below the level of legislation, normally with counterbalancing improvements. In the S1 plant the aim was to avoid the "last in-first out" Swedish-based dismissal principle, in accordance to which in case of collective dismissals the principle of seniority prevails. The solution which was jointly elaborated by the Swedish local social partners consisted in using the institution of the 'Job Security Councils' in providing workers with support to find a new job. Traditionally, 'Job Security Councils' were created in Sweden in early 1970s as a desire by both social partners to provide sufficient support for white-collar workers - who suffered huge dismissals as the result of the oil crisis in 1973 - to find new jobs (Kjellberg, 1998). As a Swedish trade union representative in S1 clearly puts it the decision to use the "Job Security Councils" to manage the process of change was:

“(..) To guarantee an independent position and professionalism as well as to safeguard the quality of the workforce when it comes to manage restructuring issues. Having Job Security Councils means in principle that the whole labour market is covered by job security agreements. The councils are given an important role in providing workers with support in the event of restructuring and job redundancies and are described as highly valuable not only from an individual perspective but also from an economic as well as societal perspective”

Likewise to the Dutch and the Swedish case studies, the Austrian A1 and A2 case studies in the telecommunication and the manufacturing sector illustrate that supporting initiatives for the redundant workforce were introduced in both companies’ social plan. They were negotiated by the employers and the trade unions and strongly supported by the regulated nature of the national labour market with regards to employment issues. More specifically, the regulated Austrian system of employment and flexibility arrangements - the latter mostly involving combined forms of quality and quantity workforce adjustments - together with the institutionally strong system of social dialogue created the structural conditions which stimulated social partners’ positive response to manage change in both the situation of firm restructuring. This consisted in the use of the Labour Foundation to help managing the transition. However, in the former case study A1 the Labour Foundation was used because of the threat of redundancies (i.e. outplacement foundations) while in the second case A2 the institute of the Labour Foundations was used in situation of staffing bottlenecks (i.e. in-placement foundations). The aim was to develop and implement individualized (re)integration processes by offering a broad packages of supportive measures to the workforce overall.

The Danish case D1 illustrates that the capacity to manage restructuring also depends on the attitude of government to the work and recommendations of the social partners. In a labour market context characterized by high job mobility, a good system of social security and active labour market policy (“the golden triangle” of the Danish model) (Madsen, 2003) the constant dialogue between employers and employees and with the political system appears crucial in order to promptly indicate whenever new labour legislation is needed. In the context of new challenges arising from growing competition and globalization, the Danish government together with social partners have developed at the national level a number of activities associated with dealing with challenges of structural change and economic restructuring. These initiatives focus strongly on the issue of skills development, improving the system of vocational training and further training and improving the efficiency of the labour market policy by addressing structural problems and weaknesses. In this context, trade unions and employers’ organisations in Denmark are concentrating more on shaping and influencing the processes of change and securing knowledge-intensive activities in the country than trying to oppose and halt relocation processes while protecting jobs. As a Danish national trade union officer stated in an interview: “To meet the challenge from low-wage countries – where skill levels are also rising – Denmark must draw on its traditional strengths, such as building up in education and innovation”. In this respect, in spring 2005, the Danish Government established a Globalisation Council of 26 representatives from trade unions, business organisations, companies, experts from the education and research field as well as from the Government. The strategy of the Council is defining target objectives until 2010 and concrete measures in the fields of education, knowledge and research, entrepreneurship and innovation policy. The overall objective of the strategy is quite simple: “Denmark should be the world’s most competitive society by 2015.” (Danish Government 2006: 8). This approach is also reflected in local agreements and joint social partners’ initiatives taken in the event of firm change. For example, we found evidence of it in the case study D1. More specifically, the collective agreement, which was negotiated in D1 between the management and the trade unions supports a dynamic labour market with ongoing upgrading of skills either in the same enterprise or at another enterprise. According to the agreement education course may be taken at the request of the enterprise or as part of an education plan made in the enterprise.

Conversely to the cases examined above, the Irish cases illustrated both a defensive approach by local trade union to restructuring with the attempt to protect jobs. However, firms-based structural financial features appear here as relevant to shape the extent of the firms’ adaptation to the institutional national framework. More specifically, the Ir1 case illustrates that when the company is in good financial shape and it has the money to spend on restructuring and where the workforce is ageing, affecting redundancies by agreement is not a difficult exercise. Generous severance packages offered in a buoyant job market as a precondition for voluntary job losses are unlikely to cause major employee relations problems. As a result an agreement can easily been reached between the social partners in order to secure a new investment in the plant in the face of dealing with international or national competition. But, when the process of change does not meet the above mentioned conditions, it is difficult to reach an agreement. This is clearly illustrated by the second Irish company case study Ir2 in the transport sector, where the local social partners failed to reach an agreement on internal changes designed – in accordance to the company - to improve working practices within the organization. At the core of the contested process there was the attempt by the trade unions to protect jobs while forcing for the avoidance of job losses. At the end, the restructuring process was essentially qualitative in that few if any direct job losses were envisaged. However, the company responded by announcing future plans to takeover bid from one of its major competitors. As part of this it commissioned a consultant to carry out a benchmarking exercise for the purpose of identifying if the company's main terms and conditions of employment were out of line with industry-based sectors norms and national practice. Despite negotiations between the company and the trade unions there was no agreement on the company's proposal.

The 'third way' between LME and CME: the case of France and Italy

As emerges from the previous sections, because of cross-national differences in employment regulatory regimes, which is mostly to do with the existence of measures aimed at guaranteeing workers protection and support in case of threat of dismissal, either into firms or in social protection regulatory systems in the labour market, one class of variable can at a certain point on time dominate the adjustment. A good illustration of this is the role of national policies shortening the weekly working time (typically a public intervention about quantity adjustments channels) in France and rejected (or secondary) in other countries. Public intervention through the implementation of labour market policies may remain modest or be developed in different national contexts.
According to Gazier (2005:10) "France is experiencing 'administered flexibility', insisting on wage incentives and wage subsidies (wage flexibility) and progressively dismantling the traditional employment protection law system". More specifically, although the use of qualitative adjustments, such as training and skills development measures, is not excluded in order to improve flexibility, we assist in France to an increasing role given to wage flexibility combined with internal numerical flexibility, such as employment contractual flexibility. In the case study F1, for example, wage and working time flexibility were used together by local management and trade unions with training initiatives as major priorities in order to improve staff employability. Approaches to reward and motivation were also followed to support the change environment. In addition, the need to improve the skills and capacities of employees through training was reinforced by an agreement between the social partners to provide lifelong training for employees. As a local HR manager in F1 underlined:

"If employees are to "care more" about customers, this attitude needs to be reflected in the organization's care for "its staff"

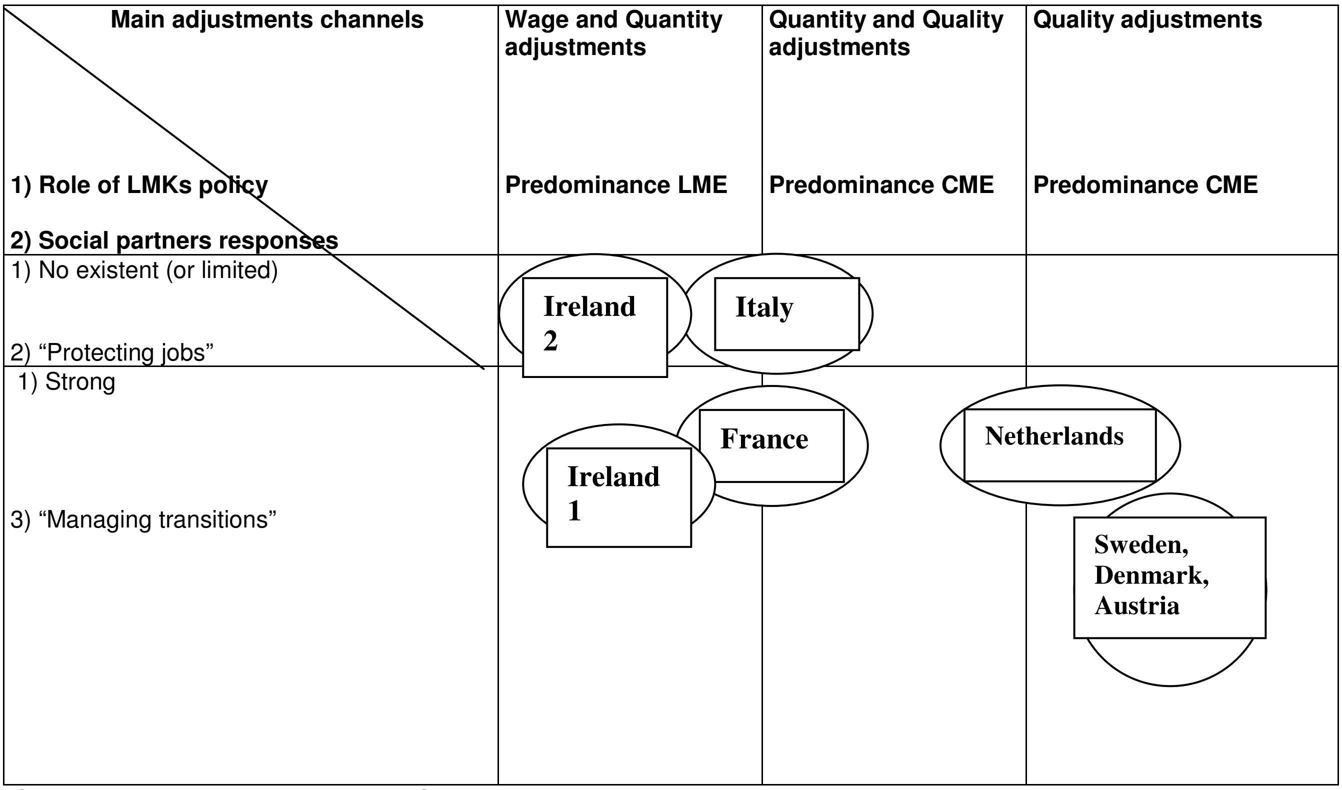
With regards to Italy, it can be argued that strong income support of the unemployable workers is often used as a reactive response by the social partners, more particularly the trade unions, to change. As case study I1 illustrates, for example, trade unions and government and local authorities' intervention was mainly directed to avoid the closure of the plant and the consequent job losses by attributing the status of extraordinary administration (*Cassa Integrazione Straordinaria*) under the "Prodi bis" law.[3] As Dell'Aringa (2003) noted this is the reflect of the nature of the Italian labour market where the role of active policies remains rather ineffective in training and placing the unemployed most in need. Accordingly, financial support in case of company restructuring is combined with stringent job protection and intermediate-to-high degree of centralized union control over wages and working conditions. In particular, employment protection legislation is related to

[3] Under Law 164/1975 workers laid off temporarily are entitled to income support from the ordinary wage guarantee fund. Under Law 223/1991, employees whose firms are undergoing a period of restructuring and reorganisation may receive payments in lieu of normal salary from the extraordinary wage guarantee fund.

high procedural requirements for the employer, such as notice and severance pay and prevailing standard of and penalties for unfair dismissals.

Figure 1 positions the two national situations (i.e. France and Italy) in the overall schema of analysis where the rest of the national context examined in the paper have been located. A two-dimension space is indicated: main adjustment channels on one hand and size of public intervention on the labour market and local social partners responses on the other hand. As Figure 1 illustrates, the case of France and Italy seem to form a 'third way' between LME and CME. Moreover, some of the other countries, in particular the Netherlands, seem not to fall neatly into the boxes or LME/CME typology but lie in a continuum. This can be explained by the fact local social partners and the state try a range of interventions to deal with corporate restructuring. In addition, in Ireland the two firm cases restructured quite differently within LME. This generated two diverse responses by local social partners: 'job protection' in a contested context on one hand, and 'the management of restructuring' via severance pay and voluntary dismissals on the other hand.

Figure 1: Labour markets, workforce adjustments arrangements and social partners' responses to restructuring in the seven countries



Source: Further elaboration based on Gazier (2005)

Conclusion

The paper has illustrated that labour market institutional differences in Europe are important and that there are several groups of countries in Europe which can be positioned in a 'continuum' rather than located in rigid boxes or typologies a the result of the interventions taken by the local social actors and the government. Moreover, this paper illustrates that firm structures are also important in shaping processes and outcomes of corporate restructuring. In this respect the paper is in line with analytical accounts which show that firm work within national regimes. In summary, in explaining how diverse restructuring processes in different international businesses across diverse national settings operate, the paper has pointed out the necessity to highlight the role of labour markets as not featured very significantly in the literature so far. One key institution that influence restructuring by shaping differences in the way multinational companies restructure their activities and their outcomes is the labour market, especially the role played by workforce adjustments systems or flexibility (such as wage, quantity and quality flexibility) at the firm level. In addition, research findings illustrate that the diversity of workforce adjustment systems used in the event of corporate restructuring, contributes to shape the way the national social partners differently respond to corporate restructuring, that is by ‘managing transitions’ or ‘protecting jobs’.

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Appendix 1

COUNTRIES							
	Austria	**France**	**Denmark**	**Sweden**	**The Netherlands**	**Italy**	**Ireland**
	Case Study A1	**Case Study F1**	**Case Study D1**	**Case Study S1**	**Case Study N1**	**Case Study I1**	**Case Study Ir1**
Sector	Telecommunication	Manufacturing (Digital products and accessories)	Finance (Insurance)	Manufacturing (Metal and machinery)	Telecommunication	Manufacturing (Chemical)	Food
Nature of restructuring	M&A and internal consolidation programmes;	Delocalisation	Outsourcing and downsizing	Delocalisation and internal changes in work organisation	Outsourcing and downsizing	Closure	Downsizing
Company economic situation	1,600 employees globally ; 3.2m customers and a market share of approx. 35%;	26,900 employees globally in 2007; Sales of $13.3 billion in 2006	31,721 employees globally in 2007; Income EU 3.953 m (up to 3%)	18,434 employees globally	20,821 employees globally, EU11,936 m net operating revenues in 2005	4,000 employees globally	66,702 employees in 2007 globally; 7,971 m sterling pounds in Net operating revenues
	Case Study A2				**Case Study N2**		**Case Study Ir2**
Sector	Manufacturing (sanitary, heating and plumbing equipment);				Manufacturing (chemical)		Transport
Nature of restructuring	Acquisition;				Closure		Takeover
Company economic situation	700 employees; and a turnover of around 200m;				1,000 employees		3,700 employees