

## Global Corporate Strategies and Local Interests? (On the Discussion in Europe)

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### ABSTRACT

*The balance of economic power is beginning to shift. A lively debate is in progress in Europe about the social and political consequences of the growing competition from emerging southeast Asian countries. This article provides a broad outline of the background behind the dynamism and the driving forces of globalization. Leading corporations adapt themselves to the changing environmental conditions by using the strategies of global localization and decentralized organizational structures (lean production, total quality management, reengineering etc.). Their success, however, depends on the development of the relevant institutions, not the least for regulating conflicts.*

### INTRODUCTION

The last decade has been characterized by two aspects of the so-called East-Asian challenge: (1) the organizational challenge of new management strategies such as lean production etc., and (2) the rise of East Asia. The often quoted statement made by Konosuke Matsushita, the founder of one of the leading Japanese corporations, to a group of Western managers, illustrates the feeling among international competitors of the leading economic powers in Western Europe, Japan and North America at the beginning of the nineties:

We are going to win and the industrial West is going to lose out; there's not much you can do about it because the reasons for your failure are within yourselves. Your firms are built on the Taylor model. Even worse, so are your heads. With the bosses doing the thinking while workers wield screwdrivers, you're convinced deep down that this is the right way to run the business.

Since then there has been a hectic chase going on to catch up. In the meantime everyone also knows that the Japanese companies have modified their "lean" organizational strategies.

The German sociologist Norbert Altmann (1992) recently described the situation based on the current trends of increasing globalization and the worldwide expansion of organizational concepts from Japanese sources as the "convergence of rationalization-divergence of interest representation". The convergence of organizational concepts and the globalization of corporations are still seen from very different points of view, even today in the European Union, by widely varying and nationally divided structures in the field of interest representation; these are new impacts on industrial relations.

The public eye has only recently taken a look at the question of whether Europe and North America are really able to compete effectively against the fast-developing Southeast Asian countries. "Balance of economic power begins to shift," is the conclusion that David Marsh reaches in an article in the highly-regarded *Financial Times* on March 9, 1994. Europe's productivity is decreasing. The growth rates of the rich, industrialized nations such as the US, Japan, Germany, and France have regressed to levels common before the Second World War, and the costs for social networks are increasing, whereas Southeast Asian countries such as Singapore and South Korea are prospering, and their levels of wealth are gaining almost to the point of those of the

other developed countries. "Can we compete?" is now a question not only for Europe but also for developed Asian nations like Japan.

With global corporate strategies firms are reacting to these new developments; political institutions, especially in Europe not seldom only think in a local, if not a provincial context. After some centuries of hegemony, changing so called eurocentric thinking does not seem to be easy. We cannot dismiss this with the phrase that "all business is local". The marketplace alone is not the economy or the single source of the wealth of nations. According to Douglass North, Nobel Prize winner in Economics, economic performance depends critically on the formal and informal institutional framework in which the exchanges on the market take place (North, 1988:207).

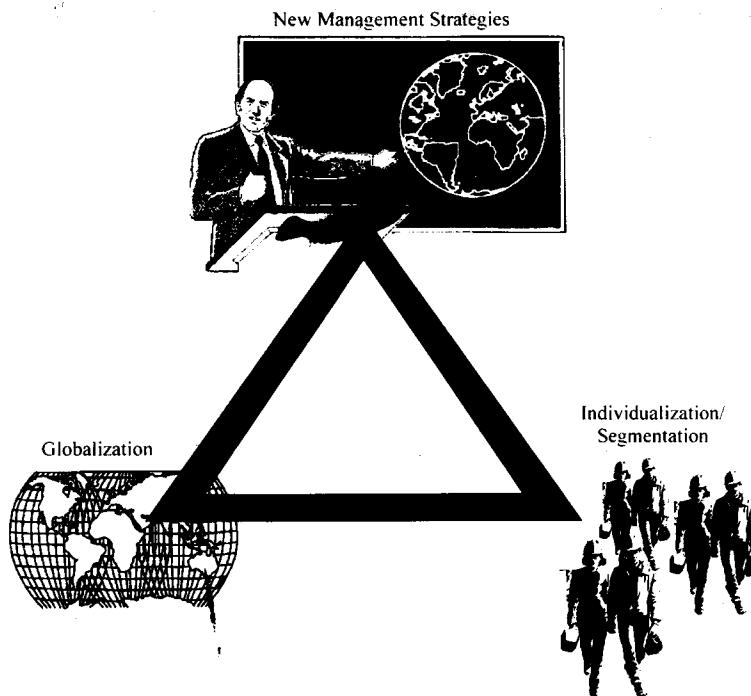
The interaction of shifting economic power in globalization, new organizational concepts, and the tendency toward individualization and segmentation in society, which has been observed for some time now (see Fig. 1), present new challenges. These will be discussed briefly in the following sections.

## REGULATED GLOBALIZATION?

### *Competition from East Asia*

What are popular reactions in Europe on emerging competition coming from East Asia? Hans-Peter Martin and Harald Schumann recently provided arguments for the theory that uncontrolled world trade is jeopardizing the democracies in Europe in the popular German weekly magazine *Der Spiegel (The Mirror)* No. 51/93. They maintain that the increasing rate of free trade after the Second World War was a decisive factor in the growing rate of prosperity. But by the eighties internationalization had reached new heights: the availability of modern communication technology and cheap transportation brought global production sites closer together. Multinational corporations use the advantages of worldwide differences in labour costs and are apparently no longer dependent on local production conditions. "Millions of troops of ambitious and intelligent competitors in India and the Far East, an unlimited industrial army of reserves in Eastern

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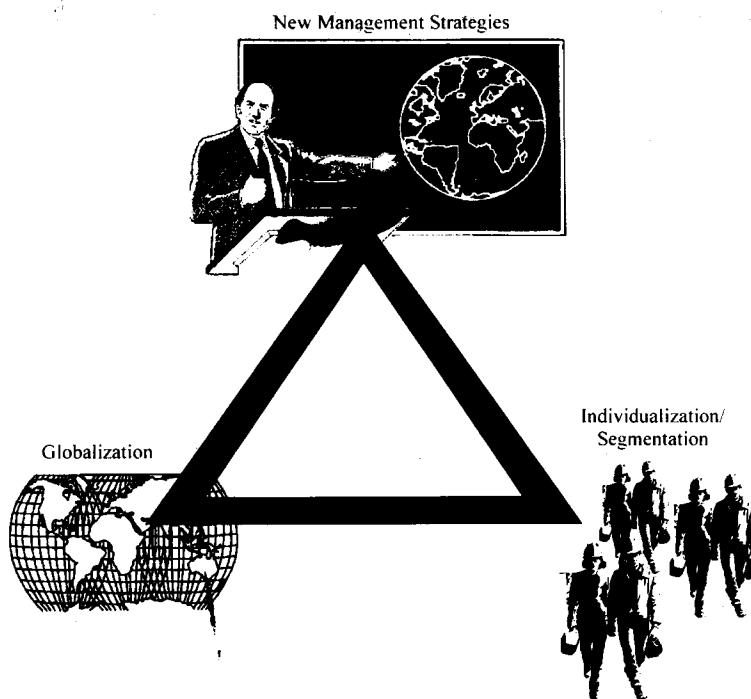
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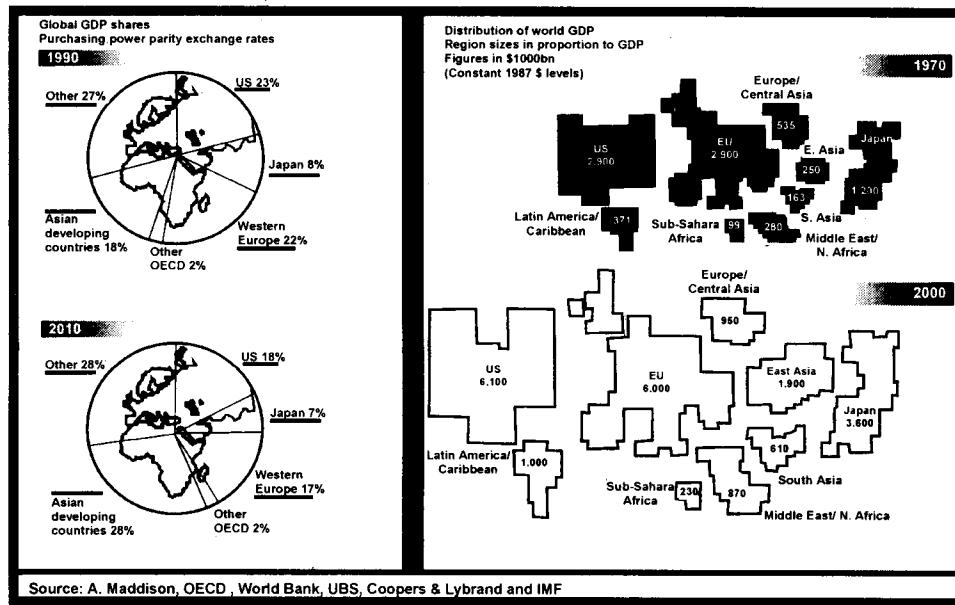


Europe, brutal rationalization—mass prosperity in the industrial societies in the West seems to be at an end," according to the *Spiegel* authors. The increasing divisions within society, the danger for life and limb in the cosmopolitan areas support right-wing populist movements and make it clear that the world needs environmental and social standards in trade in order to maintain the system of a social market economy. The new world trade treaty GATT has not been able to achieve such a middle path between nervous isolation and blind trust in the marketplace.

Why a middle path and not isolation? The erection of a Western European fortress, especially given the fact that this area is so dependent on export, would not provide much promise of success. The North American Free Trade Agreement (NAFTA), which some believe is to be a response to the European Union, seen in connection with the Asia Pacific Economic Cooperation Forum (APEC) may strengthen a shift in the developments in the area of trade to the advantage of the American-Pacific sector.

World trade, especially within and among the so-called triad of the European Union, the NAFTA countries (the US, Canada and Mexico), Japan and Southeast Asia, is growing twice as fast as the world's gross social product. The regions with the highest potential for growth are located outside Western Europe in Eastern and Central Europe and most of all in Southeast Asia. Southeast Asia's importance in the triad has grown drastically, based on gross domestic product, from under 5% in 1950 to 30% today (1989) in comparison to North America (42%) and Western Europe (28%). The percentage of world export of the manufacturing industries in the newly industrialized countries (NICs) in Southeast Asia, the so-called superstars, Korea, Taiwan, Hong Kong, Singapore, Thailand and Malaysia, in contrast to other developing countries, has grown from a few per cent in 1965 to almost 20% in 1990 (Source: *Economist*, Oct. 2, 1993). According to the prognosis of the *Financial Times* introduced earlier, the percentage of the world's gross domestic product of the Asian developing countries

FIGURE 2. Balance of Economic Power Begins to Shift



Source: *Financial Times*, March 9, 1994.

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will have increased to a level of 28% by the year 2010—and the shares of the former leading economic super powers will decline to Western Europe 17%, Japan 7%, and the US 18% (see Fig. 2).

We follow the thesis of Noordin Soppee (1994), that at the end of the twentieth century the rise of East Asia is the fulcrum of global history, only comparable to the forties when the United States became a global super power or the beginning of this century, when Europe continued to be the crucible of history—but, most of the Europeans do not even realize that the 21st century will belong to the Pacific region.

#### *The Secret of Dynamism*

Some of the basic elements of this dynamic economic development between East Asia and the West include low labour and environmental costs, combined with modern technology on the one hand or, on the other, modern organizational concepts (lean production, total quality management, etc.) in the current high-wage system in Japan. Another fact is the formal or informal isolation of the markets. In addition, there is often a strict governmental regime. Companies in high-wage countries react to the competition from low-wage countries by demanding import restrictions, more automation, the diversification of the product range, the rejection of standardized mass production and the introduction of added value products such as designer clothing and luxury automobiles or international subcontracting strategies. These are more or less successful, seen in the medium term (Liemt 1992).

Due to the high unemployment rate and the weakened influence of the labour unions, the possibilities for employees to take action in the high-wage western countries is limited: national import restrictions and financial aid may help to reduce the number of unemployed but not to prevent this development. The restrictions on exporting capital probably are doomed to fail because of the limited possibilities to install effective control mechanisms. An increase in the level of standards by international collective bargaining is, according to Sengenberger (1992), not very realistic. Not even the minimal international

labour standards by the International Labour Organization (ILO) have been ratified in the new industrialized countries in Asia. The rather obvious consequence, the fact that regulation and labour standards are a result, but not a precondition of economic development, does not work out. Value added products, increasing real wages and improved education in these countries are also the results of the increasing importance of the welfare policies, which come from an increased militancy by the employees on the one hand, and from the policies of the governments on the other.

#### *Driving Forces Behind Globalization*

Wage differences are only decisive for globalization in certain areas of production. What is more often the case is “needs have become global. The fixed costs to appease these needs have risen tremendously. That is the reason why we must globalize.” (Ohmae 1992:64). Automation, research and development, establishing and maintaining a brand name, single corporate sales and distribution—all of these are fixed costs and they have gained in importance. Global products: consumer behaviour and lifestyles have become more and more alike in the triad. Coca-cola beverages, Nike sneakers, Toyota cars, Nintendo Gameboys, etc.: consumer behaviour in the triad nowadays is distinguishable more by generation than by region—parents who have to keep up with such developments can tell you a thing or two about this.

Global corporations are developing step-by-step. First there is export, then foreign assembly plants, then complete foreign production, then development/design/production in foreign countries, then the complete added value including research abroad and finally a global network with so-called centres of competence. This tendency is also becoming apparent in formerly public sectors such as telecommunication. Global corporations are trying to behave as insiders in local markets: Sony's motto is: “Think globally, act locally”. Honda's is: “Global localization”. Coca-cola's distribution system consists mainly of local franchisees (see Henzler 1992).

### Made (in) Worldwide?

Going on these assumptions, does the national origin of a product or company play any role at all any more? One example of this: "A Japanese Company, Brother Industries, recently charged a US company, Smith-Corona, with dumping typewriters in the United States. The products in question are made by Brother in the United States, whereas those from Smith-Corona are assembled in Singapore. Brother argued that it is the 'true representative of American industry' because its products are made by American workers. Smith-Corona contended that Brother merely assembles imported parts at its US plant, while the products of the former are based on research and development done in the United States and on manufacturing tools designed there. The US International Trade Commission rejected the dumping charge" (OECD 1992).

There is an assumption that one-third of world trade takes place between branches of the same corporations. Ford Germany sells engines to Ford England, who sells Ford car seats to Belgium, who sells Ford car doors to Spain, who sells complete Ford cars to Ford dealers in Germany.

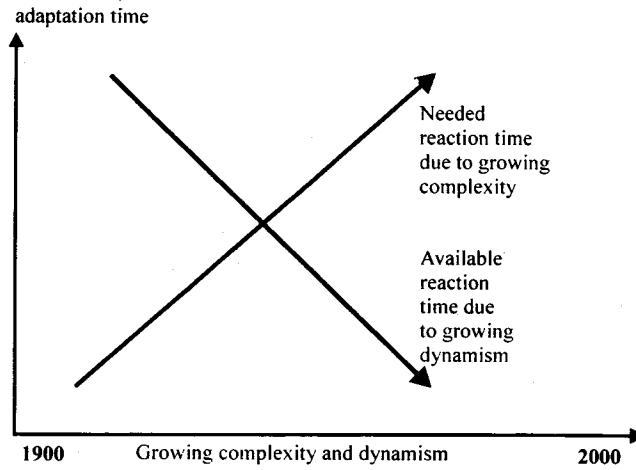
### Consequences for Europe as a Production Location

First of all, one must remember that not every product and corporation will be global in the future. "Truly global products are rare" (Ohmae, 1992:57). But there is a trend toward a clearer division between local niches and global strategies. Nevertheless, even medium-sized firms can be the leader in the world market in a very narrow segment (see Berger 1990).

When corporations evolve or want to evolve from national champions to global players, this sometimes leads to the attitude that it is not the task of the corporation to ensure that local or European production sites continue to produce, but rather to ensure the success of the corporation.

But this only has the appearance of saying that the country is of little importance due to the globalization of competition. It actually increases the value of each country. "The domestic base is the location of the most productive workplaces and highest qualifications" (Porter 1991). The local production site and a united Europe are the platforms for expansion in the triad. Therefore it is not a negative evaluation of the local production

FIGURE 3. Decision Making in Turbulent Times



#### Time Management:

"Structures and cultures that point the way to the future and are capable of coping with fast change must above all meet the criteria of openness and dynamism"

Bleicher, K. *Das Konzept integriertes Management*, Frankfurt New York 1992, S. 26

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site, but also the attention paid to the conditions of global competition, the access to the markets and to the technical/scientific know-how that are the main reasons for shifting the so-called up-stream activities of the high-wage companies (production, development) abroad (Frese, 1994)—if one does not include the standardized products with more labour intensive production processes.

The relevance of macro-economic terms like labour costs is sometimes overstated. The modernisation of corporate organization and the industrial relations are competitive factors too. According to Hobsbawm (1969) one reason for the decline of the British Empire at the beginning of our century was that innovations in management coming from America were not adapted. According to Dertouzos et al./MIT (1989) the decline of productivity in the United States at the end of this century was caused by learning from modern organizational management practices developed in Japan too late.

The development of the world market leads to swift but lasting changes in economic structure, also in the European Union. The pressure of international competition in historical waves in global sectors has forced companies to completely rethink their organizational concepts.

### NEW ORGANIZATIONAL CONCEPTS

Decision making in turbulent times requires new organizational concepts which find a solution to the “time scissors” problem (cf Fig. 3).

On the one hand, needed reaction time due to growing complexity is rising, while on the other, the available reaction time due to growing dynamism is decreasing. “Structures and cultures that point the way to the future, and are capable of coping with fast change must above all meet the criteria of openness and dynamism” (Bleicher, 1992: 26).

According to Schulte (1992) the following specific background information has made

FIGURE 4. Restructuring Corporations: Environment Backgrounds

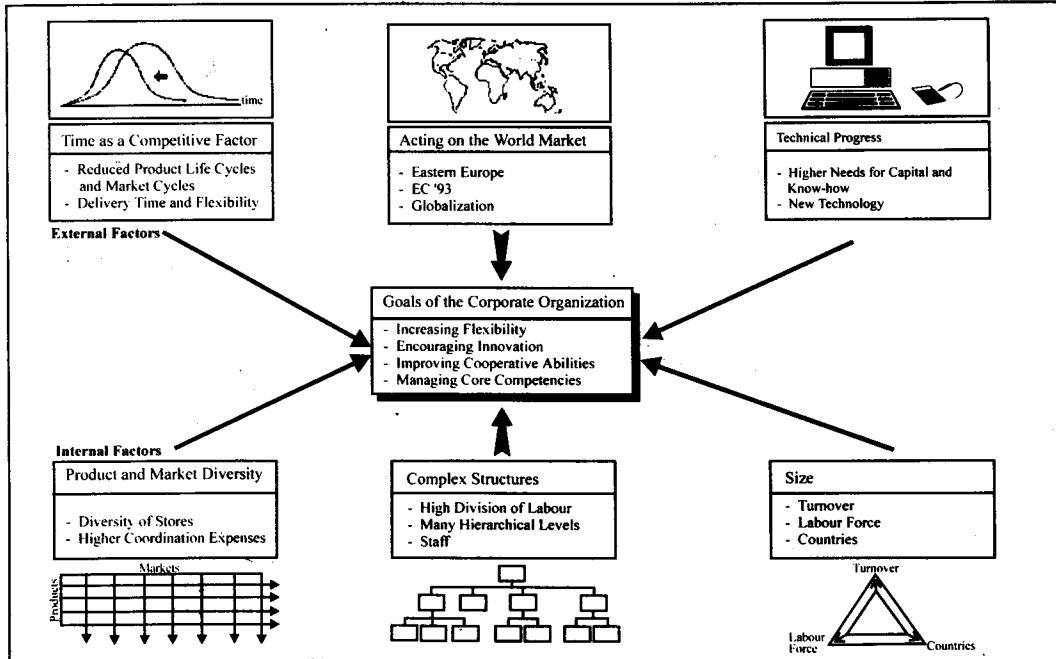
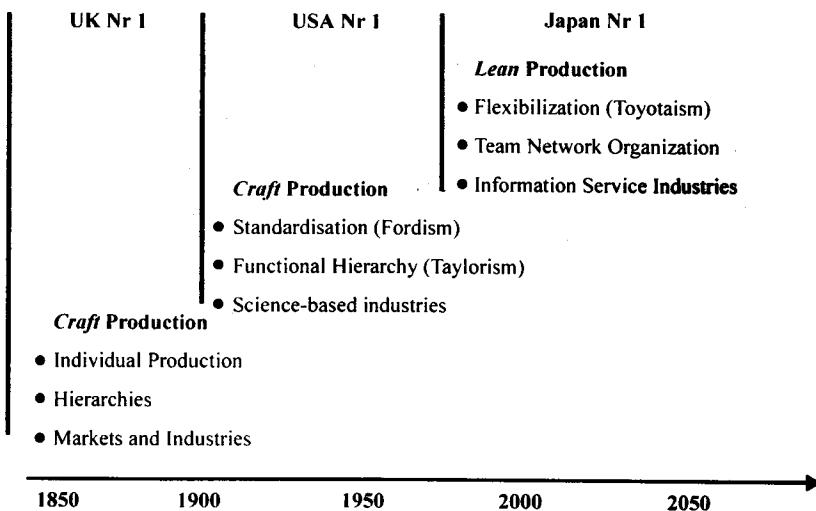


FIGURE 5. The Japanese Challenge



Source : According to Womack et al. , *The Machine that Changed the World*, New York 1990.

reorganization in corporations necessary (see Fig. 4): time competition, the pressure to show a global presence, fast technical developments, the increasing product and market variety and the larger size and increasingly complex structures associated with the international expansion of these corporations. Therefore the goals of corporate

reorganization include increasing flexibility and innovation, improving the ability to cooperate, and returning to core activities. Current developments to achieve these goals include, above all, (1) lean production or total quality management and, more trendy now (2) reengineering, down-sizing and decentralization of corporate organizations.

FIGURE 6. Lean, T. Q. M. etc.: A Brave New World?

◀ ...a double-edged sword ▶

<input type="checkbox"/> Team Spirit	<input type="radio"/> Teamwork	<input type="checkbox"/> Group Pressure
<input type="checkbox"/> Less Bureaucracy	<input type="radio"/> Flat Hierarchies	<input type="checkbox"/> Profit Driven
<input type="checkbox"/> Motivation, Participation	<input type="radio"/> Kaizen	<input type="checkbox"/> Karoshi
<input type="checkbox"/> Motivation, Participation	<input type="radio"/> Total Quality Management	<input type="checkbox"/> Management by Stress
<input type="checkbox"/> Less Loss	<input type="radio"/> Just-in-Time	<input type="checkbox"/> Just-in-(Traffic) Jam
<input type="checkbox"/> Cooperation and Trust	<input type="radio"/> Supplier Integration	<input type="checkbox"/> Supplier-Hierarchy
<input type="checkbox"/> Less Complexity	<input type="radio"/> Outsourcing	<input type="checkbox"/> Loss of Know-how
<input type="checkbox"/> etc.	<input type="radio"/> etc.	<input type="checkbox"/> etc.

*A question of problem solving and power*

(1) *Lean, TQM, etc.*

The main message of the world-famous MIT study is that Japanese companies are so far ahead, not because they use more robots or have less favourable working conditions, but because they organize work better, and anyone could use their system (see Womack et al. 1990). Just as the application of the principles of mass production introduced by Ford and Taylor and their expansion as a marked organizational concept strengthened the economic power of the US, the use of flexible production founded by Taichi Ohno is one of the reasons for the rise of Japan in the last few decades. Organizational concepts, historically, do have a strong influence on international competition (see Fig. 5). The importance of organizational principles such as projects and teams, business segmentation, outsourcing, etc., in all fields of business will continue to grow.

However, a "brave new world" cannot be expected to evolve by itself. Lean production remains to be a double-edged sword just as in the case of those developments from the time of Henry Ford or Frederic Taylor (see Fig. 6).

Teamwork, on the one hand, promises team spirit, but on the other also group pressure and the ignoring of weaker members of the team. *Kaizen*, the continual improvement process, promises more motivation and participation on the one hand, but on the other

also management by stress or *Karoshi*, a Japanese word for the dark side of overwork. This means that it is still up to the institutions which regulate conflict to bring things into the right form: not only those things which concern the promises made but also those somewhat more dismal results of lean production.

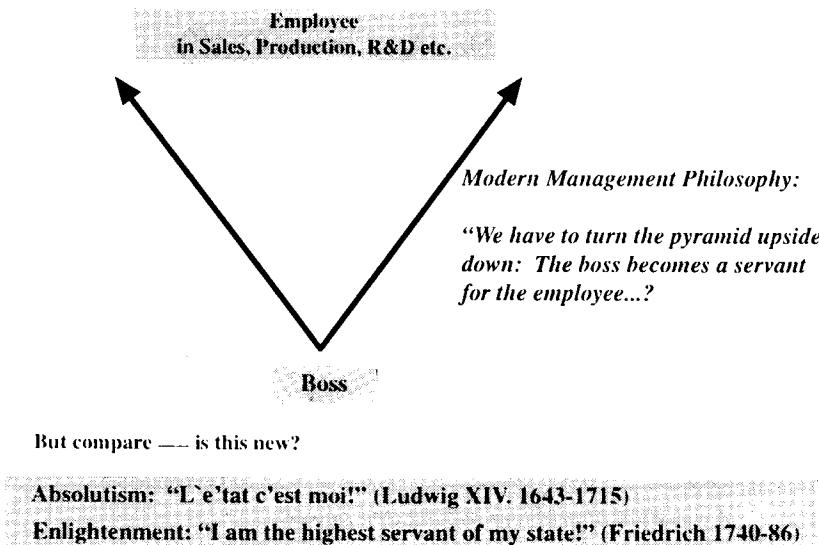
We have to find a way of balancing economical, ecological and social welfare and efficiency. Therefore we need democratic institutions, representatives of the various interests in the process and instruments of conflict resolution.

This also goes for so-called empowerment—more responsibility and independence for the employees in a team—which promises to start a new era of participation (cf Fig. 7). Again this depends on how information is distributed, how consultation and co-determination really take place, how interest representation and the employees are organized, and on what changes actually take place. As the English say: "The proof of the pudding is in the eating."

(2) *Global Localization*

There is not one new argument in the Hammer and Champy (1994) concept of Business Reengineering. There might be two reasons why it is so popular now. First there is a gap between managerial talk about

FIGURE 7. Empowerment: A New Era of Participation?



reorganization and putting it into action and a roll back to technocratic Taylor-style approaches, which ignore the human and social dimensions of organizational change. The reengineering of the organization charts by implementing more market pressure (profit centres, outsourcing etc.) promises more short term success than reorganization of work by teams and suggestion programmes. It focuses more on corporate restructuring, which is a current topic because of changing global competition. The trend toward decentralization and splitting up corporate structures and the development toward corporate networks (see also Rall, 1993; Schulte, 1992; Sydow, 1991; Kostler & Muller, 1993), on the one hand, and the strategy of equidistant centres on the other, are creating new challenges.

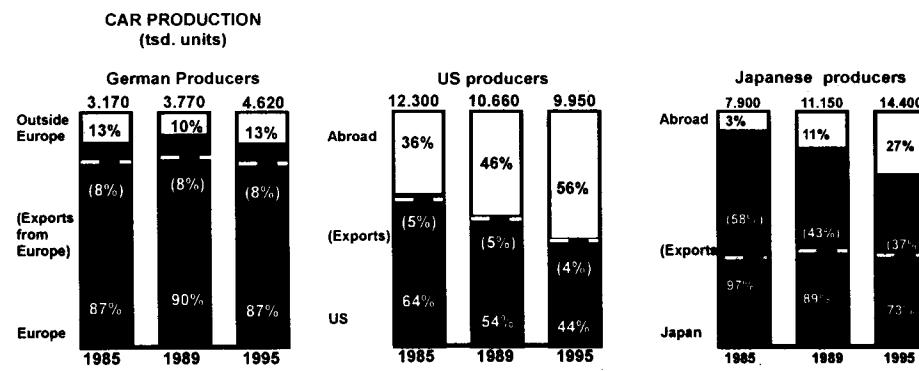
A company we can observe in reference to these ideas is the electric and electronic corporation ABB (see Koerber, 1993). A few years ago they drew attention to themselves by moving their headquarters from Sweden to Switzerland and cutting back the number of employees drastically. In August 1993 ABB announced a completely new organizational structure. Three corporate regions, each having its own local leadership, were to care for their markets as insiders in the future. The

three regions are Europe from the North Sea to Kazakhstan, America, and Asia. The European regional headquarters will be located in Brussels. Currently 150,000 of the 213,000 employees of ABB work in Europe, "in 10 to 20 years the three regions should each be carrying about the same weight" (*Handelsblatt*, 25 August 1993).

This strategy of equidistant regional centres for transnational corporations was first described by the Japanese Kenichi Ohmae of McKinsey. Multinational companies regard all three regions of the triad—USA, Europe and Southeast Asia/Japan—as their home market. The American company General Motors can apply the lean management practices which it learned in cooperation with the Japanese company Toyota in America in Europe, for example in the new Opel factory in Eisenach/Germany. The same holds true for Nissan, Toyota or Sony in England, or for Volkswagen in Mexico or Daimler-Benz in the US. Corporations which are already global in the triad today are Sony, IBM, Honda and Coca-Cola.

The European manufacturers, in comparison with American and Japanese counterparts, are much more strongly oriented toward Europe (see Fig. 8). This is considered

FIGURE 8. German Automobile Manufacturers are Europe Oriented



Source: Henzler, H.A., *Die Globalisierung von Unternehmen im internationalen Vergleich*, in *Zfbf* 1992, Nr.2

to be a deficit in the leadership qualities of these companies (Henzler, 1992; Hoffmann, 1993).

The pressure on companies to restructure will continue to grow. Simple, labour-intensive products will be shifted to low-wage countries, production with higher added value: research and development, design and construction, assembly and production of complex parts will be located in the high-wage countries of the international production organization. The results: complete sectors of the former headquarters of these multinational corporations, complete administrative, distribution, research and development and manufacturing units could be located abroad in the future or vice versa.

The most radical attitude about decentralization is currently defended by Tom Peters in his 1992 work *Liberation Management*. Ten years ago Peters coauthored the bestseller *In Search of Excellence* with Waterman (1982) and identified corporate culture, or corporate identity, as the most important source of success for a company. Today he admits that that was a mistake. The hard structures are the decisive ones. Downsizing is the new byword. Major corporations such as IBM and General Motors were long considered to be unchallengeable. Today they are called awkward dinosaurs. The "voluntary" division, the radical decentralization of major corporations according to the examples of ABB, IBM, etc., are considered to be the model for the future.

Peters goes so far as to dream of the return to craftsmanship. This is obviously somewhat extreme, since the importance of the fixed overhead costs mentioned before, which force companies to globalize, are underestimated. Nevertheless he seems to have hit a nerve. Outsourcing, reducing the depth of added value, concentrating on the core business, subcontracting, shop in shop, flat hierarchies, establishing small, mobile units are all on the agenda.

In the nineties this also includes the transition from a divisional organization with large central departments to a management holding with fewer than 100 employees at the top of large corporations. Percy Barnevik of ABB formulated the solution this way: "ABB

is an organization with three internal contradictions. We want to be global and local, big and small, radically decentralized with centralized reporting and control" (Taylor 1991:95).

But there are times when this does not turn out successfully—some parts are then recentralized. There are limits to outsourcing strategies such as loss of competence and interface problems. The risks for the employees are obvious. There is a new lack of clarity when trying to decide who was/is responsible and competent for something which makes it more difficult to search for this person. International cooperation of the employees' representatives on these new types of questions is just getting started.

#### *Interim Summary*

The considerations mentioned up to this point can be summarized into the following theses:

1. The globalization of products, companies and corporate strategies increases the competition between various corporate sites.
2. The growing importance of the dynamic East Asian countries in the triad is still often not recognized. Political solutions to harmonize exchange (such as the recognition of the ILO Standards) still have not been developed to any great extent. To focus on these topics—which seems to be much discussed in Europe now—underestimates the changes in economic power caused by the rise of East Asia.
3. The corporations will increasingly make a distinction between local niche strategies on the one hand and world market strategies on the other. More than before the pressure will rise not only to export, but to produce, to establish centres of competence in the East Asian Region. The strategy of equidistant regional centres for transnational corporations will have severe restructuring effects on manufacturers who until now were European oriented.

4. Simple, work-intensive products will be located in low-wage countries, products with higher added value will be produced in high-wage countries. Growth policies in the European Union will be successful if they increase the amount of training and willingness to learn.

5. New management strategies such as lean production, downsizing and outsourcing open up holes in the strategies of the employees' representatives. Political institutions, parties, trade unions, and associations, when confronted with these facts, are put under considerable pressure to adapt their own organizations to these conditions, and if one realizes that society is becoming less and less coherent, this task becomes even more difficult to cope with.

#### INDIVIDUALIZATION, SEGMENTATION AND THE ROLE OF THE INSTITUTIONS

Individualization and the change of values are descriptions of the changes taking place in society and are just as common to us as the segmentation of the labour market into permanent staff and fringe employees, the so-called disintegration of normal working conditions by precarious employment, the flexibilization of working times, etc.. The institutions of politics are faced with many unanswered questions in this respect which become more and more explosive in regard to the current situation of globalization and new management strategies:

- \* The strategic so-called "White Paper" of the European Commission "Growth, Competitiveness, Employment—The Challenges and Ways Forward into the 21st Century" has yet to prove its effects given the fact that there are 20 million unemployed in the European Union. It is a big step forward that its analysis does not only claim macro-economic topics but also the challenge of organizational change, as pointed out before.
- \* The disparities between the countries in the European Union, such as in income

and unemployment rate continue to be extensive—twice as high as among the states of the US (see Hingel, 1993). The conditions caused by the economic stagnation can only be of benefit to the poorer members if the richer ones are willing to share. This could also strengthen the centrifugal forces.

- \* The age after the decline of the two super-powers is developing into worldwide chaos. Even in peaceful areas such as Western Europe the problems arising from immigration, production shifts and economic and social dumping are ever-present.

Recently there has been a lot of talk about the crisis of political institutions, and not only of people being tired of the European idea. A new wave of particularism and right-wing populism is washing over Europe. Individual acts, such as those of the farmers or truck drivers, have sensitive consequences. The continuing weakness and division of the trade unions as a power to keep order is seen to be lacking, even by the conservatives, as illustrated by the occupation of the Paris airport recently. The reference to the order created by the "invisible hand" of the marketplace just is not sufficient. Enlightened economists agree that the efficiency of economies increases when there is an all-encompassing system of collective activity (Olson, 1982) and when there is participation of the works councils and trade unions in management decisions, as stated in the famous MIT study "Made in USA" (Dertouzos et al., 1989). In view of this, as an example, European works councils must make their contribution to maintaining the shaping forces of the institutions and associations in Western Europe. But this is only a small step.

To find a balanced path between the extremes of nervous isolation of the "Fortress Europe" and blind trust in the marketplace it would not be enough to claim for democracy, social and ecological responsibility for a sustainable development. An open society requires the ability to listen and to learn. This will not be a one-way street any more—after the rise of East Asia.

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