

Employment Relations & Rights in the Global Automotive Industry

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This paper reports the preliminary findings of a study of employment relations in the automotive assembly industry in seven countries. It provides evidence that the impact of globalisation on employment relations varies systematically across liberal, coordinated and, to a lesser extent, Asian market economies. It also provides evidence of considerable diversity within varieties of capitalism. This suggests that while national institutional arrangements are important, managers and workers also influence how individual companies in the auto industry respond to the challenges posed by globalisation. There is also potential for the ILO to play a more significant role in mediating the effects of globalization on employment relations in the automotive industry, particularly in the newly industrialising economies in Asia.

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Introduction

Changes in the international economy that are commonly referred to as globalization have consequences for national patterns of employment relations. There are, however, competing views about globalization's significance and the types of changes it is likely to produce. Some have argued that globalization produces convergence in labour standards across countries and regions, while others have suggested that the pressures associated with globalization are refracted through national level institutional arrangements, resulting in continued diversity. However, empirical studies of comparative changes in employment relations provide little support for either of these views revealing a complex pattern of both continuity and change across countries (Lansbury *et al.* 2007).

The International Labour Organisation (ILO) has the potential to play a more significant and effective role in mediating the effects of globalisation on employment relations in the automotive industry by seeking to ensure that its Conventions and Recommendations on

employment rights are implemented by its member countries. An example is the ILO's Employment Relationship Recommendation (R198) which was adopted in 2006. This Recommendation urges members to formulate and apply a national policy which will 'guarantee effective protection for workers who perform work in the context of an employment relationship'. The Recommendation notes that any national policy on the employment relationship should be in accordance with national law and formulated in consultation with the most representative organisations of employees and workers. The Recommendation further urges members 'to promote the role of collective bargaining and social dialogue as a means, among other things, of finding solutions to questions related to the scope of the employment relationship at the national level'. It should be noted that this Recommendation was passed with the broad-based support of governments and workers' organisations but with less support from employers' bodies.

Recent institutionalist scholarship has gone beyond the focus on single institutions and begun to examine the complementarities between institutions. The most influential of these theories of capitalist diversity, known as the *Varieties of Capitalism* (VoC), suggests that the impact of globalisation on employment relations varies systematically across different types of market economies. This paper uses evidence from a seven country study of employment relations in the automobile assembly industry to examine the usefulness of the

VoC approach to the comparative study of employment relations.

This paper is structured as follows. The first section briefly reviews the main features of the VoC approach and some of the criticisms that have been levelled against this approach. The second section outlines the research design and the methodology of the global automobile project. The third section outlines some preliminary findings from the research project. The paper concludes by arguing that while there is some evidence that globalisation has differential affects employment relations in the auto-assembly industry across varieties of capitalism, there is also evidence that other factors also play an important role in shaping this relationship and argues that the VoC approach needs to be modified to take these factors into account. There is also the potential for international agencies, such as the ILO, to play a role in mediating the effects of globalisation on employment relations in the automotive industry.

The Varieties of Capitalism Approach

Recent years have seen the emergence of a number of theories of capitalist diversity designed to explain persistent differences across market economies (see Crouch 2005, Deeg & Jackson 2007). Arguably the most influential of these is Hall and Soskice's (2001) *Varieties of Capitalism* (VoC) approach. As Howell (2003:103) notes "the varieties of capitalism approach [has] achieved a level of

theoretical sophistication, explanatory scope and predictive ambition that has rapidly made it close to hegemonic in the field.”

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The VoC approach rejects the notion that there is one best way to organize capitalism and points to the role that complementarities between institutional arrangements play in shaping how market societies function. It is this emphasis on the interrelations between institutional arrangements which differentiates the VoC approach from the earlier new institutionalist analysis that tended to focus on the role of single institutions. Hall and Soskice (2001: 6-9) argue that in market economies firms are faced with a series of coordination problems, both internally and externally. They focus on five spheres of coordination that firms must address: industrial relations; vocational training and education; corporate governance; inter-firm relations and relations with their own employees.

Hall and Soskice argue that it is possible to identify two institutional equilibria that produce superior economic outcomes. *Liberal Market Economies* (LMEs) are those in which firms rely on markets and hierarchies to resolve coor-

dination problems. LMEs are likely to be characterized by:

- well developed capital markets and outsider forms of corporate governance;
- market based forms of industrial relations with few long term commitments by employers to workers and
- the use of market mechanisms and contracts to coordinate their relations with supplier and buyer firms.

The United States is the prime exemplar of an LME but the literature also often includes the United Kingdom, Australia, New Zealand, Canada and Ireland in this category.

The second variety of capitalism identified by Hall and Soskice, *Coordinated Market Economies* (CMEs), includes countries in which firms make greater use of non-market mechanisms to resolve coordination problems internally and externally. In comparison with LMEs, CMEs are more likely to be characterized by:

- insider forms of corporate governance and ‘patient’ forms of capital;
- industrial relations systems based on bargaining and which reflect a longer term commitment to employees and
- the use of non market mechanisms, such as industry associations, to coordinate relations between firms within and across industries and sectors.

Germany is the prime exemplar of a CME but the literature also often includes other northern European countries, as well as Japan and sometimes Korea, within this category.

One of the main implications of the VoC approach is that globalisation is likely to have differential impacts on employment relations processes and outcomes across varieties of capitalism (Hamann & Kelly 2008). Thus, while increased international competition is likely to create incentives for firms in LMEs to adopt more market based employment relations practices (including decentralisation and individualisation of bargaining, individualised payment systems and more contingent forms of employment), the institutional dynamics of CMEs suggest that increased international competition may reinforce, rather than undermine, traditional forms of co-ordination between employers and employees (see Thelen 2000). The VoC framework has become increasingly influential in employment relations scholarship and has been used to help explain cross national differences in, amongst other things, union membership and density, the gendered nature of labour markets, employee participation and vocational training systems (Frege & Kelly 2004, Lansbury & Wailes 2008, Estevez-Abe 2006, Harcourt & Wood 2007).

Despite the potential of the VoC framework, Hall and Soskice's work has been subject to a number of criticisms. One of the main criticisms of the VoC approach is that it does not contain enough variety (Allen 2004). The VoC's

focus on only two varieties of capitalism, CMEs and LMEs, has a number of implications. First, it limits the range of countries to which the model can be applied. The CME and LME categories are also so broad that the framework has the potential to ignore important differences between countries said to be of the same variety. The limitations of this approach are starkly illustrated when one considers the tendency to classify all northern European countries and Japan as CMEs (Streeck & Yamamura 2003). A second feature of the VoC framework which has produced significant criticism and debate is what some have described as its *determinism*: the tendency to see the existing institutional configuration (LME or CME) as determining the capacities of state agencies and the interests and actions of social actors (Crouch 2005, Hassel 2006). Such a view leaves very little scope for agency, politics and conflict to play a role in shaping social outcomes (Howell 2003). A third problem with the VoC approach is its tendency to see nation states as relatively autonomous and equivalent (Deeg & Jackson 2007). Hall and Soskice's original VoC model is largely based on a closed economy in which institutions are seen to have relatively homogenous effects within national boundaries.

Recent research on the diffusion of employment relations practices in multinational corporations (MNCs) suggest that institutional arrangements in the country of origin can have significant implications for employment relations outcomes in host countries (see Hall & Wailes 2009). Studies of US MNC op-

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erating in Europe, for example, have shown the tendency of these firms tend to adopt highly centralised HR policies with an emphasis on performance management, workplace diversity and anti-unionism and have attributed these outcomes to key features of the US national business system, including the structure of capital markets and the dominant form of corporate governance (see, for example, Ferner 1997, Edwards et al 1999, Almond & Tempel 2006). As Morgan (2007) notes, in this regard MNCs can be seen as a transmission mechanism across institutional contexts and are a potential source of diversity inside national contexts.

The Global Automotive Research Project

The global automotive research project on which this paper draws on is designed to overcome some of the limitations of Hall and Soskices's (2001) original model. In response to the view that the VoC approach is excessively parsimonious, our study of the auto industry introduces a third variety of capitalism, which we call Asian Market Economies (AMEs) and includes in the study Japan, South Korea and PR China as examples of AMEs. The identification of an AME is derived from our reading of Whitley's (1999) national business

systems approach. Whitley argues that there are a number of significant differences between Western and Asian business systems, across a broad range of variables ranging from forms of property law, through capital market structures and extending to cultural patterns and beliefs. Yeung (2000: 408), who coins the term *Asian Market Economies* (AMEs), uses Whitley's framework to argue that these economies can be differentiated from LMEs and CEMS because of their strong business networks, the heightened role for personal relationships and close involvement of the state in economic activity. In addition, based on our reading of Streeck and Yamamura (2003), we would argue that AMEs are also more likely to be characterised by high levels of intra-firm coordination, as opposed to the inter-firm coordination more common in CMEs.

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While Asian countries are unquestionably heterogeneous, Whitley, Yeung and others demonstrate that they are sufficiently different from the Western business systems to warrant separate attention. In our study we seek to test Yeung's hypothesis that AMEs are more susceptible to the pressures of globalisation than the coordinated economies of West

ern Europe and are therefore more likely to adopt employment relations practices that resemble developments in LMEs.

Table 1: Selection of Case Studies

Liberal Market Economies	Coordinated Market Economies	Asian Market Economies
Australia United States	Germany Sweden	China Japan South Korea

A second feature of our study is the focus on the potential for variation within varieties of capitalism. As shown in Table 1, our study draws on more than one example of each of the three varieties of capitalism. Moreover within each variety, we have chosen examples of both small and large countries. This allows us to examine whether size effects are more important than institutional effects in explaining differences between cases. In relation to the AME variety we have chosen three cases- Japan, Korea and PR China- both because there are relatively fewer studies of the impact of globalization on employment relations in Asian countries than there are in LMEs and European CMEs and also because the literature suggests that there is a greater degree of heterogeneity within Asian business systems than is the case for Western varieties.

The research focuses on two companies in the auto-assembly industry across each of the seven countries and in each case the research has been conducted by national research teams working from an established protocol, derived from the MIT framework (see Locke et al. 1995).

There are a number of benefits to this case study approach. First, it makes it possible to identify evidence of diversity in national changes in employment relations patterns. Second, it provides the opportunity to contextualise contemporary changes and thus makes the analysis attentive to both issues of change and the role of agents in bringing about that change. Not only does the project attempt to examine the interplay between institutions and industry effects, but also by focusing on more than one firm in each industry in each country it aims to examine the role that corporate strategy and relations of power between employers and employees play in shaping employment relations outcomes (see Wailes 2007).

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The international auto assembly industry is dominated by a small number of very large MNCs and the country level studies in our project provides information about the employment relations practices adopted by a number of these MNCs in their subsidiaries across a range of countries. By focussing on this industry the project, therefore, makes it possible to identify the role that the diffusion of HR practices in MNCs plays in shaping patterns of employment relations.

Methodology

The research project utilised comparative case studies of automobile as-

sembly operations in seven countries. Researchers were recruited in each of the seven countries on the basis of their expertise and experience in both employment relations and the auto industry. A common protocol, based on the framework established for the MIT studies (Locke et al 1995), was adopted which examined five key issues related to employment relations. Each of the research teams visited at least two assembly plants in their country of expertise and undertook interviews with a sample of managers and production workers, as well as union representatives at the enterprise level. Where possible, the researchers also visited the national head-quarters of the companies in each country to interview senior management and the union head-quarters to interview senior union leaders. A chief investigator of the project from Australia also visited most of the countries in the study in order to gain first hand knowledge of the industry and to accompany the local researchers on some of their research visits to plants and head-quarters. This enabled the chief investigator to gain a broader and deeper understanding of how globalization was impacting on employment relations in all of the countries in the study. It also ensured that the collaborating researchers adhered to the research protocol which stipulated a number of key areas to be investigated.

In this paper, we consider the following three issues:

- **Staffing arrangements and employment security:** How the workforce is structured (full-time, part-time, ca-

sual, temporary and contract workers); job security and labour market adjustment practices; career structures; recruitment, selection and separation practices; how and why enterprises meet their labour requirements in particular ways; and the nature of the employment relationship.

- **Enterprise governance and involvement by employees and their unions** (in relation to industrial relations matters and other mechanisms of employee voice): the level of unionization and union influence; the nature of bargaining between management and the workforce; the degree of employee involvement in decision-making; the role and influence of the human resources function in the enterprise; and the role of industry associations.
- **Work organization:** How jobs are defined and work is allocated; the impact of technological change; organizational and occupational structures; changes to hours of operation; whether, and why, jobs are becoming broader or narrower, whether tasks are being redistributed; whether authority relations are changing; whether hours of work are lengthening or declining; and changes to the intensity of work.

Staffing Arrangements and Job Security

In most countries there have been significant changes in staffing and job security within the auto industry. This is due to decreasing or highly fluctuat-

ing levels of employment in the industry in all the countries studied. There has been considerable growth in the contingent workforce who are employed in assembly work as contract and/or temporary workers on lower pay and with fewer entitlements (such as access to health insurance and severance pay), compared with the traditional regular workers who have continuing employment in the industry.

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In Japan, both the number and proportion of regular, full-time workers has declined in comparison with subcontracted and 'dispatched' workers. The latter workers do not enjoy the same pay and entitlements as the regular workforce and are the first to be laid off when there is a downturn in demand.

In Korea, the number of contract and temporary workers increased substantially during the economic crisis of the 1990s. While many of these temporary workers later became regular workers when the industry began to recover from the economic downturn, there remains a significant proportion of contract workers who are employed in assembly plants with lower wages and entitlements. The unions are very concerned with job security and the increasing use of contract labour on production lines has generated

complex labour management confrontations.

The Chinese auto assembly industry has also experienced declining levels of employment. During the economic downturn of the late 1990s, which also affected China, there were large scale lay-offs in some plants. The use of contract workers has also expanded and labour hire firms provide most of the workforce for some assembly plants. For regular workers also, the replacement of lifetime employment with contract-based employment regulation represents a radical change.

In Germany and Sweden, there have been some significant lay-offs due to fluctuating demand, offshoring and outsourcing, but unions have been strong enough to negotiate generous redundancy and severance payments for workers who have been laid off. Accordingly, employment security guarantees have played a major role in recent bargaining rounds. In Germany there has also been an expansion of agency work, but in a regulated manner that involves consultation with works councils. At some plants the union and the works councils have achieved that agency workers are paid in accordance with the industry-wide collective agreement and thereby minimized the differences in pay and entitlements between regular and temporary workers.

In Germany and in the US, reduced manufacturing depth at auto assemblers is particularly salient. Outsourcing and the modularization of production have

resulted in a shift in employment from the auto assemblers to component manufacturers and to lower cost locations in Eastern Europe and Asia, and in the US to less-unionized regions, such as the Southern states. In the US, voluntary severance and retirement plans feature highly in collective bargaining at the unionized plants.

In Australia, declining sales of locally manufactured vehicles has resulted in an overall decline in employment within the industry. There has been an increase in the use of contingent or precarious forms of employment, and one firm is using a labour hire firm to recruit and manage all new employees (known as variable temporary labour) who are paid at a lower rate and have less job security. As in other countries, the unions are greatly concerned with job security and redundancy issues.

Enterprise Governance

The involvement of employees and unions in enterprise governance varies considerably between countries. The level of unionization in the auto industry is high in all the countries studied, although the US is an exceptional case with high unionization at the American-owned plants and no union influence at foreign-owned plants and many component manufacturers.

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In Germany and Sweden, unions continue to exercise strong influence at the plant, enterprise and industry levels and industrial relations are largely cooperative. In Sweden, there is an emphasis on consultation with unions and their plant level representatives on issues related to change in the work environment and production systems. In Germany, works councils extend the influence of employees in workplace decision-making while co-determination laws give unions a role at the board-level. However, in both Sweden and Germany, unions have been willing to make concessions on pay and various working conditions in order to maintain the economic prosperity of the auto industry and thereby preserve employment levels in the industry as much as possible. In Germany, locational competition across sites and countries within a firm has led to an increased use of opening clauses that allow local variation of industry-wide agreements and has lent increasing importance to European works councils.

In Japan, severe industrial conflict between unions and auto companies in the first decade following World War Two led to reforms which emphasized consultation between employers and workers at the plant level. This has resulted in a considerable variety of consultative activities and involvement of workers in decision-making in the workplace, even though the influence and bargaining power of trade unions has declined. For example, the importance of the annual spring labourer offensives has diminished. Unions do not represent the non-permanent employees, but as

their numbers grow, unions are compelled to influence their working conditions as well in order to protect the conditions of their members.

In Korea, severe industrial conflict within the auto sector in the late 1980s, and again in the late 1990s, led to a number of reforms which are aimed at improving workplace consultation. The government has introduced labour-management councils at the plant level, but the company unions have been suspicious that these measures are designed to reduce their influence and have been generally cautious in their attitude to these councils. The tradition of authoritarian management systems in Korea has also impeded reforms in consultation and involvement of workers and their unions in enterprise governance, although this appears to be changing. As in Japan, Korean unions are also beginning to represent the interests of non-permanent workers. Industrial relations remain rather adversarial.

In China, unions have played a limited role in fostering employee involvement in enterprise governance because the unions still operate as an agency of the state. However, as the number of informal and illegal industrial disputes has continued to increase, the Chinese government is searching for ways to reform workplace relations, without fostering independent trade unions, for example through the introduction of Staff and Worker Representatives Congresses.

In the US, unions have steadily lost influence at the plant and industry lev-

els as their membership has continued to decline. Old plants, where the unions had members, have been closing and new plants in the South (many of which are owned by Japanese and other foreign companies) have successfully resisted the union's membership drives. There have been some examples of greater employee involvement (such as in health and safety committees) at the plant level, and some success with more participative workplace systems (such as at the GMToyota joint venture, NUMMI). However, the boldest experiment in co-management between the employer and the union at the GM Saturn plant was not sustained (see Rubenstein & Kochan 2002).

In Australia, industrial relations in the auto industry have been fairly amicable. There have been some examples of employee involvement in plant level decision-making and participation in team development, but these have generally been short-lived experiments and have not been integrated into mainstream management systems.

Work Organization

Work organization is strongly influenced by the system of production in each plant but is tempered by the national context in which plants are located. The Japanese plants follow the lean production system most closely, for example by continuing to focus on quality management and continuous improvement, but their application of the concept varies between different firms. They have modified the lean production

concept in order to improve efficiency by coordinating work in different departments more closely (from development to production), and by standardizing production equipment and methods across sites.

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The Korean and Chinese plants are predominantly focused on mass production, although the Korean plants use higher levels of automation than their Chinese counterparts. In both countries, work is hierarchically structured with Taylorized control mechanisms and little room for worker participation and autonomy.

The German and Swedish plants have abandoned their alternative production methods that were based on sophisticated technology, highly skilled labour and flexible non-Taylorist work organization. In both countries there has been a 'return to the assembly line', and work is now less democratically organized and less focused on skilled workers. Plants have adopted many elements of the lean production concept, such as teamwork and continuous improvement, and in recent years there have been efforts to adapt this concept to local conditions. The emerging hybrid approaches to production and work organization have a strong emphasis on modularization, and they seek to take advantage of the highly

skilled workforce and compensate for the greater repetitiveness of production work by integrating and extending job content, for example by combining production and administrative work.

The American-owned plants in the US tend to follow mass production with repetitive assembly-line work, while the Japanese transplants in the US are more oriented to lean production and team organization than the American-owned plants.

In Australia, plants tend to combine elements of the lean production concept with local features to form a hybrid approach but, with the exception of one Japanese-owned plant, have not generally adopted team-based work organization. Work design is flexible but the autonomy of teams and work groups on assembly lines remains fairly limited.

Impact of Globalization on Employment Relations

While these case studies were primarily designed to provide a baseline for further research, a number of implications can be drawn from the findings for contemporary debates about globalization and employment relations (Table 2).

First, the findings provide very clear evidence that globalization is not producing a straight-forward pattern of convergence in employment relations in this industry. Rather, the case studies provide further evidence that national contexts continue to play an important role in shaping many employment relations out

Table 2: Employment Practices among Auto Assembly Plants in Seven Countries

	Level of job security	Involvement by employees or their unions in enterprise governance	Work Organization and Production
Australia	Low	Low	Hybrid
USA	Low	Low	Mass
Germany	High	High	Hybrid
Sweden	High	High	Hybrid
Japan	High	High	Lean
Korea	Medium	Medium	Mass
China	Medium	Low	Mass

comes. This finding is particularly significant given some of the characteristics of the global auto assembly industry. Not only is this industry affected by increased international competition and excess global capacity, but ownership and production is highly transnationalised. Moreover, despite some evidence of experimentation during the 1980s, there now appears to be an increasing convergence of production systems on some of the key elements of lean production.

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A second broad conclusion that can be drawn from the studies is that the impact of globalization on employment relations in the auto-assembly industry does appear to vary systematically across varieties of capitalism. This is seen most clearly in the comparison between the two liberal market economies (LMEs), the US and Australia, and the two Euro-

pean coordinated market economies (CMEs), Germany and Sweden. In both LMEs and CMEs it is possible to argue that the pressures associated with globalization have reinforced rather than eroded some of the distinctive features of employment relations under these systems. Thus, for example, increased competition and changes

in production systems does not appear to have radically altered the commitment of German and Swedish car manufacturers to traditional patterns of skill formation or employee representation. In the US, however, increased competition appears to have reinforced traditions of union avoidance. This is consistent with the view that, far from driving convergence, globalization may reinforce the reliance of companies of traditional sources of competitive advantage that they derive from their particular institutional matrix (Thelen 2000, Thelen & Kume 2003).

While the results of the research point to the enduring significance of the institutional matrix in shaping employment relations, they also point to changes in the ways in which traditional institutional arrangements are being used and the extent to which firms have been able to find functional equivalents to address problems associated with increased competition. This is particularly apparent in the German case, which reveals that while industry wide collective bargaining has been maintained, the out

comes of bargaining have become more focussed on industry competitiveness, and firms have used outsourcing to offset the perceived costs associated with high levels of employment security. This pattern is consistent with the view that the same formal institutional arrangements can produce a range of outcomes and that institutions should be seen not as determinants of social action but as resources that social actors can use in pursuit of their interests (Deeg & Jackson 2007).

The evidence of a distinctively Asian market economy (AME) response to globalization is less clear. However the Asian studies do illustrate the extent to which there is considerable change within varieties of capitalism. The Japanese case provides the clearest indication of this pattern. Employment relations in the Japanese car industry have changed dramatically over the past two decades and, while it would be false to argue that Japan is converging towards a US model, the Japanese case suggests the need for a less deterministic view of the role of national institutions. The Asian studies, in particular, also highlight the diversity in employment relations within industry.

Japanese case suggests the need for a less deterministic view of the role of national institutions.

As was noted earlier, one potential source of diversity is the significant role that multinational companies (MNCs) play in the auto-assembly industry and

a number of the country level studies focused on subsidiaries of large international auto-assemblers. There is a growing body of literature which has argued that the employment relations practices of MNCs will, in part, be shaped by the national business systems from which they originated, but will also reflect the need to adapt to the host country institutional context (see, for example, Ferner 1997). More recently, it has been argued that the power relations within MNCs, notably the relative power of subsidiary managers vis-à-vis corporate headquarters also play a role in shaping the diffusion pattern (Almond & Tempel 2006).

There are several examples of these tensions playing out in the country level case studies. The US case suggests that Japanese firms selectively diffuse aspects of their home country employment relations practices to their subsidiaries. While the Australian case, provides evidence to suggest that local level managers have traditionally resisted attempts by corporate headquarters to impose more standard employment relations patterns, but that these power relations have shifted over the past decade. Most interesting perhaps is the evidence that suggests that the unwillingness or inability of Korean firms operating in China to adjust their employment relations practices to local conditions, may seriously limit the ongoing viability of these operations in this most important market. These examples suggest the need for a more systematic engagement between the literature on globalization and employment relations and HR in MNCs.

Conclusion

This paper has examined the extent to which the VoC approach can provide insights into recent changes in employment relations in the international auto assembly industry. The preliminary findings of the global auto research project suggest that there are systematic differences in impact of globalisation on employment relations in liberal, coordinated and to a lesser extent Asian market economies. The results also however provide evidence of considerable within-variety diversity in employment relations' processes and outcomes. These

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findings are consistent with criticisms of the VoC approach and suggest that this framework needs to be modified to take into account a broader range of variables. In particular the findings of the research suggest the need to adopt a more dynamic view of institutions and to focus on the agency of managers' and employees' response to pressures associated with globalisation. The study provides evidence that the impact of globalisation on employment relations is also influenced by the institutional arrangements in MNCs' home countries and the power relations between corporate headquarters and their subsidiaries. The research also indicates that there is potential for the ILO to play a more sig-

nificant role in mediating the effects of globalization on employment relations in the automotive industry, particularly in newly industrialising countries, to ensure that its Conventions and Recommendations on employment relations and rights are implemented by its members.

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