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Should I stay or should I go? How moral arguments influence decisions about offshoring production

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Abstract

How do trade unions and works councils influence what managements see as economically rational? Each of the two companies that this article studies planned to offshore its production to a low-cost country. Yet one of the two changed its plans after moral arguments were raised against this, whereas the other offshored in spite of similar arguments. Regardless of a similar economic situation, the two companies did the opposite of each other, yet each defended its action as economically optimal. This comparison of the two case studies therefore shows how moral arguments influence what actors define as economically rational.

Keywords

Industrial conflict, industrial negotiations, labor relations, restructuring, worker participation

Studies in industrial relations describe how managers demand concessions from workers if production abroad is cheaper than at the home plant. The dominant, if often implicit view behind such studies is that domestic workers have to make concessions to match the productivity difference between their plant and foreign plants to avoid the offshoring[1] of production to low-cost countries (Massa-Wirth, 2007: 21ff.; Peters, 2001: 12, 141; Rehder, 2003: 59, 92; on distributive bargaining, see also Walton and McKersie, 1965). Industrial relations studies thus often deduce the outcome of labor negotiations from what seem to be economic facts, neglecting how socially influenced ideas frame the perception of these ostensible facts. To cite a prominent example, Cappelli (1985: 101ff.) notes that managers threaten to offshore production to what they articulate to be cheaper plants, forcing workers to accept lower wages. Dworkin et al. (1988: 19f.) highlight that workers and unions indeed agree to concessions if their members' economic security is threatened through plant shutdowns and relocations. Raess and Burgoon (2006: 300)

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find that exposure to international markets and the likelihood of worker concessions correlate. Such studies operate on the assumption that companies can calculate the costs and benefits of relocating and offshoring (see Bathelt and Glückler, 2002: 135; Cappelli, 1985: 101ff.; Dörrenbächer and Riedel, 2000: 18; Dworkin et al., 1988: 19f.; Raess and Burgoon, 2006: 300). In this vein, organizations such as the McKinsey Global Institute (Farrell, 2006: 120) claim they 'can help executives make decisions on the basis of facts rather than intuition, personal preferences or past experiences.' This assumes that it can be calculated what option is in the best interest of a company.

This assumption is problematic however. Economists (Deuster, 1996: 71ff.; Fraunhofer-Institut, 1998: 4ff, 12; Grabow et al., 1995: 139f.; Kinkel, 2004: 4; Lay et al., 2004: 1ff.; Porter, 1976: 25ff.; 1998: 341), management scholars (Bauer and Hardock, 2003: 270f.; Hardock, 2000: 29f.; Jansen, 1986: 304–312; Perlitz, 1997: 133), management advisors (Buhmann and Schön, 2004: 254f; Goette, 1994: 233; Richter and Buchner, 2004) and economic geographers (Schamp, 2002) stress that the success of a relocation and especially of offshoring is impossible to calculate at the time of decision. Therefore, Mueller (1996: 364) argues that – similar to other economic choices – 'corporate investment decisions can often not be explained by reference to the "objective data"; one needs to take account of the very dynamic bargaining relationship between the parties.' Similarly to Mueller, scholars criticize that economic decisions depend not so much on socially isolated rational calculations as on the social circumstances, under which these are taken, so that rational choice models have limited explanatory value.

This is because it is not only notoriously hard to calculate how foreign labor costs will develop in the future. Offshoring also frequently ends up being more expensive than initially projected because of unforeseen declines in quality and reliability, transportation costs, the future development of foreign markets and exchange rates, as well as due to political instability of the country into which one is offshoring. To compare such factors and their future development is hard – not to say impossible. One in six offshoring decisions turns into a decision to 'inshore' back to the home plant, due to unforeseen contingencies; almost all decisions to offshore develop differently than initially planned (Blohm and Lüder, 1995: 225; Buhmann and Kinkel, 2004: 33; Fraunhofer-Institut, 2004: 10; Lay et al., 2004: 1; Schulte, 2002: 44f.).

This is why scholars stress that the narrow cost-benefit calculation needed for a fully rational decision is simply impossible in complex real-life situations. Consequently, prevalent neoclassical conceptualizations of economic decision-making fail to explain how and why companies relocate (see Bathelt and Glückler, 2002: 135). Because actors act under complexity and uncertainty, which makes a narrow comparison of economic factors impossible, the theoretical starting point of this research project is that, in the absence of calculability, non-economic factors might influence economic decisions. Classically, this view builds on Émile Durkheim (1953 [1924]: 36ff.), who claimed that moral arguments can influence how actors pursue their interests. More specifically, sociological approaches stress the importance of isomorphism, routines, orientation towards tradition, power, intuition and morality (see Beckert, 1996: 827f.; DiMaggio and Powell, 1991 [1983]: 67ff.; Hodgson, 1988: 205; March and Simon, 1958; Meyer and Rowen, 1977; Pfeffer and Salancik, 1978: 252f.; Schumpeter, 1997 [1934]: 125; Weber, 1976 [1922]: 12). Such approaches postulate that what actors post hoc justify as 'economically rational' is in fact influenced by the social network of the decision-maker and the ideas that circulate in this social network (Granovetter, 2005: 35; Zukin and DiMaggio, 1990: 14–23). Thus, decisions might be influenced by the social embeddedness of actors and by the concrete moral arguments raised against their decisions (see Etzioni, 1988; Granovetter, 1985). Yet, while sociologists maintain that economic actions could be influenced by moral arguments in this way, the author of this article knows of no study that traces how moral arguments and the social embeddedness of a company management influence its decision to offshore (but cf. McMahon, 1999; Uzzi, 1996; 1997; Vaara and Tienari, 2008; Vaara et al., 2006).

This article therefore argues that the dominant conception of industrial relations bargaining leaves out the influence of ideas as 'switchmen,' which, according to Max Weber, determine 'the tracks on which the dynamics of interests move human action' (Weber, 1978 [1920]: 252). Namely, if an optimal course of action is uncertain and incalculable, actors have to develop alternative ways than simple calculation to arrive at what can be justified as economically rational and as, more generally, a reasonable way of acting (see Beckert, 1996: 805; 2003; Keynes, 1973 [1936]: 162f.; Knight, 1921: 229; March and Simon, 1958: 137; Uzzi and Lancaster, 2004). Studies of organizational decision-making can explain how this happens. In the absence of calculability, they emphasized the role of 'muddling through' (Lindblom, 1965). Other models suggested that, for a given problem, actors use whatever solution happens to be present at that moment (Cohen et al., 1972). More recent models argue that what is seen as a rational pursuit of interests is perceived as such through a socially influenced 'frame.' As an empirical example, Kaplan analyzed a company where different factions promoted different frames of what to see as economically rational under uncertainty. Her study showed that 'Interests were not fixed in the way conceived by rational choice models, but rather were subject to interpretation' (Kaplan, 2008: 744). However, it is still unknown how, due to processes of social influence, moral arguments color what a management sees as economically rational. The following sections therefore show how, due to the structural impossibility of calculating economically optimal solutions, labor representatives use moral arguments to influence what economic actors define as lying in their economic interest – and when this fails.

Methodology

Over 14 months, a research project at the Max Planck Institute for the Study of Societies traced discussions about the offshoring of production in six German companies. Using archival material and interviews, it reconstructed how worker representatives used moral arguments to influence what a company's management saw as rational (cf. methodologically: Eckstein, 1975: 104ff.; Glaser and Strauss, 1967; Strauss and Corbin, 1990). Two especially interesting case studies were the matched pair of Wolder and Tehnwolder, which this article presents. The two companies were in similar economic circumstances, having been the same company that then got split into two halves, one of which was sold to an outside investor, while the owning family kept on managing the other half. The workforce of the two companies was similarly ready to fight out a labor conflict if necessary and organized in a trade union to the same degree – indeed, both companies were managed by the same trade union official since they were in the same region. Both were also in similar economic circumstances concerning profit rates, produced goods and turnover per employee.

Yet, even though power relations and economic conditions in both companies were similar, what each defined as economically rational starkly diverged from the other (for the ensuing case study design, see George and Bennett, 2005: 81; Lijphard, 1975; Mill, 2004 [1843]). There is no question that economic factors and power relations influence a company's strategy. But since these factors were similar in the two companies, they can be held constant in comparing the two cases. This allows focusing on what was different between the two companies. Namely, their management was very differently socially embedded. Tehnwolder was managed by a family with close ties to the company's home region, while Wolder was managed by a foreign CEO, who had no such ties. Detailed process tracing of the respective discussions about offshoring showed how each company came to an (opposed) view of what it saw as economically rational, in spite of similar economic conditions (see the method of process tracing in Hall, 2000, 2007).

A 'thick description' can aim to show why actors acted as they did and how this was socially influenced (see Abel, 1948; Geertz, 1973: 17; Weber, 1976 [1922]: 1, 4). However, not only might interviewees consciously hide their 'true' motivations from an interviewer; more problematically, they might be genuinely unaware why they acted as they did (Freud, 1992 [1923]; Gläser and Laudel, 2004). Faced with this problem, the research project did not try to explain actions through individual motivations. Instead, it tried to show what arguments labor and management used during the conflict, what visible changes this brought about and how actors therefore discursively converged on an idea of economic rationality in official, recorded statements (see Clayman, 2001: 4865f.; Garfinkel, 1967: 225; Schütz, 1932). Through such objective traces, discussions can be reconstructed better than individual motivations, which are not accessible to scientific analysis (see Krebs and Jackson, 2007; Wittgenstein, 1953: 150ff.). The research project thus tried to understand how decisions are influenced through social mechanisms, instead of individual motivations (for this approach, see Gross, 2009: 358f.; Hedström and Swedberg, 1998: 10; Mayntz, 2004: 241).

Therefore, the research project interviewed managers, supervisory board members, as well as the trade union and works council[2] of each company (the interviews were recorded and each quote is cited with the relevant time-stamp in the text). This was first done to understand *what* happened. The research project then tried to understand who used what strategy to influence or defend company actions. Then it triangulated these testimonies with other interviews, letters, newspaper articles and leaflets from the discussion. Following this, it used additional interviews to understand *why* actors used certain strategies – even though the responses can only be understood as subjective. To get as accurate information as possible nonetheless, all interviewees were granted anonymity, so all names used are pseudonyms. Also, the research project separately interviewed a company- and an employee-representative about each crucial aspect of the offshoring discussion. Statements were only accepted as valid when a triangulation with newspaper reports and the statements of opposed parties confirmed them. This way, from 33 interviews in the entire research project, nine specifically about the two companies, we tried to filter out what was subjective interpretation and what was intersubjective consensus (see Glaser and Strauss, 1967: 67ff.). The researcher's interpretation was then sent back to those that participated in the offshoring discussion, so that they could state whether this interpretation was correct from their point of view. If this additional step had not been taken, the researcher's reconstruction of the process would have suffered entirely from being the 'construct of a construct' (see Schütz, 1932; 1971: 5ff.).

In this way, basically emulating a grounded theory approach, the empirical material led to preliminary hypotheses how each of the companies might have been influenced in its decision to offshore. These first guesses were then tested against the empirical material and readapted, until a theoretical saturation was reached (Glaser and Strauss, 1967: 61f.). The aim throughout was to understand under what conditions moral arguments influence what actors define as their economic interest.

Wolder and Tehnwolder: How moral arguments influence economic interests

As stated in the previous section, it is not coincidental that the companies Wolder and Tehnwolder have a similar name. They were originally the same company, of which the owning family sold roughly one-half to an outside investor. The production sites that were sold became Wolder and were managed by James Layden, who was English and thus had no social ties to the company's home region. The remaining production sites, in which the owning family kept a minority stake and the operative management, were turned into Tehnwolder. They were managed by Reinhard Tehnwolder, head of the Tehnwolder family, who had strong social ties to the company's region and its workforce.

Apart from their management having a different social embeddedness, both companies were similar, as they used to be the same company. Both had 80% of their production in Germany, but 80% of their sales abroad, both therefore suffered from similarly high German labor costs, German bureaucracy, and they were even in the same region. Both were pushed to high profits by their respective investors and also had a comparable turnover through the production of similar goods. Both were managed by the same trade union official and their workforce was alike in terms of qualifications, organization rates and willingness to fight out industrial conflicts. Tehnwolder's CEO said: 'Each company tries to minimize its costs. [We] are each other's toughest competitor' (Tehnwolder 4. Interview: 49 min.). Wolder's CEO, when asked in a newspaper interview, also did not deny that the company's economic situation was similar.

Neither of the two CEOs claimed that the economic situation or the power relations between workers and management were fundamentally different from one company to the other. Yet, whereas the socially embedded[3] Reinhard Tehnwolder could be convinced that it was in his best economic interest to stay in Germany, the socially less embedded James Layden remained committed to the idea that offshoring lay in the economic interest of the company. The following case studies show the conditions under which it was possible to change what one actor perceived as lying in his economic interest, whereas this was not possible in the other case.

Wolder

After James Layden became Wolder's CEO, he announced that the company's current profitability of 15–20% of turnover still had room for improvement. He therefore announced his intention to save €150 million over the next few years (Wolder 1. Interview: 5 min.). The works council chairman, Paul Pintona, distrusted him; he presumed that Layden lacked social responsibility for the home plant and its workers (Wolder 2. Interview: 31 min.). The works council had already proposed to save €120 million prior to Layden's plans, so the question was less how much to save, but rather how. Layden asked the management consulting firm McScott for an expert opinion. McScott recommended an increase of foreign production from 20 to 80% of turnover by releasing up to 2700 of the 4500 German workers. Pintona did not need much imagination to see a conflict arising, so he asked a well-known labor lawyer to represent the workers. After the lawyer read the first three pages of the McScott expert opinion, he said it made no sense to read on. Disappointed, the works council chairman asked him why he did not want to take the case. 'Oh no, I will gladly represent the workers,' the lawyer proposed, and added: 'very interesting expert opinion.' Pintona asked: 'Well, why don't you look at it then?' According to Pintona, the lawyer replied:

> Once you've seen the first three pages, you figure that these McScott expert opinions are basically similar. The names change and some of the numbers change, but their recommendations stay the same from one company to the other. (Wolder 1. Interview: 61 min.)

The lawyer claimed that management consultancies cannot calculate an objectively optimal economic strategy, instead they suggest across-the-board strategies. If in doubt, which they usually were, they would recommend offshoring. Based on this, Pintona argued to Layden that the layoffs this would bring were socially irresponsible as long as the success of offshoring was uncertain. Layden replied that he did not *want* to fire workers either, but that he saw no alternative to save the €150 million (Wolder 1. Interview: 71 min.). However, he agreed that one could never be certain if the McScott opinion and offshoring indeed provided an optimal strategy. When the works council asked for funding to demand a second expert opinion, Layden therefore gave it to them.

The trade union was eager to hire a consultancy firm that it had already worked with. But the works council rejected this, as Layden could have dismissed the ensuing expert opinion as biased (Wolder/Tehnwolder 1. Interview: 16 min.; Wolder 1. Interview: 7 min.).[4] When the alternative expert opinion from another consultancy firm came out, its suggestions were starkly opposed to McScott's. The new expert opinion did not recommend offshoring, but to optimize purchasing costs, logistics and production at the home plant, which should allow for annual productivity gains of 10–15%. This ought to save the 150 million as well, avoiding relocations and resulting in the layoff of only 840 workers. All in all, the second expert opinion suggested that offshoring would be much less beneficial than McScott had anticipated (Wolder 1. Interview: 24 min.).

At this point, one expert opinion advised offshoring, while the other suggested optimizing the home plant. Both had rational arguments for what they claimed as being the most advantageous solution. They arrived at different conclusions however, as they made different assumptions about the (unforeseeable) development of foreign exchange rates, worker productivity and foreign labor costs. In this situation of uncertainty, the chairman of the works council naturally tended towards that option which would bring the fewest layoffs at the home plant. So he argued against offshoring, claiming that foreign workers had no emotional attachment to the company and left as soon as another factory offered marginally higher wages (Wolder 1. Interview: 80 min.). He also used moral appeals by arguing that for a company with a profit rate of almost 20%, far-reaching layoffs would 'simply be inappropriate' (Wolder 2. Interview: 44 min.). Whether such appeals truly reflected moral outrage or were used strategically is not only impossible to tell, but, fortunately, also matters less than their effect.

After a newspaper dubbed Layden 'Germany's most hated manager,' he complained to the representative of the works council: 'You know, it does hurt to read stuff like that.' A worker representative mentioned: 'It is by such subtleties that you recognize their social embeddedness. I mean, they not only have business friends, but also private ones' (Wolder/Tehnwolder 2. Interview: 33 min.). After this incident, Layden started to mention that the second expert opinion might have some plausibility. At the same time, he reiterated that the only way Wolder could survive in spite of high fixed costs, low-cost competition from abroad and plagiarism was by producing less in Germany. The company would have to make do with the lower loyalty of the foreign workforce and other problems of offshoring (Wolder 1. Interview: 13 min.).

Different from what happened at Tehnwolder, and even though Layden acted in a situation of uncertainty, not knowing for certain if offshoring would make sense, he could not be brought to decide in favor of the German home plant. Why was this? The representative of the trade union opined: 'This is where we get to the core of the question: Does a company have a real connection to its home region or its employees?' (Wolder/Tehnwolder 1. Interview: 15 min.). When a reporter asked Layden why his fiercest competitor, Tehnwolder, got along without layoffs under similar economic conditions, Layden indeed did not argue that Tehnwolder's economic situation was fundamentally different, but dryly snapped back that he would only talk about Wolder. In a TV report, he later maintained that it is 'simply necessary to have manufacturing facilities in markets where we can expect high turnover and high growth rates in the future.'

He did however concede that fewer layoffs than had first been projected might be sufficient, so that there could be less offshoring than initially planned. This was still highly unsatisfactory for the trade union and the works council. They were asked later why their moral arguments could not convince Layden, though it was unclear to everyone what was most economically rational. Their representatives argued that the financial investor behind Wolder had assigned Layden to manage the company precisely because he had no social ties to the region and its workers. The works councils and the representative of the trade union gave virtually identical accounts, arguing that it was impossible to influence someone's perception of economic interest if this actor had no social ties to the region, in favor of which demands were made. Without social ties, actors have no interest in redefining what they see as economically rational towards an option that spares the home plant (Wolder 1. Interview: 99 min.; Wolder 2. Interview: 65 min.; Wolder/Tehnwolder 1. Interview: 67 min.). Indeed, Layden's repeated response to the moral arguments that urged him to stay at the home plant was that he could not act economically irrationally for moral reasons (Wolder/Tehnwolder 2. Interview: 39 min.). Interestingly, the company Tehnwolder changed its plans in exactly the way Layden described as being economically irrational. Its management was in a similar economic, but starkly opposed social situation, which led to different perceptions of what it saw as economically rational.

Tehnwolder

While the previous section showed conditions under which moral arguments did *not* influence what actors define as economically rational, this section shows under which conditions moral arguments influenced what was perceived as economically rational, leading the company Tehnwolder to do the opposite of Wolder, in spite of similar economic conditions. The main difference was that Tehnwolder's management was differently socially embedded. Reinhard Tehnwolder managed the company. His works council maintained that his:

> . . . connection to the company's region is indisputable. . . . I think it is hard to imagine if you haven't experienced the regional integration of the company. Then it is just hard to believe. You would think that this cannot be the way companies function. (Tehnwolder 1. Interview: 84 min.)

An incident in the middle of the 1990s illustrates this. The company had economic problems, so Reinhard Tehnwolder demanded overtime work without offering financial compensation (Tehnwolder 2. Interview: 11 min.). After the trade union protested against this in his home town, he put up a bulletin in his plant, stating that he felt such protests to be a personal insult. But after the conflict was settled, he presented each of his employees a small bottle of champagne with a glass and a note that suggested to swallow the antagonism that had built up, so that the company's positive working atmosphere could return, which he argued was responsible for its success. The trade union claimed that such an approach was typical of him. He wanted to protect his good standing in the region and tried to make sure that his local reputation was not damaged, since he was convinced that he and his workforce were essentially part of the same community. How Reinhard Tehnwolder really felt is impossible to know. What is more important is that the trade union acted on the assumption – corresponding to how Reinhard Tehnwolder presented himself publicly – that he did indeed feel a moral obligation towards his employees (Wolder/Tehnwolder 1. Interview: 4 min.). In this sense, the trade union perceived him as being more socially embedded than James Layden. However, this did not mean that Reinhard Tehnwolder was willing to act economically irrationally. The profit rate he aimed for matched Wolder's. He also thought about offshoring production. The difference to Wolder was not that he refrained from pursuing his economic interests; the difference was that arguments on behalf of the domestic workers could influence what he saw as economically rational in the first place.

How did such arguments have an effect? First of all, everyone acted on the assumption that the success of offshoring was uncertain. Looking only at labor costs, it seemed highly profitable. But there were additional costs, which were hard to estimate. How much would it cost the company if the foreign products were of a lower quality? If they were damaged during transportation? If exchange rates fluctuated unpredictably? If German workers might have to help out in the foreign plants? It was impossible to foresee if such problems would come up at all and if so, how much they would cost the company. So whether offshoring would be a success could not be estimated with any reasonable degree of certainty. Different from Layden however, who calculated tendentiously in favor of offshoring, the socially embedded Reinhard Tehnwolder calculated tendentiously in favor of the home plant. He therefore even doubted that offshoring made sense at all. He admitted to the works council after weighing the numbers: 'You cannot really calculate anything. All you can do is to set a frame' (Tehnwolder 4. Interview: 6 min.).

The works council chairman argued that, given the uncertain success of offshoring, a labor conflict about it should be avoided at all costs. Instead, he claimed it was important to come to a common understanding about what lay in the company's best interest in the first place, before having a power struggle about it (Tehnwolder 2. Interview: 22 min.;

Tehnwolder 3. Interview: 3 min.). Asked about the possibility of a labor conflict, possibly involving strikes, he argued – similar to Wolder's works council: 'Such measures of coercion always lurk in the background. But we have to negotiate, everything else is counterproductive' (Tehnwolder 1. Interview: 25 min.). He saw a power struggle as a possibility, but claimed that all other means of conflict resolution would have to be exhausted first (Tehnwolder 1. Interview: 25 min.). Mainly, his strategy was therefore to argue that the management had a social responsibility to act on behalf of its workforce and the home region within the wide margins that economic uncertainty left (Tehnwolder 4. Interview: 15 min.).

Differently from Layden, Reinhard Tehnwolder was socially embedded in the environment about which he made an economic cost-benefit analysis. He tried to find ways to adapt his calculations towards what was proposed to him as morally appropriate. Concretely, he tried to find ways to optimize the home plant, aiming to match the productivity that his projections led him to expect of a Chinese plant. In a similar economic situation to Wolder, he followed the opposite strategy, trying to find reasons why offshoring could be considered economically irrational. He proposed a new shift system, which made the employees work on Saturdays. To make up for this, every employee would only have to work 24, instead of the usual 25 days in every five weeks. If the workers agreed, he promised to invest in the home plant and to increase the local workforce by 10% (Tehnwolder 2. Interview: 52 min.; Tehnwolder 3. Interview: 9 and 24 min.).

The chairman of the works council commented that Reinhard Tehnwolder tried to 'find ways to not simply accept offshoring but to deal with the high labor costs. Because our patriarch definitely has the well-being of the workforce in mind, there was definitely a conviction' (Tehnwolder 1. Interview: 36 min.). He accepted Reinhard Tehnwolder's new shift system without much discussion. He and the trade union (respectively first and second statement below) described why they did not bargain for a more favorable agreement, but ultimately trusted Reinhard Tehnwolder to accommodate the interests of the workforce with the proposed solution:

> They [the management] definitively wanted to prevent a relocation. Because these are thinly populated regions and if a company offshores 2000 workplaces, this would be a catastrophe. And that is something our managers know, that they have a social responsibility. However, it is also true that they put this into perspective. First financial matters, then you think about social considerations. (Tehnwolder 2. Interview: 75 min.)

> I presume that the management feels a social responsibility about what they do. So they think: 'I simply cannot offend the sensibilities of those that helped me to get rich, who made the company successful.' But, as I said, the other side is that they say: 'With a motivated workforce, standing behind the product, standing behind the company, we can have a lot of success.' And they are actually pretty successful. (Wolder/Tehnwolder 1. Interview: 8 min.)

The representatives of the works council and the trade union also acted under uncertainty. They could not know what economic strategy would be in the company's best interest. Instead, they basically trusted Reinhard Tehnwolder to accommodate their interests and refrained from bargaining for more. Reinhard Tehnwolder in turn never thought that he behaved irrationally due to moral considerations. Instead, he claimed it was impossible to calculate what was economically rational in the first place, so he might as well be responsive to the moral arguments of his social environment, as long as these did not seem economically irrational. In the absence of an objectively optimal solution (or at least one that was perceived as such) and different from the situation at Wolder, Reinhard Tehnwolder had an incentive to follow moral appeals to stay in his home location, as he was socially embedded there. As a result, he came to the opposite conclusion of Wolder as to how to pursue the company's economic interests. This was the case even though all participants in the discussion about offshoring acted on the assumption that Tehnwolder's economic situation was essentially similar to Wolder's. However, unlike Layden, Reinhard Tehnwolder argued that he could *not afford* to offshore production, because he then might 'discover that we are going bankrupt because the quality of our products is going down the drain. The point is, we need well-qualified and trustworthy workers' (press release, newspaper article, Tehnwolder 3. Interview: 7 min.).

Virtually all the reasons that Layden gave for offshoring also applied to Tehnwolder. Both companies faced low domestic demand, high labor costs, a strong euro and had to important expensive raw materials. But instead of using this to justify offshoring, Reinhard Tehnwolder criticized Layden for doing exactly this. He argued in a newspaper interview that instead of 'saving a couple of percentages in labor costs,' a good entrepreneur should organize his production efficiently. In doing so, he basically applied the recommendation of Wolder's second expert opinion. The chief engineer in Tehnwolder's management board mentioned that even though this took moral considerations into account, it was no less rational from an economic point of view (Tehnwolder 3. Interview: 7 min.).

In this sense, moral arguments filled the rationality gap that opened because uncertainty made it impossible to come to an economic decision through a rational cost-benefit analysis. Importantly however, moral arguments never got Reinhard Tehnwolder to do what he perceived as irrational. Instead, they convinced him it would be *economically* rational to stay at the home location. Even the American investor who held a large stake in Tehnwolder could be convinced of this. This was no question of 'soft-heartedness,' as Tehnwolder's profit rate of 17% even outpaced Wolder's shortly after the management decided to stay in Germany. The interesting point is, however, that Wolder's socially disembedded management could not be brought to see the same 'economically rational' reasons to stay at the home location.

While Tehnwolder's management reached a compromise, the public criticized Wolder for offshoring. Confounding the similar name of the two companies, the public mistakenly also blamed Tehnwolder for what Wolder did. Customers complained to Tehnwolder's public relations department (citation from a letter): 'You bastards cut employment in Germany and leave for Asia. We will never buy your products again' (Tehnwolder 4. Interview: 25 min.). Tehnwolder had to allocate two employees to explain to angry customers that the company had nothing to do with Wolder. To appease the misdirected public protest, Reinhard Tehnwolder stated in press releases and newspapers that Tehnwolder would stay in Germany, maintain its culture of a family-owned company and keep its promises. Intentionally or unintentionally, he thereby left himself little room for maneuver during later discussions about offshoring, as worker representatives affirmed:

> Whenever he does this [make promises], it depends on how he is ticking. A patriarch will never take such an announcement back and therefore try to produce here. For whatever reason, that will always be a secret, and [maybe it is] because he simply likes to look good. It doesn't really matter. (Tehnwolder 2. Interview: 31 min.)

> After [Wolder] suffered such a blow to its reputation and everyone looked at them, we thought: We need a campaign to differentiate ourselves. And then we started that public campaign, including his [Reinhard Tehnwolder's] statement: 'No, I am not like that, I am the good guy.' Afterwards we could make him live up to this self-proclaimed commitment. At critical moments, we could say: 'Well, then you also have to behave differently than these guys at Wolder.' This was sort of the moral corner where we could exert some influence. (Tehnwolder 1. Interview: 52 min.)

A situation where this would be necessary was soon to come. Two years later, Tehnwolder's board of directors was considering where to locate a new production site (Tehnwolder 1. Interview: 14 min.; Tehnwolder 4. Interview: 32 min.). Reinhard Tehnwolder demanded a 40-hour week and to cut the workers' shift premium to locate the new production in Germany. He suspected that, given Tehnwolder's high profit, this would be hard to legitimize vis-a-vis the trade union. But he tacitly hoped to negotiate a 38-hour working week (Tehnwolder 4. Interview: 33 min.). The works council retorted that cutting wages or increasing working hours would lower the workers' productivity, resulting in a lower profit margin in the long run. They also reminded Reinhard Tehnwolder of his own words, that the skilled home workforce and the German infrastructure would overcompensate for the high labor costs – and that he had declared himself to be morally obliged to use these advantages, instead of taking the easy way out by offshoring. As an alternative, the works council proposed to extend the flexible working time agreement to a new plant. Reinhard Tehnwolder said he left the negotiations with 'empty hands' (Tehnwolder 1. Interview: 19 min.). When asked why he did not bargain harder for lower working hours, he replied:

> Well, I have to be honest. We simply thought we couldn't do this. Because we figured that if we dig deeply into our employees' pockets, some will get into serious trouble. . . . Some employees are in family-circumstances where they really need every single cent. . . . And that was an argument where we said: 'Ok, then we cannot get the 40 hour workweek without bloodshed.' (Tehnwolder 4. Interview: 9 and 46 min.)

It is impossible to find out Reinhard Tehnwolder's real motivation for not demanding longer working hours more vigorously. What is sure, however, is that the management did not exclaim that it had the feeling of acting irrationally due to moral considerations. Instead, by reminding Reinhard Tehnwolder of moral obligations, the trade union and works council claimed they could influence what he saw as rational in the first place. Even though the works council was convinced that Reinhard Tehnwolder wanted to treat the employees in accordance with what he perceived as morally appropriate, he still had to make suggestions why his propositions were economically rational. The chairman of the council mentioned, however, that this was much easier since Reinhard Tehnwolder had previously 'entangled' himself in his own public pronouncements of social responsibility:

> We partially use public dialogues to weave them into a net of their own promises and responsibilities, so that they have to say: ‘Well, you got it at the mayor’s office now, you got it in the press, we almost can’t get out of this.’ (Tehnwolder 1. Interview: 22 min.)

> You can definitely influence the management board so that they will declare a responsibility to the home region, as happened repeatedly in the past. Especially if your boss is a patriarch. You tell him: ‘Why don’t you tell the public how important the home region is to you?’ . . . Then I let him declare this and I have woven him in morally. Because a patriarch will never want to appear as a liar. . . . We do collect the newspaper reports of their public pronouncements. You definitely have to remind them of what they said. At the same time, there is also a sort of sportsmanlike attitude among the board of directors: ‘We can be cheaper than the Chinese after all.’ (Tehnwolder 2. Interview: 29 and 41 min.)

Possibly, Reinhard Tehnwolder’s moral proclamations only precluded economic strategies that he did not want to perceive as economically rational in the first place. Thus, insofar as actors are free to choose what they define as economically rational under uncertainty, they can respond to moral arguments by redefining what they see as *economically* – not even necessarily morally – appropriate. After the discussion cited above, Tehnwolder indeed built a new factory close to its home town, with ‘Chinese unit labor costs,’ as Reinhard Tehnwolder claimed (Tehnwolder 4. Interview: 8 min.). The same products for which Tehnwolder increased production in Germany, Wolder’s management board had claimed could not be profitably produced there. After the respective discussions about offshoring, Tehnwolder’s chief engineer and works council gave their account why the two companies defined such starkly opposite economic strategies as economically rational:

> In my experience, these guys [managers without social ties to a company’s home region] come here and decide solely on the basis of microeconomic operating figures. But that is wrong. You need a gut feeling and you have to look at the whole thing strategically. Labor costs in China rise by 10% annually. Key people in China now almost cost as much as here, if you want excellent people. The fluctuation is much higher. . . . That is different if you’re coming from a solid background. And it is different if the owners are in the operative management. . . . The connection to the home region makes a difference. (Tehnwolder 3. Interview: 25 min.)

> We adopted a different strategy due to the different owner structure. That is the only reason. If we had the same owner structure as Wolder, it would have been the other way around. So in the end, that was the reason, and it has something to do with morality. (Tehnwolder 2. Interview: 81 min.)

Conclusions

Studies of industrial relations typically assume that labor and employer representatives have clearly defined economic interests that they pursue through bargaining. But these studies tell us nothing about how companies develop an idea about what lies in their economic interest in the first place. As this article tried to show, moral arguments, which the social embeddedness of actors allows or disallows to advance successfully, influence what actors define as lying in their economic interest. Differently from what one might assume, such moral arguments do not get actors to renege on what they see as economically rational. Instead, they influence what they see as economically rational in the first place. Prior studies established that actors take economic decisions through a socially influenced frame, shaping how they perceive reality and thus also what they perceive as rational (Kaplan, 2008). However, no study has traced the process yet, by which such social influence operates. This was the aim of this study.

It showed that whether companies stay in or leave their home location is far from being a matter of economic calculation, even though it is presented – and analyzed – as such post hoc. Instead, companies 'bend the numbers' in one direction or another so that what they adopt can be presented as economically rational after the facts. The key point of this article is therefore that actors are morally influenced as a function of their social environment; then this in turn influences what they perceive as economically rational. In this way, what can be put forward as morally appropriate colors what actors calculate – and then legitimize – as economically rational. The leeway for this exists because most economic decisions are taken under uncertainty and cannot therefore be derived from a rational cost-benefit analysis in the first place.

This article therefore argued that decisions about offshoring and profit maximization are removed from the rational cost-benefit analysis that rational choice models take for granted. Wolder's management had rational reasons to either offshore (as the first expert opinion proposed) or to stay at the home location (as the second expert opinion proposed). However, it chose to follow the advice of the first expert opinion, which happened to define offshoring as economically optimal. Wolder's fiercest competitor, Tehnwolder, faced the same choice under similar economic, but different social circumstances. The economic strategy that resulted from this was the opposite to Wolder's, as Tehnwolder *increased* production at the home location. The comparative case studies thus illustrated how different social circumstances allow for moral arguments to influence differently what actors perceive as their economic interest.

This insight advances the existing literature on two fronts. First, the industrial relations literature usually sees bargaining as a process where both parties know what they want and use their power to get it (for a discussion of such distributive bargaining, see Walton and McKersie, 1965; for practical examples, see Cappelli, 1985: 101ff.; Dworkin et al., 1988: 19f.; Raess and Burgoon, 2006: 300). This article complements this view by showing that the social embeddedness of actors determines what these parties see as lying in their best interest in the first place. It is only *afterwards* that bargaining and power resources – as conceptualized by the industrial relations literature – become relevant.

Second, the sociological literature argues that under uncertainty, when actors do not have the necessary information to calculate how to pursue their interests, they rely on 'social devices' to determine what to do (Beckert, 1996: 805; see also the classical argument in Keynes, 1973 [1936]: 162f.; Knight, 1921: 229; March and Simon, 1958: 137). This study showed how this happens and how the social environment, into which an actor is embedded, influences what action he or she chooses, when cost-benefit analyses are impossible.

Case studies can only show what is possible, not what is usual however. This limits how much this study could achieve. As stated in the beginning, it is impossible to find out why actors acted as they did. Thus, this study did not and cannot claim to have found 'ultimate' (more or less moral) human motivations. It cannot adjudicate whether actors conformed to moral arguments out of enlightened self-interest or due to real ethical concerns (for a discussion of these motivations in company behavior, see Garriga and Melé, 2004). In addition, even though the two companies of Wolder and Tehnwolder were a carefully matched pair and as similar as possible regarding organized labor, location, profit rates, labor costs and produced goods, it remains unclear whether unobserved economic differences between the two companies explain why they acted differently. This omitted variable bias is limited insofar as the actors themselves acted on the assumption that the companies' economic situation was similar. Thus, the 'Thomas-theorem' (Thomas and Thomas, 1970 [1928]: 572) should apply: 'if men define situations as real, they become real in their consequences.' Yet, strikingly, even though Tehnwolder's management thought that its economic conditions were similar to Wolder's, they did not act on that belief by imitating Wolder's plans to offshore.

However, more than having proven that moral arguments are the independent variable behind what actors see as lying in their interest, this study has rather advanced this as a hypothesis, albeit in a grounded way. Further tests of this hypothesis are needed. Much as it seems probable that moral arguments lead actors to redefine what they see as economically rational, it cannot be ruled out that the two case studies are idiosyncratic and thus not representative. Moral arguments might only carry an influence in countries where employee representatives have a right to co-determine management decisions. The particular national context of German companies, with its moral economy and its history of co-determination, might give moral arguments more leverage than in other countries, especially more than in liberal ones, such as the UK or the US.

A research agenda based on the insight of this article would therefore use a large sample of companies from different countries, in which it would have to statistically isolate cultural, institutional, economic and power factors to filter out *how much* of an economic decision depends on the social environment, as opposed to other factors. That moral arguments – depending on the social environment – influence what actors define as their economic interest is strongly suggested by the case studies. How common this is remains an open question for further (most likely quantitative) research, which can hopefully build on the hypothesis that this article has advanced.

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Notes

1. Offshoring is the technically correct term to refer to the relocation of production to another country.
2. Works councils are bodies of employee representation. In Germany, they have the right to be informed of the management's action and also have limited rights of co-determining what a company can do, mainly in social matters. But their rights never enable them to dictate a course of action to management.
3. Social embeddedness is here defined by Granovetter (1985: 487), who claimed: 'Actors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script

written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations.' However, the degree to which people and companies are embedded in such social relations in a certain place can vary, so it makes sense to differentiate between stronger and weaker embeddedness (Uzzi, 1996, 1997).

4. The label 'Wolder/Tehnwolder' indicates that the interview was conducted with the trade union official, who is the same for both companies, since they are both in the same region.

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