Internal Contractualisation and the Changing Role of the First-Line Production Supervisor

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Abstract
The following paper presents empirical findings from two case studies in the German automobile industry. Both cases illustrate attempts by corporate management to implement new governance and control practices. These efforts follow a new paradigm or ”Leitbild” of organisational restructuring, termed ”economic decentralization”. The three main elements of this new paradigm are presented and discussed in turn. One of these three elements, that we call ”internal contractualisation”, seems to play a particularly important role in an age of ”shareholder value”. We argue that this new “Leitbild” has inherent ambiguities and leads to contradictory results on the level of production. Because of these ambiguities, current rationalisation depends on the intervening role of the first-line production supervisor. We will discuss the supervisor’s function in the process of implementing and maintaining new forms of regulation and control. Finally, we will turn to the question whether bureaucratic regulation and hierarchical control are superseded by new forms of control.

”Economic decentralization” as the new paradigm of corporate restructuring in Germany in an age of ”shareholder value” and ”financialisation”

Within the last five years or so, the doctrine of ”shareholder value” as a corporate governance regime superior to the ”stakeholder”-view of the firm, so far dominant in ”Rhenish Capitalism” (Albert 1992), has become quite popular among German business executives. Whatever the inconsistencies, inherent contradictions and problematic results that such a shift in the nature of German corporate governance might provoke, ”shareholder value” has been adopted by leading German ”blue chip”-companies like Siemens, DaimlerChrysler, VEBA, BASF, Thyssen, or Lufthansa (cf. Höpner 2000). Although ”shareholder value” might be ”(...) nothing new under the sun as far as financial theory is concerned” (Aglietta 2000: 148), it does legitimize ”(...) the predominance of a capital market view of the firm over an industrial one.” (ibid.) ”Shareholder value” is part of a process, that Froud et al. (2000a, 2000b) have termed ”financialisation”. Financialisation, they argue, ”(...) denotes a new form of competition which involves a change in orientation towards financial results but also a kind of speed up in management work” (Froud et al. 2000a:104). This ”new form of competition” is no longer primarily focused on products and processes: financialisation is not ”(...) about better factories with lower build hours, less inventory and higher quality” (ibid:103). Instead, financialisation is marked by ”(..) constant pressure on management from the capital market; with financial results in terms of Return on Capital Employed and share price the primary measure of enterprise performance”. (Froud et al. 2000b:2) As a consequence, work of senior management under financialisation ”(...) is increasingly focused on restructuring via internal downsizing and reorganisation as well as merger and acquisition; under a corporate governance regime which allows hostile takeover and rewards value investors; (...).” (ibid.)

However, as Froud et al. (2000b) further suggest with regard to the case of the Ford Motor Co., the success of a strategy that aims at ”financialising” a ”blue chip”-company, is highly questionable. In addition, some recent empirical findings with regard to the ”German case” indicate, that it would be an oversimplification to unilaterally deduce strategic managerial decisions from financial variables, because alternative economic and political rationales still play a decisive role (Kädtler/Sperling 2000; Dörre 2002; Jürgens et al. 2001). So far, empirical research on the impact of financialisation on German corporate structures and internal governance and control processes is still at the beginning. Nonetheless, it is evident that financialisation and ”shareholder value” constitute the ideological and ”theoretical” basis for a *new paradigm of corporate restructuring*, that Moldaschl and Sauer (2000) have termed ”ökonomische Dezentralisierung”, or ”economic decentralization”. As the expression indicates, the new paradigm consists of two elements, that make the core of contemporary corporate restructuring: ”decentralization” captures the *organisational* side of the remodelling of hierarchically structured large scale corporations. Basically, one can distinguish decentralization processes on two levels (Faust et al. 1994): on the level of the corporation at large, ”strategic decentralistion” takes place when a vertically and horizontally intergrated, centrally governed corporation is segmented into smaller units, and where functions and responsibilities previously executed at the centre are delegated to these new corporate segments. Strategies of vertical and horizontal disintegration (Wittke 1995) stand for organisational decentralization on the ”strategic” level. ”Operative Decentralization”, on the other hand, marks those management concepts, where functions and responsibilities within an individual segment or unit are delegated from central departments to the operative level of production. Operative decentralization comprises the application of ”lean production”-elements such as team- or groupwork, task integration, TQM-practices, or the demolition of functional boundaries between departments.

Of course, decentralization as such is not a new phenomenon in organisations, neither at the ”strategic”, nor at the ”operative” level. In addition, decentralization processes are accompanied by *centralization* processes with regard to certain corporate functions, seen as key strategic functions within the new organisational setting, like e.g. R&D, or product planning. Last, not least, the heated merger and acquisition-activities since the mid-nineties are not only in line with a ”shareholder value”-orientation, but are of course examples for centralisation processes on a global scale.

What gives actual management strategies a particular impetus and novelty, though, are the changes regarding the internal coordination and control practices in organisations that are re-defining their boundaries. Getting accurate information about, coordinating, and controlling, internal processes always was a major problem in bureaucracies; a problem that the decentralization and divisionalization strategies of the past could only partly solve (D’Alessio, Oberbeck and Seitz

2000). It is the *"economic"* part of the new paradigm that promises to solve the coordination and information problems of more or less hierarchically structured and bureaucratically regulated corporations. "The economic" is marked by all those management strategies that attempt to use coordinating mechanisms of "the" market (prices and market contracts) as a regulating mechanism within the bureaucratic organisation. As more historically and sociologically oriented contributions to economic theory have shown, coordination of economic processes within bureaucracies was never solely hierarchical, nor were exchange relations on markets ever free of bureaucratic regulation. (see e.g. Granovetter and Svedberg 1992; Polanyi 1978) The ideal-typical view of market and hierarchy as completely distinct coordinating mechanisms for economic exchange relations never corresponded to social reality. Within sociology, organization theory, as well as economics it is the working model of the *network* that aims at capturing the ambiguity and complexity of those exchanges. The network-firm is conceptualised as an organizational hybrid between (or beyond) market and hierarchy in which coordinating practices of both are combined in an innovative way. (cf. Powell 1990; Williamson 1985; Sydow 1992) What we currently can observe is an *expansion of modes of market coordination* within bureaucracies, i.e. the growing dissemination of organisational hybrids, unprecedented in late capitalism. We will call this process *internal "marketization"*. Internal "marketization" manifests itself in very heterogenous forms that can be distinguished with regard to the degree to which market regulating mechanisms (prices and market contracts) supplant the hierarchical coordination (programmes, orders, and plans) of exchanges within the organisation. Therefore, internal "marketization" ranges from "radical" forms, where the corporation – or parts of it – "dissolves" into the market (Sauer and Döhl 1997), i.e. where exchange relations are established on the basis of (real) market contracts and (real) market prices, to those forms where market relations are (merely) simulated. In the first case, organisational boundaries are radically altered, and market coordination supplants bureaucratic regulation. In the latter instances, market regulation does not supplant, but supplement hierarchical coordination. In its weakest form, the simulation of markets manifests itself in a market-rhetoric of "customer-supplier-relations" within the firm that attempt to make employees "sensitive" for market-demands. But internal marketization also means the introduction of incentive-systems for management and workers that are oriented – directly or indirectly – on performance indices. The prime example for internal "marketization", though, is the establishment of competitive relations for scarce resources on different levels, and between different segments of the firm, e.g. through the creation of cost or profit centres with transfer-pricing exchange relations (Eccles and White 1988; Schweitzer 1992).

Both the ”shareholder-value”-rhetoric, and the new paradigm of ”economic decentralization” offer simple solutions to the coordination and control problems attributed to large scale, bureaucratic corporations. The idea of the (internal) market as a superior governance principle in a decentralised corporation denotes images of a self-regulating, flexible, even ”virtual”, in short: ”post-bureaucratic” organisation. However, these images suppress ”blind spots” of the new paradigm, insofar as they keep quiet about the fact that the demand for coordination and integration *increases* in a decentralized corporation due to growing complexity and mounting insecurity (Drumm 1996; Kühl 1995). Moreover, as a number of researchers have recently pointed out, economic decentralization is likely to generate centrifugal forces within the organisation, insofar as the implementation of internal markets and the establishment of competitive relations within the firm threatens the cohesion of the whole. (see e.g. Deutschmann et al. 1995; Moldaschl and Sauer 2000; Hirsch-Kreinsen 1995; Koller 1998) From a control perspective, then, the ideal-type of such a network-corporation poses the question of how employees within decentralized segments of the corporation are controlled and how their obedience to the organisation is maintained. As we will argue with recourse to the case studies, it is the *”internal contractualisation”* of exchange relations that plays a decisive role not only as a means to implement the idea of internal markets throughout the modern corporation, but also as an instrument that reduces insecurities and control-deficiencies within such a decentralised and ”economized” organisation.

Economic decentralization under the predominance of ”shareholder value”: the case of AutoAG

Our own empirical research did not centre upon an analysis of the structural consequences of the ”shareholder-value”-doctrine (as such) in a German automobile company. The focus of our case studies lay on the consequences of restructuring processes that follow the new paradigm of ”economic decentralization” on lower management and the workforce (cf. Tullius 1999, 2001). As we have argued above however, the new strategy of firm reorganisation and the doctrine of

”shareholder value” are interrelated and amplify each other. Even if the latter did not *initiate* corporate restructuring that follows the new paradigm, it does speed up and legitimize its execution.

At AutoAG, one of Germany’s ”Big Three” car and truck producers, economic decentralization became the role model of corporate restructuring and rationalization in the second half of the 1990‘s. The foundations were laid in the beginning of the decade, when organisational decentralization was initiated in response to the accumulating signs of crisis in the late 1980‘s. However, decentralization basically took place on the ”operative” level and concentrated on the implementation of ”new concepts of production” (Kern and Schumann 1984, 1992), while leaving the centralized, hierarchically structured organization basically unchanged. In addition to the introduction of group-work, a number of ”corporate culture”-programmes were launched, that aimed at altering employee attitudes and behaviour.
Despite considerable productivity gains, from the point of view of management, rationalisation and reorganisation at this stage remained too limited. Since the mid-1990‘s management at AutoAG initiated processes of organisational remodelling on *all* corporate levels in combination with the ”marketization” of intra-firm relations. Back then, a new CEO took office of the holding and made the maximization of ”shareholder value” the main focus of corporate management. In public appearances of the new CEO, statements regarding corporate strategy often culminated in orders like ”profit, profit, profit” and ”speed, speed, speed”. Demands like these obviously were directed towards Wall Street on the one hand, and towards employees and their representatives in the company, on the other hand. This ”shareholder value”-rhetoric worked out pretty good insofar, as share prices (temporarilly) increased, and as the employee representatives on the supervisory board supported the reorganisation and downsizing strategy of top management without having much of an agenda on their own. Besides the profit maximizing-rhetoric, however, this reorientation in the form of corporate governance intensified the re-shaping of organisational boundaries and gave concrete rationalization concepts a new objective.

With regard to *strategic decentralization*, a programme of horizontal and vertical disintegration was put through, that can be summed up under the label ”concentration on core competences”. This policy is directly attributable to a ”maximizing the shareholder value”-strategy, insofar as only those corporate activities are maintained in the medium term in which a company is already market-leader in a segment, and where sufficient rates of return – according to capital-market standards – can be delivered to the shareholders (Hirsch-Kreinsen 1998). All those businesses, however, that do not meet these expectations, are faced with the threat of ”divestment”, i.e. sale, outsourcing, or closure in the near or medium future. At the level of the holding to which AutoAG belongs, this led to a reduction of divisions from 35 in 1995 to 25 in 1997. Each remaining division is supposed to deliver a pre-tax ”Return on Net Assets” (RONA) of at least 15,5 percent: ”This is the hurdle, from which a division contributes positively to the value of the company” (annual report 1998:3; my translation).

As remarked above, the focus of our research lay on the impact that economic decentralization has on the *operative level*, particularly on the role and function of lower management and shop floor workers. In the course of this, our attention was drawn by efforts of plant management to implement market-like contracts in addition to the labour contract as a new means to regulate and control production performance. Before we discuss this issue, we shortly want to sketch the two cases.

The case studies were carried out in two manufacturing plants: an engine plant (*ENGINE*) belonging to the passenger car division, and an axle and components plant (*AXLE*) that belongs to the truck division of AutoAG. In both cases the above mentioned key aspects of economic decentralization were the guiding principles for plant restructuring. However, due to varying circumstances, ”economic decentralization” developed differently. *ENGINE* is a quasi-”green-field” location, that started regular production in 1996. For a new generation of V6- and V8-cylinder engines, AutoAG decided to build a completely new factory (and not build up a new production line in an existing one), that should be designed and operated according to ”state-of-the-art” manufacturing principles: single-purpose plant, a factory building with only one floor, ”JIT-production”, flexible automation, ”flatter” management hierarchies, team work, ”kanban”, etc.. The decision to build the new engine-plant at a German location was preceded by intensive negotiations between management, the works council, and the regional IG Metall union, in which division management threatened to relocate production to another European country. In the following bargaining processes the employee representatives made a number of drastic concessions, that on the one hand considerably reduced personnel expenses and helped to reach the profit-targets given by senior management. On the other hand, these concessions – most notably greater work flexibility, a new compensation agreement and the lowering of social standards – blazed the trail for similar bargaining processes in other plants throughout the corporation. *ENGINE* is operated as a cost centre within an ”engine production centre”, that is run as a profit centre, and whose management is responsible for all types of car engines manufactured at AutoAG. The profit centre itself belongs to a big industrial plant with nearly 20,000 employees, in which other parts of the ”powertrain” (engines, transmissions, axles) are manufactured and accompanying services are provided. This entity is now called a ”business unit”.

At *AXLE*, the internal restructuring process had a rather different starting point. The plant is part of the powertrain sub-division within the truck division of AutoAG and mainly manufactures and assembles axles for trucks and busses. *AXLE* is a ”brown field”-location with a long history of economic crisis and short-time work. Although the truck division claims to be market leader in certain segments, competition always was more harsh (and global) in this business than in passenger car‘s, particularly for components suppliers like *AXLE*. Since the beginning of the 1990‘s the plant operated in the red, and during a meeting of division and plant management in 1995, division management threatened to hive-off the plant, should the local management not be able to cut costs by about DM 140 Million in the near future. This sum supposedly represented the ”cost gap” to other competitors in the market, and was the main result of a ”global benchmark” executed that year. For local managers and the works council, the fact that another plant in this division had been hived-off as a limited liability company (GmbH) the same year – a transformation that gives management more leeway and power in bargaining processes with employee representatives – showed that outsourcing of operations was indeed a serious threat. In the following two years, the local works council agreed upon a set of plant agreements, so called ”Standortsicherungsvereinbarungen” (”agreements to secure the location”), to reach the DM 140 million target. A chunk of DM 50 million was supposed to come through the reduction of personnel expenses, mostly through ”socially acceptable” lay-offs and through wage cuts. Employment in the plant was reduced from 4,500 (1994) to 3,000 (1997), and the works council agreed on a permanent five percent wage cut – a concession unprecedented in corporate history – as well as on a new job performance and compensation system that includes remuneration based on group performance. As in the case of *ENGINE*, the agreements included a flexibilization of working hours as well as working days (three shift system, saturday as regular work day).

In both cases, then, the works councils made considerable concessions to either maintain production in the region (*ENGINE*), or to prevent management from outsourcing production (*AXLE*). These concessions had an immediate impact on cost and productivity figures in both plants. However, reorganisation reached beyond traditional cost cutting and downsizing, insofar as the plant agreements laid the basis for restructuring following the paradigm of ”economic decentralization”. Reorganization strategies of plant management now combine extensified organisational decentralization with the establishment of internal markets as a key coordination mechanism. The main elements are:

- definition of production units as cost centres; in the course of this: enhanced responsibility of centre-management for comprehensive, more complex production processes as well as for economic performance; centres now have to operate within the limits of a devolved budget, both with regard to the centre above, and with regard to other centres within a unit;
- exchange relations between units are increasingly regulated through transfer-prices; controlling functions are decentralized to a certain degree to gather the necessary economic data for performance evaluation; ”benchmarking” is used as a means to evaluate performance between internal, as well as compared to external competitors;
- ”target costing” is used as an instrument to bring product development and production into line with market requirements as early as possible;
- at the same time centralized control on ”strategic” issues (product development, planning, investment) is maintained, not the least through the extensified use of information technology;
- a couple of hierarchical layers are eliminated (2 out of 7); fewer managers have wider spans of control;
- ”groupwork” is the general work organisation principle on the shop floor; group spokesmen are the intermediates between first-line supervisor and work group.

What we want to focus on in the following, is the introduction of quasi-market contracts as a new coordinating and control mechanism on the shop floor. As we will argue, these contracts bring a new dynamic into corporate control regimes.

Internal contractualisation and the role of the first-line production supervisor

Through instruments like benchmarking, target costing, budgeting- or transfer-pricing-policies, market pressure is internalized on the level of the individual unit. On the ”operative” level of direct production the key feature to bring the organisation closer to ”the market”, or vice versa, is the establishment of *contractual relations* as a means for performance control.

At AutoAG, performance contracts are used as a regulating instrument on an horizontal as well as on a vertical axis. Obviously, when a segment or unit buys or sells services to other segments or units in the corporation, and makes an agreement about that exchange, this is a ”horizontal” contractualisation process. Contractualisation on the vertical axis means the introduction of contracts along the hierarchical ladder of the corporation. We will focus on this latter development, and call this process *internal contractualisation*. We want to speak of internal contractualisation to set this process apart from those management strategies that aim at *contracting-out*, that is: externalising, services of all kind from the organisation (see e.g. Sayer 1996; Irmer 2001). In contrast to this, we want to use the term ”contractualisation” with regard to the use of contracts to control *internal relations* that were previously regulated through hierarchical and bureaucratic means.

”Target agreements” as quasi-market contracts

Internal contractualisation on the operative level is marked through the growing dissemination of ”target agreements” (”Zielvereinbarungen”) as an instrument to regulate and control corporate processes. As an instrument for personnel management, ”target agreements” are not new in German corporations like AutoAG. Under the ”management by objectives” (MbO) label they are widely used since the beginning of the 1980‘s among middle and upper managers, as well as in departments at the ”interface” to external markets, like e.g. sales (Baethge, Denkinger and Kadritzke 1995). However, the application of ”MbO” did not aim either at lower levels of production management, like first-line supervisors, or at production workers on the shop floor. What we can observe in the case of AutoAG as well as in many other German corporations today is a growing dissemination of these contracts (Bender 1997, Hlawaty 1998, Tondorf 1998, Kalkowski et al. 2001). It is the *depth of application* of target agreements throughout all hierarchical layers that brings a *new dynamic to rationalization* and also changes the forms of supervisory control.

Within AutoAG, ”target agreements” are seen as a ”key instrument to regulate economic behaviour” (internal paper) on all corporate levels. In 1996, works council and management signed a general agreement in which both sides expressed their belief, that ”target agreements” will become an ”increasingly natural part of the leadership and work culture at AutoAG”. In a legal sense, ”target agreements” comprise elements of a works contract (Schwegler 1997). In contrast to the labour contract, that places the labour power of an employee at the disposal of the employer (and formally not more than that), the holder of a works contract owes a pre-defined result to a client. He is an employer of his own, and receives remuneration only when the contracted result is successfully delivered to the customer: a works contract is a market contract. ”Target agreements” resemble works contracts insofar as they make the individual worker, or work group, responsible for reaching production and other targets that have been defined *ex-ante* in a bargaining process with the supervisor. These contracts do not supplant labour contracts, but are introduced in addition to them, and are legally binding. ”Target agreements” on the shop floor level mark a redefinition of the established forms of the regulation of labour: job performance is now defined in terms of the degree of the fulfilment of production targets that are specified between supervisors and workers. In the course of this, the employment relationship itself is transformed into a hybridized form that gives room for the introduction of market demands.

Internal contractualisation and supervisory control

”[W]hy is there no foreman problem in Germany?”, asked Peter Lawrence in his comparative study quite some while ago (Lawrence 1980: 156), and indeed: particularly for British observers the relative stability of the supervisory role in German industry must have been somehow astonishing (Child and Partridge 1982; Delbridge and Lowe 1997). However, the German sociological debate since the late 1950’s draw a rather different, or ambiguous, conclusion: classic studies from Bahrdt (1958) and Weltz (1964) found evidence for an erosion of the supervisor’s function and authority in the process of technical rationalization and increasing functional differentiation and divisionalization. The first-line supervisors had to cope with dwindling authority while at the same time had to ensure the functioning of a taylorist-fordist production organization. Still, they remained an important social actor and ”hinge” between upper management and work force. Overall, however, in the process of a continuing technical penetration of mass production processes, the supervisor’s future was assumed to be rather bleak. This hypothesis received some backing during the 1980’s in the course of experiments with and the introduction of new organization principles, particularly ”group work”. According to this view, the first-line supervisors, already marginalised by taylorism and advanced information technologies, would finally become obsolete through the introduction of ”semi-autonomous” work systems, which relieve management from regulating and controlling the employees through direct supervision. There are indeed examples of German companies, where the position of the foreman has been completely eliminated. In general however, empirical research shows that the position of first level supervisors has rather gained stability. (Jauch 1997; Kädtler and Hardwig 1998) This stability, we argue, has to be attributed to the fact that in contemporary rationalization concepts aiming at economically decentralising and internally contractualising the corporation, foremen still play a key role. This shall not give the impression that the foremen have not been subject to severe job insecurity: in both of our cases, for instance, the number of supervisors has been dramatically reduced within the 1990’s. At *AXLE*, the number of foremen was cut in half between 1992 and 1998, while in the business unit to which *ENGINE* belongs, only 790 first-line supervisors remained in 1997 (from 1,041 in 1993).

The role and position of those foremen who ”survived” the staff cuts, however, is re-valued. In programmatic concepts regarding the new role of first-level supervisors, they are described as ”partnerschaftliche Unternehmer”. This description indicates that the ”new” supervisor is supposed to think and act like an (internal) ”entrepreneur”, while simultanously has to take on the role of a ”partner” with regard to employee relations in his work system. The ”entrepreneural” function of the supervisor basically comprises the encompassing responsibility for the performance of his cost-center, but has little to do with what a ”real” entrepreneur does, or what the foreman in the 19th century once was capable of doing (see e.g Littler 1982). The cost centres are now subject to a detailed and tight control of performance figures by the controlling department, and the indices are seen as the ”central lever” (manager industrial engineering) for regulating and controlling production performance. Formally, the first-line supervisor now negotiates these performance targets with his department head at the beginning of a budget period and lays them down in a ”target agreement”. In reality, however, the supervisors do not have much influence on the targets, because they are derived (”broken down”) from plant management level, via area management level, via department head to the supervisors. ”Herr W. (the department head) gives the orders. If this would be a real agreement, I would be able to influence a few things. Some things I do need, others I don’t” (supervisor *ENGINE*). ”The agreements are no real negotiations; the number of pieces, for instance, is an order from the plant, or somewhere else. What I can influence to a certain degree is the number of employees in my work system” (supervisor *AXLE*). Consequently, almost 80 percent of the supervisors in *AXLE*, and 43 percent in *ENGINE* considered these ”agreements” to be orders. Nevertheless, 86 % (*ENGINE*) and 88 % (*AXLE*) of the foremen, respectively, now feel ”more responsible for the economic performance” of their work system, due to these contracts.

The supervisors also have to negotiate the production targets they agreed upon, with the work groups in their work system. In the past, the definition of job performance standards (and corresponding remuneration) was an issue that was – within the framework of the union agreement – dealt upon by the local works council on the one side, and the industrial engineering and personnel departments, on the other side. The first-line supervisors were, more or less, onlookers of this bargaining process on the definition of work place performance. Today however, they are back in the arena, as they (together with the industrial engineering experts as ”advisors”) negotiate future performance standards directly with the respective work group. The works council is left aside and takes on the role of a ”grievance agency” in the case that an agreement between work group and supervisor cannot be reached. In the case that work group and supervisor cannot agree upon a target contract, the general agreement provides for a formal procedure. In a first step, the department head and the works council try to clear up the situation; in a second step, the senior manager of the plant enters the negotiation. When an agreement still cannot be found, the ”case” is decided by an external agency (”Einigungsstelle”). In both of our cases, this ultima ratio was never reached, not the least because the pressure on both sides is increasing on each step.

The future performance standards are based on actual data, gathered through established instruments of time measurement (MTM; information systems), but are then specified and refined by workers and first-line-supervisors, and finally laid down in a contract. On top of this ”standard performance”, additional targets (on quality, number of workers in the group, ”system availability”, or group development) are negotiated. In the case of *AXLE*, the fulfillment of these additional targets can compensate for the five percent wage loss, at *ENGINE* the group can receive an extra bonus payment. In sum, this new system of a negotiated ”standard performance” is a complete break with the established system of job performance regulation. Today, the result of the work process is defined *ex-ante* with regard to certain parameters (quality, quantity, resource utilisation etc.), while the way this result is achieved, is laid in the full responsibility of the work groups. Accordingly, the main directive of production management now is: ”I don't care, *how* you make your work! Just get me the numbers!”. From a control perspective, this indicates a shift from an external to an internal regulation and control of work place performance by the work groups themselves.

Nonetheless, ”self-control” – even if underpinned with corporate-culture programmes – remains a conflicting, and potentially risky, undertaking for corporate management. The first-line supervisor plays a crucial role in alleviating the risks of such a form of production organization. While the ”target agreement” provides the framework for ”loosening the leash” of work place control, the foreman has to secure the obedience of the employees to the corporate whole through the bargaining processes on the shop floor. To bring his department and its employees into line with market requirements through the conclusion of target contracts, new skills and different patterns of behaviour are demanded from the supervisor. ”[C]ontinous negotiation of worker's commitment and participation” (Camuffo and Volpato 1997:116) indeed becomes a basic element of supervisory work. Insofar, the coordination and regulation of work performance in the modern corporation has a ”discursive” quality. However, this “discursive” process is of course not free of (the possibility of) the exertion of power on the side of the supervisors, as there is always a power asymmetry in favour of the supervisor in the negotiation procedure. The work groups know, that in the case that an agreement on future performance targets cannot be reached, their supervisor has multiple opportunities to draw upon hierarchical forms of regulation and control: access to internal qualification, the final decision on vocational leave, decision about wage increases, or the renewal of a temporary work contract. Moreover, in both plants the responsibility of the supervisors for personnel matters in general increases, as they have a greater say in the recruitment process as well as with regard to lay offs (cautions). Yet, if the foremen would revert too obvious on hierarchical regulation and control mechanisms, the new system would lose legitimacy pretty fast, and probably would become disfunctional. The crucial point is, that the contractualisation process is itself a formalised, bureaucratic procedure that strengthens the hierarchical position of the first-line supervisor without undermining the legitimacy of the negotiation process. ”Target agreements” provide the supervisor with an instrument that not only intensifies the ”self-rationalisation” of the work force, but also allows for a degree of transparency about the production process, that provides supervisors and staff with detailed work process information. Hardly surprising then, that the chief industrial engineer of *AXLE* describes the new system as ”the best thing that could have happened to industrial engineering”, because he now gets the most precise data about production problems and rationalisation opportunities. According to this manager, a ”rationalisation effect” of 30 percent can be achieved through the implementation of these contracts and the new job performance system.

Taken together, from the point of view of corporate management, ”target agreements” have a number of immensely important functions within AutoAG (and beyond). First, they increase the commitment of all employees, not merely managers, on the economic goals of the firm; to strengthen this commitment, salaries and wages increasingly depend on the fulfilment of economic targets on the level of the holding, the business unit, as well as the individual centre. Secondly, ”target agreements” allow for an internalisation of (market-) risk into the employment relation, insofar as through economic, quality and other indices, derived from benchmarks with internal and external competitors, market competition and market insecurities are induced on the level of production. Thirdly, ”target agreements” constantly expedite rationalisation as they are re-negotiated at least once a year; they also lead to higher levels of transparency about the efficiency and performance situation of production processes, work groups, departments, or units etc. Finally, ”target agreements” help to alleviate the ”classic” problem of transforming labour power into labour as they make self-rationalisation a legally binding interest of the workgroup, while simultaneously allow for centralised and hierarchical control through the top-down negotiation of targets.

Conclusion

German manufacturing corporations like AutoAG that follow the paradigm of economic decentralization are confronted with a control dilemma: the implementation of ”internal markets” in combination with organisational decentralization tends to undermine the established arrangement of power and control. As we tried to show with recourse to our two automobile cases, the establishment of internal contractual relations, specifically on the vertical axis, can be interpreted as an attempt of management to maintain a high degree of centralised control over the production process. Internal contracts like ”target agreements” are a means to internalise market pressure on the shop floor and thus induce ”economic thinking” and self-rationalisation among the work force. Scott (1996: 101/102) has argued, that it is the ”(...) combination of *autonomy without control* which is the underlying source of stability of both social and hierarchical relations with internal markets. Centralized bureaucracy (...) does not give up its power by constituting newly autonomous subjects as long as it retains control of the environment in which the actors operate autonomously.” In our view, it is the establishment of internal contracts that provides the framework that allows management to regulate and control all relevant parameters of the production process.

First-line supervisors play an important role in the process of internal ”marketization” and contractualisation, as they are the ones who have to bring processes and employees into line with market demands, brought to them through devolved budget and new controlling policies. They do so by continuously re-negotiating the actual performance targets with the work groups. Of course, this requires new social and managerial skills from the foremen, as these targets have to be set in a ”discursive” process. Like in the past, they are the ones who have to reconcile production process demands with the sometimes contradictory, or conflicting requirements of the whole, and at the same time have to secure the production and reproduction of the structures of control and domination. First-line supervisors are needed to (at least) alleviate, if not solve the new contradictions that capitalist rationalization produces. On the one hand, foremen assumes more responsibility and gain more authority within production. In the course of this, the foreman’s role is strengthened. On the other hand, the supervisors position and role remains volatile and ambiguous, as, firstly, increased responsibility means accountability even in circumstances that the foremen cannot really influence. As long as key parameters within their work environment are defined by other actors within the corporation (upper management, engineering and controlling departments) their managerial autonomy is actually rather limited. Secondly, not all the supervisors in our two case studies benefit from the new ”leadership”-programme, or have the skills to assume the role of a ”partnerschaftlicher Unternehmer”. It remains an open question so far, how continued reorganization and rationalization at AutoAG will particularly affect this group of first-line-supervisors. There was widespread believe among the supervisors we interviewed, however, that their job security is far from being assured.

In an age of ”financialisation” and ”shareholder value”, German corporations like AutoAG change their internal structures and processes to adapt to the ”new competition”. Organisational boundaries are re-defined in a way that allows for the introduction of market regulation instruments within the ”technical core” (Thompson 1967) of the organization. New forms of internal coordination and control are established, that create an environment of ”cooperative competition” within the corporation. In the course of this, bureaucratic control is not supplanted by ”indirect”, or ”discursive” modes of control and domination. The modern corporation utilizes new instruments to simulate market relations (and therefore stimulate competitive behaviour) *within a modified bureaucratic structure*. The modern corporation of mass production is not ”post-bureaucratic”: In the light of our findings, it seems justified to say that current reorganization strategies remain a bureaucratic project (see also Wolf 1999).

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