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# Institutional Complementarities in Business Systems and Labour Markets

**Miltiadis Panagiotopoulos** 

July 2009

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#### **Abstract**

The academic literature is inconsistent about the evolvement of the German industrial relations network and varies between theories which emphasize its versatility or forecast its probable deterioration. The study will try to demonstrate that a decentralized version of industrial democracy, with works councilors supporting trade unionists, provides for an alternative against the liberal market economies, and it can be a main ingredient in the process of increasing European integration. Social partnership and collective organization are different as regards the explanation of the development of the capitalist system, on the one hand emphasizing cooperation between management and labour and on the other the contrary. The thesis will make an effort to demonstrate that the two propositions are not real substitutes, and provided that the environmental factors are favourable, they can become complementary parts of a coordinated design for the revitalization of trade unions in Britain. The publications about the transition of corporate governance in France are controversial fluctuating between opinions proposing the integration of socioeconomic qualities, to the fragmentation of distinct and persistent systems by the interdependence of their attributes, or the predominance of the qualities of a single network. The study will try to demonstrate a genuinely interdisciplinary perspective which emphasizes on the strong affiliation of economics and political science with financial markets and workplace relations in the course of institutional transformation.

#### **Keywords**

Institutional Complementarities, Industrial Relations, Trade Unions, Corporate Governance

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# **PROLOGUE**

"Democracy is a charming form of government, full of variety and disorder, and dispensing a sort of equality to equals and unequals alike." (Plato)

**Miltiadis Panagiotopoulos** 

### (1) INTRODUCTION

#### **Summary**

In an effort to expand on the concept of institutional economics, and to deepen understanding on the relationship between national political, economic, and social structures with business strategy and objectives, the focus of the thesis is on the difference of liberal and coordinated markets but without classifying every other variety of capitalism as a hybrid model that selectively combines elements of these two archetypal systems. This is a more skeptical approach that has a basis in prior debate which tries to demonstrate that there is more than one path to economic success (Hall and Soskice, 2001). By avoiding this simplistic dichotomy the study goes beyond these bipolar distinctions, it identifies other distinct varieties of capitalism, and suggests that all countries do not necessarily have to adopt free market fundamentalism. It is an effort to propose a distinct interpretation of comparative institutional advantage that changes our perception on the role of business in national economies, by describing the way a government or a company responds to the needs and requirements of globalization, and by trying to explain the manner in which the economy is directed with reference to international relations.

Accordingly, the thesis draws attention to the role of the firm in comparative economics. It tries to offer some original insights and innovative arguments on public policy making which reflect on the role of business in the growth of the economy and the challenges faced by those who make decisions in modern enterprises. By bringing into prominence institutional complementarities in industrial relations, financial markets, and the comparative politics of the welfare system, the study is drawing from relevant literature in an effort to go further than this and contribute to the research on disciplines such as state politics, corporate governance, and organizational change (Esping-Andersen, 1990; Polanyi, 2001).

In particular, the academic literature is inconsistent about the evolvement of the German industrial relations network and varies between theories which emphasize its versatility or forecast its probable deterioration (Hassel, 1999; Streeck, 1992). The study will try to demonstrate that a decentralized version of industrial democracy, with works councilors supporting trade unionists, provides for an alternative against the liberal market economies, and it can be a main ingredient in the process of further European integration. Social partnership and collective organization are different as regards the explanation of the

capitalist system, on the one hand emphasizing cooperation between management and labour and on the other the contrary (Kelly, 1996). The thesis will make an effort to demonstrate that the two propositions are not real substitutes, and provided that the environmental factors are favourable, they can become complementary parts of a coordinated design for the revitalization of trade unions in Britain. The publications about the transition of corporate governance in France are controversial fluctuating between opinions proposing the integration of socioeconomic qualities, to the fragmentation of distinct and persistent systems by the interdependence of their attributes, or the predominance of the qualities of a single network (Berglof, 1997). The study will try to demonstrate a genuinely interdisciplinary perspective which emphasizes on the strong affiliation of economics and political science with financial markets and workplace relations in the course of institutional transformation.

#### **Central Focus**

Since the late eighties the procedure of European convergence has brought about substantial policy changes in all EU member states. The European Union has surpassed all other international trade organizations in assisting its member states to adjust to the financial pressures of economic globalization, even though at the same time it has tried to restrain them, particularly in the areas of fiscal and industrial policies. Besides, this was achieved by means of a fairly large number of rules and regulations in relation to organizational change that surpasses all other supranational and nationally specific trade organizations in order to bring the European economies into conformity with external requirements (Schmidt, 2001). It was inspired by an ideology associated with a universal grand project for socioeconomic liberalization which has been much more irresistible than in all other international trade organizations, and which has helped to enhance the neo-liberal doctrine associated with the globalization of the economy. Of course, other international trade organizations like the WTO are not much less associated with socioeconomic liberalization but the argument is that the EU operates through a hybrid system that increasingly relies more on supranationalism and less on intergovermentalism, it is an economic and political union with its own history, governance, foreign relations, justice, economy, development, demographics, and culture, and this is why it exerts a much greater influence on its member states.

The thesis makes an effort to contribute a systematic enquiry of the most important vantage points related to policy changes across different areas; it uses as a basis or foundation the critical reading of the existing literatures, both generic and nationally specific in the field of comparative public policy (Scharpf, 2000; Schmidt, 2000; Scharpf and Schmidt, 2000). The central focus of the study is on the policy changes of three contrasting European national economies, Germany, Britain, and France. To develop its main argument which is to emphasize a high degree of persistence, although in changing forms, in the face of globalization and neo-liberalist tendencies, the study focuses on national differences in relationships between trade unions and works councils, set in context of corporate governance. After providing for definitions of the interceding variables associated with organizational change, it researches the mechanics of adaptation in a genuinely interdisciplinary manner across a full range of sectors such as public policy, financial markets, and the socioeconomic environment by taking into consideration Europeanization and its relation to globalization.

Therefore, the central focus of the study as regards the academic literature is not on the ontological debate on Europeanization, or the disagreement about the intergovernmental and supranational nature of the hybrid system that the European Union operates through, or about the development of a power equilibrium at the international level, but instead it focuses on the post-ontological matters in relation to the effect of the EU at the national level irrespective of the developing power equilibrium. It would be beyond the scope of the thesis to explore what is the influence of the European parliament on national governments, how the European legislation infringes on national law, how national governments have replied to the European parliament, how national political factions have reacted to the European Union, and how national interest groups have behaved under the pressure of European legislation (Blank et al, 1996; Caporaso et al. 2001; Coen, 1997; Eising and Kohler-Koch, 1999; Harmsen, 1999; Ladrech and Marlière, 1999; Mèny et al, 1996; Morlino, 1999; Rometsch and Wessels, 1996). With regard to European integration the study is limited to the effect of the European legislation on national policy changes and it does not have the aim or objective to research different aspects of European integration, particularly the effect of the European Union on polity as opposed to policy.

Even though there is not enough space in the introduction to analyze in more detail the intricacies of organizational change, but for this, see the three case studies, in order to provide a comparative aspect between the three individual chapters we can draw attention

to the discrepancies and irregularities in economic vulnerability associated with globalization which made institutional transformation more compulsory in Britain in the eighties than Germany in the nineties, and to Europeanization, especially the European Monetary Union that urged France to transform itself since the turn of the century. We can also point to the differences in political capacity to introduce organizational change when a country faces street riots, like in France, or the resistance of labour institutions to institutional transformation in the welfare state, like in Germany, as opposed to the passive reaction of citizens and demobilization of trade unionists in Britain. We can draw attention to policy legacies as well, that made it less complicated for Britain to transform its liberal welfare system than Germany and France with their heritage of a Bismarckian conservative welfare state (Rhodes, 2000). In the organizational change of social policy more than in any other area, elite circles have found it much more difficult to convince the people of the usefulness of reforms, even when they could demonstrate their suitability. The government in Britain had to continue with conservative politics and a restoration of the Thacherite neo-liberal doctrine, with the discourse of the third way that promotes the usefulness and suitability of reforms by using a language and vocabulary that resonates better with the people in Britain. The government in Germany, nevertheless, has not yet managed to convince the general public of either the usefulness or the suitability of important reforms (Scharpf, 1997; Schmidt, 1999). The government in France unlike past administrations on both the right and left sides of the political spectrum that promoted the usefulness of reforms but not their suitability had to make a sudden, complete, and marked change in the reforms of its corporate network in an effort to balance effectiveness with equality.

The thesis focuses on the way Germany, Britain, and France have responded differently to the economic pressures of globalization, but also demonstrates that some similarities do exist (Marks et al. 1996). In Britain, the pressures of globalization emerged early, there was substantial policy adjustment, it expected most of the institutional transformation associated with European integration and ultimately adopted most of the rules and regulations of the European Union. In Germany, the pressures of globalization and European integration emerged late; it initially reacted with inertia to the rules and regulations of the European Union but eventually reformed itself with several policy changes. In France, the pressures of economic globalization emerged as early as in Britain, it reformed itself early in certain areas with policy changes related to European integration, but replied late and with inertia to the rules and regulations of the European Union in several other areas, particularly in the service public sector.

#### **Aims and Objectives**

Before locating the three individual case studies in relation to arguments about different varieties of capitalism, but for this, see the separate literature review, they need to be referred to the overall aims and objectives. Because of the genuinely interdisciplinary nature of the study, a relatively large number of research questions had to be answered. However, in an effort to demonstrate clarity and focus, by reflecting on what the analysis chapters did and what they contain, the aims and objectives are summarized in as few research questions as possible.

- To explore the connection between works councils and the adaptability and endurance of trade unions in the complex world of global markets.
- To add to the research of the process of organizational change through incremental adjustment.
- To inquire into the reorganization of national trade unions in those areas which appear to be the most important.
- To explore the impact of stakeholding on the role of trade unions as regards the relations between employers and employees.
- To add to the research on the decline of unionism and try to determine if the late developments point to regeneration.
- To inquire into the effect of European statutory legislation on national industrial relations and trade unions.
- To explore the emergence of entrepreneurial culture based upon the propositions advanced by historical institutionalism.
- To add to the research on the effect of foreign direct investment on the organizational structure of corporate governance and industrial relations.
- To inquire into the way the three varieties of capitalism, Germany, Britain, and
   France, have all been adjusted by moving towards different directions.

As mentioned above, because of the genuinely interdisciplinary nature of the thesis and as the focus was not in researching or finding more specialized uses for institutional theories, but in understanding the fundamental processes of the economy and the inner workings of the weave of capitalism, the fabric that underlies all western societies, there was an effort to gain a deeper understanding of the political, economic, and social environment by discerning its underlying principles. Therefore, to truly understand the economy or the

society, and to understand all their expressions, the thesis does not limit itself to studying particular theories. Because of this, and due to the particularities of the three countries compared, it is why the three case studies had to take different approaches, but still disciplined and systematic, in some respects. However, these approaches should not be considered as overall aims or main objectives but they should be thought as sub-aims or sub-questions that developed as ideas during the progression of the analysis chapters.

With regard to the first chapter in particular, the study tried to introduce a debate on institutions distinct in many ways from interpretations based on individual or political choice, to explain that the evolution of corporate governance should not be disengaged from the reformation of welfare systems, to expand on the concept of institutional complementarities by displaying the influence of operational management on the welfare state, to give an account of the late institutional structure which serves as an illustration of the adaptation of eastern industrial relations to western standards, to discuss the uneven process of convergence between East and West Germany after unification, to examine the importance of coordination between employers and employees with a view to contribute to the continuity versus change academic debate for Germany, to make a contribution to the main part of research by illustrating some concepts about the possible German transformation, and to supplement the approach of varieties of capitalism with new concepts that make it more appropriate for an East-West comparison.

With reference to the second chapter in specific, the thesis made an effort to propose that labour institutions should be in favour of a cooperative relationship with management on the condition that the corporate environment is favourable, to argue that trade unions are necessary for collective action and should not be thought as outdated organizations, to maintain the theory that organizational change can originate from a gradual evolution as well as a radical shift, to study the degree to which social partnership and collective organization are real substitutes or whether they can emerge complementary, to enquire into the evolution of stakeholding and business ethics by exploring the attitudes of workers in Britain, to research the dispersion of the organizing model and collective organization in the United Kingdom, to describe a form of neo-pluralism which provides for an essential supporting structure for the revitalization of industrial relations, and to discuss the influence of American corporate governance on British workplace relations and labour institutions.

With regard to the third chapter in particular, the study tried to illustrate that a well established network of corporate governance has gone through several changes, to argue

that entrepreneurs have emerged as influential in the maintenance of a style of business administration that encourages the creation of shareholder value, to determine the reasons for the increased significance of financial markets in developed economies, to suggest that statist economies like France have changed from state mediated to state enhanced, to portray that countries such as France which may have not been equipped with a solid regional infrastructure are still capable of organizational change, to argue that a French version of Taylorism has developed into a contractual model which emphasizes on coordination and consensus, to propose that what can be expected instead of the dismantlement of French cross-shareholdings is their adjustment to global markets, and to answer the question whether privatizations have contributed to the improvement of corporate governance and industrial relations in France.

#### **Original Contribution**

I will now make an effort to identify the original contribution of the thesis by providing a detailed explanation of how it added to, or challenged specific literatures, or concepts. Originality was sought through building on and extending the work of Robert Boyer and Gøsta Esping-Andersen. The study challenged the general notion that regards the conjunction of two distinct varieties of capitalism as impractical (Höpner, 2003). A detailed examination of the reforms in corporate governance and workplace relationships, convincingly demonstrates that the codetermination, exemplifying most nearly the essential characteristics of the German variety, has turned out to be consistent, at least until now, with the acceptance of the language, vocabulary, and to a certain extent practice of equity ownership. The thesis analyzed different interpretations of this puzzling matter, synthesizing the concepts built by several institutional theories. It was significant to critically analyze the proposition of strict organizational complementarity between codetermination and the other essential characteristics of the German model, and then to compare this variety with the Anglo-American model. A strong argument advanced for the first time the concept that institutional complementarity is not necessarily a dyadic relationship between the stockholders and the system, but probably a triadic relationship, because it is only through a rich welfare state that allows early retirement and voluntary redundancy, that the coexistence of equity ownership and the determination of policy between management and labour becomes practical. The study defied the proposition of strict organizational

compatibility and examined the discrepancies and irregularities between mere, weak, and strong compatibility.

An important argument about the systemic divergence of capitalist models is that the cohesion and durability of certain organizational structures are dependent on the compatibility of their component parts. This theory was brought forward in order to compare the American and British to the Japanese and German institutional configurations as well as other similar varieties of capitalism (Aoki, 2001). This theoretical perspective was also relevant to the French model of capitalism, in agreement with several scholars (Amable, 2003; Crouch and Streeck, 1997; Hall and Soskice, 2001). From this point of view, for any organizational structure, corporate management is of critical importance in the formation of institutional complementarities between microeconomic and macroeconomic issues.

The Anglo-American organizational structure has clearly demonstrated institutional complementarities across the fields of corporate governance and workplace relationships, as well as the industrial policies of the companies (Boyer, 2005). Besides, the system of shareholder value has indicated a cutback in the distribution of dividend yields to employees. This was also the reason for an increased pressure on wages and the dispersion of versatility in labour markets. In comparison with the German institutional structure, the allocation of resources between wages and profits was quite dissimilar and at the same time more risk was transferred from the employers to employees.

The arguments of the thesis tend to a common result, this is to indicate a possible incompatibility between shareholder value and employee involvement. However, two distinct interpretations of this conflict are provided. The main focus of the first interpretation is on the proposition of the presence of institutional complementarities and forecasts the emergence of two distinct organizational structures, in accordance with an examination related to the concept of supermodularity (Boyer, 2004). Furthermore, there is another interpretation of the academic literature where the study tries to present, critique, and extend concepts borrowed from the field of political economy, and emphasizes on the idea that there is a tradeoff between employers and employees in terms of authority. As a consequence, we can expect a persistent distribution of cases, limited to one nation, that relate to the incompatibility between the two ultimate institutional structures of America or Britain on the one hand, and Japan or Germany on the other.

The first interpretation suggests that co-determination and shareholder value are incompatible but only by definition, because at least in theory it becomes easier for empowered employees to oppose major shareholders (Kostyuk and Panagiotopoulos, 2008). However, if the restructuring of corporate governance, through voluntary redundancy or early retirement is facilitated by a generous social security system, co-determination and shareholder value become complementary by the inclusion of one more institution in workplace relations, and this is the welfare state (Esping-Andersen et al, 2003). In fact, a threefold compatibility like this was evident during the golden age of industrial relations in Germany and France even though the context was not the same, the patient capital that was provided by banking corporations was compatible with the empowerment of employees at the company level, because of co-determination and works councilors, and at the national level, because of centralized bargaining (Boyer, 2000). An institutional complementarity like this confirms the role of the welfare state as a facilitator for corporate restructuring.

From a theoretical point of view, a second interpretation is based on an idea that challenges the proposition that the successful performance of the German and French economies was closely related to the institutional complementarities across codetermination, works councilors and organized negotiations. One of the organizational compatibilities persists, but its significance is changed, while the other has been subsiding. Another somewhat different interpretation indicates that it is hard to differentiate complementarity from compatibility (Streeck, 2005). For the most part the reaction to unforeseen conditions of instability in social, economic, political, or international affairs, and radical organizational change, are dependent on the degree of slack between the component parts of a certain organizational structure. Retrospectively, the German and French varieties of capitalism have demonstrated plenty of room for reorganization and adaptation to external requirements (Kitschelt and Streeck, 2003). This is how the thesis replies to the inconsistency in the academic literature mentioned above, despite of what has been assumed previously, Germany and France although quite distinct from stereotypical neoliberal systemic configurations, have displayed at least up to now a lot of versatility. The external labour market flexibility of large firms in the United States and the United Kingdom materializes in Germany and France by means of an internal labour market flexibility that is reinforced by the coexistence of codetermination and works councilors.

### (2) LITERATURE REVIEW

#### Varieties of Capitalism

I will make an effort in this section to locate the three case studies more clearly in relation to arguments about different varieties of capitalism by providing a literature review. These are discussed later in the study, but need to be engaged with in greater depth in the introductory chapter. This too will help to integrate the three case studies and to provide a comparative aspect.

A definition of Rhenish Capitalism is that of a system of capitalism characterized by nonmarket patterns of coordination by economic actors and extensive state-regulation of market outcomes (Albert, 1993). In comparison with other varieties of capitalism, the organizational structure of the Rhenish model can be summarized by the following stylized account which draws on a typology developed by scholars (Hollingsworth et al. 1994). Markets are constitutionally established and subject to restraints, and considered to be formations of public policies which come into effect to serve a public purpose. Firms are thought as socioeconomic organizations, and not simply as organizational structures of contractual relations or the possession of their stockholders. Coordinated market economies are not markets for control. The modern national state is neither laissez-faire nor étatiste, and can be defined as an enabling state. In the German hierarchical system, jurisdiction is subdivided between the parliament and a few sovereign bodies such as the Bundesbank or the Federal Cartel Office. Prior to European Monetary Union and German reunification the government was strongly devoted to international competition and a hard currency. Extensive collaboration between rivals in business or commerce and organized negotiations between social partners via publicly enabled associations is the most distinct characteristic of the Rhenish variety. Corporate governance is also subject to restraints by the publicly enabled associations. More than anything else, regulated markets are the most significant source of egalitarianism in the country. The style of financing is best described as long termism. Nothing in the above is to suggest that the institutional configuration that made up the German system in the eighties and the nineties was created in one piece, or created for the economic purposes that it came to serve (Crouch and Streeck, 1995). The main argument of the first chapter is that Germany has gone over the last ten years through

incremental adjustment heading towards a hybrid model but still remains distant to a liberal market economy.

The political, economic, and social success of Germany in the recent past was supported by a comprehensive network of organizations between the social partners, like members of parliament, bank managers, works councilors, and trade unionists. Without considering that Germany was primarily a liberal economy, there were a large number of informal negotiations which made academics to describe it by using definitive terms such as bargained political economy or democratic corporatism (Katzenstein, 1985). Steady and cooperative relations of chief executives and bank managers were of special prominence. British and American experts described this organizational structure as a special version of a coordinated market economy where extra benefits assisted big firms to sign abiding contracts and upgrade skillfulness, and they were favourably disposed towards this economic model as opposed to the more fragmented and not as efficient Anglo-American variety (Soskice, 1990; Turner, 1998).

The first case study tries to contribute to the main part of research by demonstrating evidence about the German transformation. On average the recent trends are defined as incremental adjustment in the Rhenish variant of the stakeholder economy. The incremental adjustment has taken place in the areas of organizations and of practice. In the area of organizations, in particular, the post-unification alliance of stakeholders has not been substituted for small shareholders. Instead, this post-unification coalition has been supported by the admission of institutional investors into the alliance. Accordingly, a major argument of the first chapter is the emergence of a new reinforced stakeholder coalition in Germany. In the area of practice, the well-founded ideals on which German firms have relied for so long, have not been succeeded by shareholder value but have been augmented by the stakeholder alliance. Compared to the economic models in the United States and the United Kingdom, the Rhenish variant can best be described as negotiated shareholder value, which is defined by a couple of distinctive characteristics (Vitols, 2003). The implementation of policies to maximize the shareholder value of big firms has to be debated with the representatives of the stakeholder coalition, particularly institutional investors and bank managers. To strike a middle course in a stronger post-unification alliance, policies to serve shareholder interests are consistently adjusted with the purpose of taking into consideration the political, economic, and social environment. A wide range of strategies, like remuneration incentives were designed to bring into agreement the investors, the managing

directors, and the employees, as a result the German model persists as different from the one in America or Britain.

A definition of Anglo-Saxon Capitalism is that of a system of capitalism characterized by extensive market coordination by economic actors and relatively neutral patterns of governmental market regulation aimed at maintaining property right institutions without privileging particular social actors (Albert, 1993). Compared to other varieties of capitalism, the two philosophical stands which underlie the Anglo-Saxon model are the adversarial and evolutionary principles. In particular, this model, which can be defined as a free market, provides for firms to seek investment and strive for superiority in the stock exchange. It is in the adaptability of labour markets that a free market economy essentially differs from others. Advocates of this flexibility and competition argue with conviction that sometimes minimum wages might be an obstacle. If we observe, then, the two primary elements of the Anglo-Saxon variety of capitalism, the approach is one of dynamical interaction, continuously developing, continuously evolving. It is not a variety in which the state inputs to extract the demanded outputs. Although it is primarily competitive, the contest between rivals in business or commerce is formally constrained by financial regulation. When we look over the attributes of the Anglo-Saxon model of capitalism, armed with these twin insights, we can see why it comes to have the characteristics that make it distinct from other varieties, and give it a unique identity. Its approach always is to maintain competition where it can, and to keep its operation flexible as much as possible. The two principles mentioned above keep its outcome spontaneous and unplanned (Pirie, 2000). The main argument of the second chapter is that the United Kingdom has become more European in recent years but the inherent characteristics of a liberal market economy still persist.

It is now more widely accepted that employees are not simply members of staff but proprietors and customers too, and these multifaceted characteristics create distinctive and conflicting interpretations of the organizational operations (Heery, 1993). For that reason, the research of social partnership in workplace relations can now include chief executives, managing directors, as well as the work force. The literature on stakeholding and business ethics indicates that an improved version of pluralism should not only have an impact on the settlement of differences, but also have an effect on the reconciliation of tasks (Ackers, 2001). The concept of an industrial relations system has been explained, until recently, in relation to economics, as the need for employers and employees to enhance productivity (Ackers, 2002). The network of workplace relations can sometimes include an element of

coercion; nevertheless, it also requires other modes of operation based on long standing relationships of loyalty and mutuality. High commitment human resource management champions the idea that an industrial agreement is not good enough, but it implicates certain external and non economic values and principles. In other words, a relation like this has to be taken as both an economic relation and an ethical relationship.

By building up separate ideas into a coherent whole, the second case study argues that organization is consistent with partnership (Allen and Haynes, 2001). In fact, an American style of collective organization appears to be complementary to a European version of social partnership. It is by means of offering a chance and simultaneously exercising power that labour institutions in Britain will have the capacity and the authority to take advantage of a cooperative industrial relations system. The second chapter suggests that it will be best for trade unionists to support union management collaboration provided that the conditions are advantageous. The proposition flowing from this research defies the notion that concepts like partnership and stakeholding are inert and result in the disintegration of trade unions.

A definition of French Dirigisme is that of a term derived from French word diriger referring to the control of economic activity by the state, used predominantly in connection with the practices of French governments of both Imperial and Republican varieties (Albert, 1993). In comparison with other varieties of capitalism, the French dirigiste model has developed over the last ten years into a more market oriented variety, without much interference from the government. At the end of an era of protected reformation between the early eighties and the late nineties, when the role of the state, to a large extent, was to manage the economy, there was a withdrawal of the government and the elite circles behind it. This research takes into consideration a number of scholastic arguments in relation to modern France. The emphasis is on business administration and workplace relations, and it demonstrates that arguments of Anglo-Saxon reform should be handled with caution. It illustrates that it is necessary to clarify the significance of statist values and principles of the French model, by enquiring into its unique identity and inherent characteristics. It also emphasizes on the impact of organizational change on the financial markets and corporate governance of France by tracing the cause and effect of the transformation of the French variety, paying equal attention to regional, national, and global trends. This is probably the way to understand the nature of the complicated organizational ensemble that constitutes the French model of capitalism. Some scholars point to changes in data, and focus primarily on headline rates of change in levels of stock market capitalization and volumes of share

trading, as both have seen large increases this decade compared to the eighties and the nineties (Clift, 2004). The main argument of the third chapter is that France has become more Anglo-Saxon but the government still retains a central role which makes it more akin to a coordinated market economy.

The nature of French corporate governance can be defined by government interference, and state subsidies, and until as recently as the eighties, the government was the most significant player of the national financial markets. There was a growing concern, in consequence, that large firms will not be able to make a successful comeback. In fact, it was reasonably expected that the reformation of French corporate governance would be an effort made by the state (Cohen, 1989). With the objective of breaking out of the unpredictable and old fashioned system in which they were trapped, ever since the French version of Fordist production had passed its heyday, the large firms needed more than a gradual evolution (Hancké, 2003).

With reference to the third case study, it demonstrates that the chief executives in France have changed their mind on the dispersion of shareholder value. Most of them now believe it is not right to look upon this development as something undesirable because it helps the refurbishment of the French variant. The managing directors will have to take into consideration the shareholders' demands, and try to satisfy the need for the increase of dividend yields. A few of them have spoken about the concept of uncertainty as they have to adjust to the progressively fashionable ideology of equity ownership (Morin, 2000). A small number still appear to be unaffected by the spread of this innovation which they nevertheless have to adapt to. Besides, everybody acknowledges it is now impossible not to practice the code of conduct that relates to it.

#### **Path Dependency**

The theoretical perspective of path dependency makes a regular appearance at various points in the thesis and needs to be explained in some detail in the introductory chapter. Besides, to engage with the theory of path dependency in the literature review is quite significant due to the implications for the issue of convergence to the best of the three systems analyzed in this section.

A standard explanation of path dependency is that it is something that occurs as a consequence of switching costs when factors which determine efficiency are no longer what they used to be. An efficient arrangement in the past may be inefficient today. It is assumed that the potential effectiveness or advantage caused by the reform of organizational structures may not be enough to compensate for adjustment costs, and society may rationally maintain the evidently ineffective institutional configurations (Bebchuk and Roe, 1998). It is not exactly the same concept with Pareto efficiency, but does not differ significantly from this concept as amended by the Kaldor-Hicks criterion. From one perspective, a definition of Pareto efficiency is that given a set of alternative allocations of, say, goods or income for a set of individuals, a change from one allocation to another that can make at least one individual better off without making any other individual worse off is called a Pareto improvement (Barr, 2004). From a similar perspective, a definition of Kaldor-Hicks efficiency is that an outcome is more efficient if those that are made better off could in theory compensate those that are made worse off, so that a Pareto improving outcome results (ibid. 2004). Therefore, one has to simply replace the technical term efficient by the colloquial better.

An alternative explanation of the path dependency draws on an interpretation founded upon the theories of evolutionary biology (Roe, 1997). The argument in this case is that the evolutionary procedure leads organizational structures to local optima. As a result, the local optima are distinct from the global optima. What is the best, and evidently most efficient local optimum, is dependent on the evolutionary stage at which a living organism or institutional configuration is in a certain point in time, and as this process of natural selection is variable over time, national political, economic, and social structures evolve differently. Therefore, the evolution of all organizational structures is path dependent. What is necessary for the theories of biological evolution to convince us is the hypothesis of the absence of intellectual insight with regard to the members of society who are always thought to act or react as if they made rational choices. National business systems which may give rise to path dependency can exist even though switching costs do not exist, and because adjustment costs cannot be described in a specific manner, path dependency can sometimes occur as a consequence of evolutionary myopia (Schmidt and Spindler, 2002).

# (3) METHODOLOGY

#### **Ontological Approaches**

In properly perceived methodologies we first have to decide on the way in our search for truth. Are we convinced by the paradigm of positivism, which maintains that reality is out there for us to discover? Or is knowledge constructed by the intellect of people and by individuals in our society? Predictive dialectics, although a positivist and reductionist system of theory, renounces positivism and regards it as idealistic, because it focuses on the events and does not inquire into the preceding circumstances (Ash, 1988). On the other hand, constructivism is an ontological theory in philosophy that considers all reality as constructed, on the presumption that it does not reproduce to the mind any transcendent actualities, but it is dependent on convention, intuitive perception, and socioeconomic experience.

"And irrespective of what one might assume, in the life of science, problems do not arise by themselves. It is precisely this that marks out a problem as being of the true scientific spirit, all knowledge is in response to a question. If there were no question, there would be no scientific knowledge. Nothing proceeds from itself. Nothing is given. All is constructed." (Bachelard, 2001)

To clarify the overall theoretical approach, it must be said, the thesis has followed the paradigm of constructivism. In the field of international relations, constructivism is not simply an epistemological theory but it is the application of constructivist theories on the research of global issues. It demonstrates that an essentially realistic concept like power politics is the offspring of social constructivism, in other words it does not result from divine will or nature's wisdom but it is formed by humans. Social constructionism has paved the way for several scholars to conduct research on various topics in the field of international relations (Wendt, 1999). Since the eighties and the nineties the concept of social construction has developed into one of the most prominent theories in the research of world affairs. Most of the issues analyzed in the study are taken from a constructivist perspective by inquiring into the attitudes, concerns, objectives, and other determinants of social reality which are defined as the social constructs. By emphasizing on how language and vocabulary are used to transform the social reality of the economic environment, the thesis is more optimistic about the progress of international relations than other studies

committed to a crude form of materialism, and presents an alternative to the major theories of international relations, neorealism and neoliberalism, while it remains consistent with historical institutionalism.

An explanation of a social construction or a social construct is that through the interaction of various actors, typifications, also known as mental patterns are gradually formed and these standard assumptions eventually develop into habitualized and mutual roles which are performed by the various actors in a complementary manner (Berger and Luckman, 1967). When these typifications grow into routine duties, the habitualized roles are considered to be institutionalized. As cultures are born and societies evolve, meaning is implanted and institutionalized into individuals, and common sense knowledge and therefore belief regarding what is real is also implanted and institutionalized into the organizational frameworks of political, economic, and social systems, consequently, the institutions of those systems are considered as part of what is real.

Historical institutionalism is a method of inquiry used by several scholars (Clark and Foweraker, 2001; Katznelson and Milner, 2002; Skockpol, 1995; Przeworski, 2004). As mentioned above, the thesis remains consistent with historical institutionalism, a comparative approach which does not inquire into the particular attributes of a system without taking into consideration the political, economic, and social environment. An advantage of this approach is that the study benefits from the observation of the various institutional complementarities across private organizations with regard to microeconomics and across public organizations with regard to macroeconomics. The thesis inquires into the interdependence of the national state with corporate governance and workplace relations. It is discussed that education and vocational training, for instance, are influenced by the interaction of business administration with industrial relations. Every socioeconomic factor is independent to some extent but also forms part of an interrelated network.

"A nation should and can learn from others. Furthermore, when a society identifies the natural laws of its development, and the ultimate goal of this work is to reveal the economic laws that govern the motion of modern society, it can neither skip over nor outlaw the objective stages of development. But it can shorten and ameliorate the birth pains." (Marx, 1999)

The most important thing about historical institutionalism during the last ten years has been to realize the role of ideas in the study of political economy. Unless one is familiar with

institutional theory, one may be surprised to find out that ideas play no role in most of the current research. Marxism, Pluralism, Nietzscheism, all advocate that ideas are the motive power of thought, and that ideas are either arguments or merely noise. Although mainstream scientists have no reason derived from experience to claim that ideas are not relevant to political economy, it is not easy for ideas to become quantifiable and are often omitted from research basically for reasons of practicality. Historical institutionalism, nevertheless, is not related to a specific political ideology or to a particular methodological approach; as a consequence, insights and ideas may be very important for the analysis. To be sure, not all historical institutionalists are specifically concerned with the role or power of insights and ideas (Campbell, 2002).

Historical institutionalism is better understood if we think of economists and political theorists as a multi-generational research community that results in a powerful accumulation of findings, including sometimes falsifications, but usually substantiated arguments (Pierson, 2004). Every thesis, dissertation, article, or paper is a contribution to knowledge and a reexamination of events that take place in history. As scholars have argued, case studies, another methodological advantage of this approach, can do more than generate theoretical ideas, they can test theoretical propositions, and they can also offer persuasive causal explanations, noting the persistent skepticism towards historical case study work, scholars go on to argue, correctly, that it rests on the mistaken idea that a single case marks a single observation (Rueschemeyer, 2003; Steinmo, 2007). A literature review that is historically oriented reexamines the subject at various points, and therefore provides for much better interpretations.

### **Analytical Techniques**

The political, economic, and social disciplines are methodologically diverse using both qualitative and quantitative methods, including case studies, survey research, statistical analysis, and literature review at the same time. A definition of mixed methods research is that of an approach to professional research that combines the collection and analysis of quantitative and qualitative data (Creswell, 2004).

The thesis used some illustrative case studies to present the characteristics of a set of circumstances. This helped to clarify arguments particularly in areas that the reader may not

have been familiar with a situation. This research approach helps to inform the reader about a particular area, and provide him/her with a good knowledge. In an effort to sustain the interest of the reader the selected examples were significant but not too many.

Exploratory case studies were used to abridge the research prior to conducting a large scale inquiry. When there is sometimes substantial ambiguity about the accomplishment of aims and objectives, or the performance of tasks and responsibilities, exploratory case studies are used as an analytical approach to identify problems, develop measurements, and to make suggestions for future research.

Critical instance case studies were used to analyze a limited amount of information. This empirical approach is concerned with the analysis of a distinct set of circumstances, and is not interested in generalizations. To the contrary, it is concerned with challenging a general notion or proposition obtained by inference from particular cases. This also helps to answer cause and effect questions.

Survey research was used as an effective method of examining data from human populations. Although samples were sometimes relatively small, in terms of sectoral or temporal coverage, they were always representative of the specific questions asked. Statistical techniques were employed to establish their legitimacy, relevance, and importance. Survey research was used to examine opinions, principles, standards, ideas, and other determinants. It was both cross-sectional and longitudinal, and as it was standardized, it was not subject to the usual errors. There was a careful management of information because of the structure required by standardized questions. Several issues of substance to the objectives and sub-questions of the study were reported, organized, and examined. No effort was made to answer any tangential questions.

The survey data was secondary in nature. There are some limitations to be considered when secondary data is used. Preexisting data does not facilitate the progress from forming a specific question to applying a method to answer it. It is not easy in the analysis of secondary data to make observations or develop concepts as the data may have been collected for a different purpose other than the specific question asked. These disadvantages sometimes prevent the research from focusing on its aims and objectives and there may be problems of definitions. Even when it is from national government sources there is always a chance that data may have been manipulated. However, these limitations are counterbalanced by the advantages of combining data from different sources and

different time periods. It is particularly important for longitudinal studies like this to include data collected in the past to answer the research question. The use of preexisting data allowed the analysis of socioeconomic phenomena in what would have been inaccessible settings. Because this is basically a study on three different countries, and changes over one or more decades, direct data collection would have been either impossible or costly and time consuming. Besides, the use of secondary data facilitated the comparison with other data and allowed the combination of multiple sets. There was an opportunity for other variables to be incorporated which sometimes resulted in a more diversified sample than would have been possible.

Statistical analysis was then used to demonstrate some of the most important characteristics of the data collected from sources. It provided for some descriptive statistics of the representative samples. Charts and graphs formed the base of all mathematical measurements of information. Various methods were employed such as graphics analysis in which charts were used to summarize data, tabular analysis in which tables were used to present results, and summary statistics were used to calculate, for example, the mean and standard deviation. Because of the highly analytical and theoretical nature of the research the statistical analysis that has been applied is mostly measures of central tendency to back up some of the most significant arguments. The only tests of difference or association that have been applied are the Wilkoxon tests that the thesis tried to report and discuss as adequately as possible.

Unlike with quantitative sources it was possible for the selection of qualitative sources to be much more evenly balanced between primary and secondary. The distinction is not a sharp one, the same document can be a primary or secondary source depending on the particular analysis the researcher is doing (Delgadillo and Lynch, 1999). On the one hand, a relatively small number of theses and dissertations, but on the other hand, an excessively large number of scientific journal articles reporting on experimental research were used as sources. The study made an effort to distinguish between research articles which present information in its original form, neither interpreted nor condensed nor evaluated by other writers, from review papers which describe, interpret, analyze and evaluate the original sources. However, several scholars maintain that a source may be primary or secondary depending on what the researcher is looking for (Monaghan and Hartman, 2001). What is more important in the selection of any source, primary or secondary, is to evaluate the amount of impartiality or the direction of bias.

Because of the theoretical nature of the research, literature review was an analytical technique that played a particularly important role in the thesis. The study made an effort to organize scientific journal articles and relate them to the developed proposition, to make a synthesis of findings and combine them into a coherent whole, and to reconcile inconsistencies in the academic literature and make suggestions for future research. In all three case studies, there was a synthesis of published material serving to advance a position, which is one of the definitions of what constitutes original research (CMS, 2003). Of course, literature review was used along with the other analytical techniques described in this section. Most importantly, a detailed explanation was provided in one of the previous sections on how the thesis added to, or challenged specific literatures, or concepts, and how it built on and extended the work of other scholars.

A major argument for the first chapter was developed by identifying an area of controversy in the literature. Some scholars described the characteristics of the virtuous circle of efficient management and diversified quality production which created strong national industrial relations and sustained a coordinated market economy in Germany (Streeck, 1992). Other scholars reported that the organizational structure of German industrial relations which has been the basis of the coordinated market economy has become less efficient, because increased decentralization in collective bargaining has undermined the collaboration between employers and employees, and it is uncertain whether the institutional configuration provides for cooperation in workplace relations (Hassel, 1999). The study argues that a decentralized model of a coordinated market economy, with works councils supporting trade unions, does not become obsolete in the context of economic globalization, and provides for an alternative to the neoliberal doctrine.

In an effort to reconcile inconsistencies in the academic literature a major argument for the second chapter was developed. The language and vocabulary of social partnership and collective organization are completely different, and they are usually defined by experts and unionists as real substitutes for the revitalization of labour institutions in Britain (Kelly, 1996). The two propositions are conflicting with regard to the evolution of capitalism, from one perspective they talk about mutual gains between employers and employees, and from another perspective the opposite. The thesis applied the philosophical process of Hegelian synthesis to argue that social partnership and collective organization are not necessarily genuine alternatives, but are complementary to each other, and can become the components of a mixed strategy for the resurgence of British labour institutions.

A major argument for the third chapter was developed by identifying another area of controversy in the literature. Even though the recent and current publications express with conviction the dynamic nature of corporate governance, and recognize the transformation of the French variety of capitalism, these propositions are simply historical (Berglof, 1997). The narratives diversify from the convergence of economic characteristics, or the destabilization of opposing structures by the interaction of their inherent characteristics, and the superiority of the economic characteristics of a single network, to the development to a hybrid form of higher order. The study tried to analyze this puzzling matter by emphasizing on the strong affiliation of economics and political science with financial markets and workplace relations, in an effort to explain the complicated organizational ensemble that constitutes the French model of capitalism.

The choice of a mixed methods research as an approach was based on the following observations. Narrow views of the world are often misleading so approaching a subject from different perspectives or paradigms may help to gain a holistic perspective, there are different levels of social research and different methodologies may have particular strengths with respect to one of these levels, using more than one should help to get a clearer picture of the social world and make for more adequate explanations, and many existing practices already combine methodologies to solve particular problems yet they have not been theorized sufficiently (Leech and Onwegbuzie, 2005). A mixed methods research fits very well with modern interdisciplinary studies.

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# Chapter 1

# The Challenge to Industrial Relations in Germany

**Miltiadis Panagiotopoulos** 

# 1.1 Introduction: Convergence or Divergence?

This chapter is a systematical enquiry into institutional complementarities across business administration and industrial relations in Germany. German business administration was defined by the significance of banking corporations, concentrated shareholders, subsidies, and a coordinated structure. This configuration demonstrated significant linkages with mutually reinforcing relationships, funding for higher education, diversified quality production, long term contracts, as well as collaborative workplace relationships in the post war years. Since the late nineties, business administration has been transformed, a weakening of banking corporations, the relaxation of managerial constraints, a strengthening of organizational entrepreneurship and investment from abroad, the emergence of new financial markets, and a change in the payments of shareholders (Gospel and Pendleton, 2004). The chapter systematically enquires into the transformation of corporate governance and its influence on the German industrial relations network. This change may well be associated with a decrease in long term employment as well as the increase in variable remuneration. Nevertheless, these trends in corporate governance have not undermined codetermination, or negotiations between managers and employees. Labour institutions still have an important role in the management of large companies. The consequences for the German model of industrial relations are analyzed.

The issues discussed in this case are important well beyond the boundaries of Germany since reunification. In the post-industrial times of free markets, economies around the world are faced with intense difficulties concerning political and social structures. How much centralization or decentralization? What sort of regulation or deregulation? Is there a future for trade unions? What are the possible economic alternatives based on social partnership between employers and employees, to fundamental Anglo-Saxon liberalization?

The workplace relations in modern Germany are a significant illustration for all these matters. Germany is a distinctive model of a large national industrial democracy, its politics are very important for the European Union and exercise a great influence upon economic advances in western Europe and eastern Europe alike.

"Postwar West Germany was famous for its social market economy, a market economy accompanied by extensive social programmes and regulated through negotiations among powerful actors, including government, business, and labour." (Turner, 1998)

The most important element of German industrial democracy is social partnership which is a major issue in this case-study.

"Social partnership can be defined as a method of market regulation in which strongly organized business and labour negotiate comprehensive agreements that frame the political economy from top to bottom." (ibid. 1998)

In German industrial relations, it takes the shape of top settlements, including sector level collective bargaining, company level and shopfloor level decision making, and other organizational operations which form vocational training and labour strategy. On the whole, they are the foundation stones of industrial democracy and social partnership in Germany.

Therefore, the debate introduced here is primarily one of institutions, distinct in many ways from interpretations founded on individual or political choice, economic efficiency, and social or political constructivism. Industrial relations are discussed inadequately, exactly because they fail to include the major influence of institutions in forming beliefs, values, cultures, preferences, manners and other associations of authority (Wildavsky, 1994). Even though collective understanding adds significantly to a study of the origins of influential institutions, the institutions themselves, as soon as they are founded, incorporate beliefs, the results of former disputes, and form values and cultures.

The institutional approach is especially convincing in times of economic stability (Steinmo and Thelen, 1992). An uncertain state of affairs, like the reunification of West and East Germany, suggests a more difficult background in which to examine the institutional approach.

Accordingly, institutional expansion becomes one of the most important elements of this research.

"In the years following unification, in a highly volatile and in some ways wide-open economic landscape, actors in the East, made decisions that were conditioned by the newly transferred institutions, often at the expense of economic efficiency, personal preference, rational choice, apparent consideration of interest, or eastern political tradition and collective understandings. (Turner, 1998)

Consequently, arbitration and results of dispute in political, economic, and social circles were determined to a degree by institutional transfer, as the new institutions formed values, preferences and associations of authority.

In spite of well built conventions, high levels of unemployment, and a recession, it can be argued that the only way the astonishing developments in East Germany are comprehended is to identify how institutional expansion from West Germany formed attitudes and preferences for employers and business executives, employees and their delegates, and public servants.

"in the context of dynamic market change unleashed by the single European market as well as broader international competition and globalization of markets, existing German institutions of industrial relations may well place the survival of social partnership in Germany within the range of possible outcomes." (ibid. 1998).

The institutions provide this alternative by making available for managers and works councilors a secure position from which to support their national interests in addition to groundwork on which to extend international cooperation. The significance of institutions for academic research, state politics, chief executives and works councilors will have to be taken into account. The issue to stress at this point is that social partnership and trade unions are not obsolete in a global economy.

The resilience of the German system indicates that the coordinated market economy which some scholars regard highly will carry on as an integral part of a global economy in the future (Soskice, 1990). The social partnership, a major part of this system, and the works council and trade union alternative, can provide a choice against the more liberal market economies, an option that may be compared between countries in Europe. Extensive decorporatization of the Swedish economy had already begun during the eighties (Rothstein, 2002). The persistence of the German variant as opposed to the liberalization of the Swedish system, apart from its generous welfare state, indicates that a decentralized system of corporatism is more consistent than a centralized variant with market globalization (Thelen 1993; Turner, 1998). A more detailed analysis of the Swedish economy is beyond the scope of this study but the decentralization of the German system will be extensively discussed.

Most organizations and institutions are both flexible and inflexible. Supranational organizations like the European works councils suggest that significant new institutions may be established. The evolution of employment relations in East Germany since the late eighties suggests that old organizations can disintegrate and effective new ones may be founded, when they are properly adjusted to enduring structures. Institutional transfer can

prevent the maintenance of the existing state of affairs and culminate in institutional regeneration.

## 1.2 The Former German Democratic Republic

This section will describe the key features of the old communist industrial relations in East Germany dy drawing attention to shop-floor unofficial decision-making and the feelings that the employees had for the employers, their labour, and the trade unions. Giving an account of the organizational structure in Eastern Germany serves as a depiction of the advance of the convergence of employment relations between West Germany and Easten Germany.

It is now clear that the institutional expansion has been accomplished and is beyond dispute, however, the same cannot be said for institutional values. The concept of transformation is used for Central and Eastern Europe for a continuous procedure (Eisen, 1996; Frege, 1999). The section will also try to identify the fundamental and underlying principles of post communist adaptation of eastern industrial relations to western standards.

An important idealistic principle of the late employment relations structure was the formation of a distinct holistic organizational structure that included all classes (Hethy, 1994). This idealistic principle stemmed from the exertion of authority by the working people and from the state's ownership of the economic resources. The workplace relations actors were considered to be non sovereign and were also thought to be largely in favour of the socialist regime (Csuhaj and Hethy, 1990). The employment relations network was defined by a distinct holistic approach that was particularly concerned with the benefits for the society and regularly challenged the precence of contradictory or divergent political and economic interests between workplace relations actors and at least theoretically there was no exploitation of the employees. When conflicts or discrepancies emerged they were considered to be examples of personal misconduct or were thought to be an infringement of the rules and regulations and a subversion to the social morality (Hethy, 1991). Besides, collective bargaining in particular and differences of opinion in general were not regarded as significant. In a greatly centralized interest representation network the government of the former German Democratic Republic determined the one best way for collective bargaining in particular and employment relations in general in an equally centralized bureaucratic organizational structure and carefully administered accomplishment of goals and objectives set by a greatly inflexible mananagement (ibid. 1991).

The idea of uniform social principles and values is illustrated by the institutional standards of the trade unions.

"First, the production principle made all those employed in one sector eligible for union membership, second the widespread socialist organizational form of democratic centralism was also applied to the union organization." (Frege, 1999).

Administration was greatly centralized and increasingly dependent on external influence by the central government.

"The union remained closely subordinate to the Party, in addition, the close collaboration between management and Party officials within the enterprise severely restricted independent union activity." (ibid. 1999)

It becomes evident from our analysis that trade unions were also defined by a centralized bureaucratic organizational structure of interest representation.

Some scholars argue that control mechanisms, labour policies, and the greatly centralized organizational structure exercised no great influence upon the workers on the shop floor (Fritze, 1993). Other scholars suggest that a network of rational and scientific operations from one point of view, and resilient institutional procedures from another point of view defined more than anything else the communist system (Heering and Schroeder, 1992).

Regardless of the discrepancies and irregularities between the scholars, evidence in other studies indicates that in Eastern Germany, and all over Central and Eastern Europe, some sort of informal bargaining was present on the shop floor (Frege, 1996). For that reason unofficial bargaining may be considered as something important for the rise to power for the employees.

Furthermore, the academic literature talks about emergency communities, as well as a plan fulfillment pact for both employers and employees (Heidenreich, 1992). This was something advantantageous for the two camps, but as concerns the economy and the society at large it was not quite as successful. Informal bargaining encouraged the detachment of the workers from productivity even though the companies enjoyed the versatility and obedience of the employees. The politicization of industrial relations is frequently used as an argument by scholars to explain the organic rigidity of the enterprizes, for example the unofficial organizational structure combined with the official employment relations network but simultaneously impaired it, and therefore the same scholars argue that resistance to change

should be thought as one of the main attributes of the communist organizational structure in the former German Democratic Republic (ibid. 1992). As a consequence, the informal organizational structure although progressively impaired the formal employment relations network and presented an alternative for it, strangely enough it made it more solid.

Because scholars in East Germany did not frequently explore productivity and employment trends in relation to West Germany it is best to refrain from generalizations. Unofficial bargaining may have played a big role in the evolution of the production and employment relations systems only in some of the workplaces. Nevertheless, it is beyond dispute that informal negotiations and unofficial bargaining were present in most communist organizations in Central and Eastern Europe and this could result in difficulties for German investment and the economic convergence between East and West.

Some scholars argue that them-and-us feelings were also present in the former German Democratic Republic (Kern and Schumann, 1985). It appears that it was typical of East German workers to discriminate in the open between top and bottom, in other words between members of parliament, managers, and overseers on the one hand, and their own community on the other. Some scholars suggest that the situation was similar to them-and-us feelings of West German workers during the same period of time (Kreibig, 1992). However, the academic literature has not specifically or in detail explored them-and-us feelings. In addition, it is a matter for debate whether them-and-us feelings were present for identical reasons in both parts of Germany in the past. There is no empirical data to demonstrate that the division found between top and bottom was related to class and property issues.

From one point of view some scholars describe the informal system as a genuine work community and emphasize on the psychological significance of the collective spirit (Gensior, 1992). The collectives in Eastern Germany represented companionship, enthusiasm, harmony, and morality. Besides, there is evidence for the influence of both physical and psychological factors of the unofficial system on people's daily decisions (Diewald, 1995). This opinion is in agreement with the theory that the consequences and repercussions of informal or unofficial systems vary in proportion to the individual.

From another point of view there is some unpublished data which demonstrates an extensive disillusionment by most blue-collar and white-collar workers alike, nevertheless, the argument that trade union membership in the former German Democratic Republic was

high is also important. This can support the hypothesis that the prime motive for entering the state union was probably its social nature.

Our review of the evidence provided by the academic literature on employee's earlier feelings indicates that most workers in Eastern Germany were discontent with many workplace activities, had some kind of them-and-us feelings for their employers, and were attached to their fellow employees. They perceived the Freier Deutscher Gewerkschaftsbund as not representative of them and blame external actors for their difficulties. This analysis helps to explain the productivity and employment trends in both West and Eastern Germany that were to follow after 1989, which are also discussed at various points in the chapter, as well as to explain the feelings of workers since the reunification, although they do not apply to all employees.

#### 1.3 Shopfloor Stability against Workplace Erosion

"The institutional base of the German industrial relations system, which has served as the precondition of its past success, has been shrinking during the last two decades, increasing decentralization pressures within collective bargaining tend to undermine the division of labour between co-determination and collective bargaining, the current institutional developments of the industrial relations system leave serious doubts about the future of a successful model of co-operative modernization." (Hassel, 1999).

I argue against this explanation because of the enduring significance and dependability of the works councils, the continuing importance of the Vertraunslaute, Germany's version of shop stewards, the regional and industry bargaining structures, and because of the burgeoning German tripartite arrangements. Besides, this interpretation refers to the entire industrial relations system of Germany, on the other hand the questions emerging from the German unification and the significant discrepancies between the private and public sector are disregarded.

In a study supervised by the Employers Federation research and development institute of 300 companies it was discovered that 20 per cent of the directors regarded works councils' importance as very high, 63.5 per cent regarded it as high, 11.5 per cent mediocre and just 3 per cent weak (Larman and Niedenhoff, 2000). Similarly 10 per cent of the people belonging to works councils regarded their job as very important, 54 per cent regarded it as important

and 34 percent stated that it was relevant. During the decade of the nineties most of the directors sought advice from works councils often or at the least sometimes. It appears that directors view works councils as a significant institution and seek advice from works councils on a regular basis and on a great number of topics. The directors in Germany questioned about works councils did not seem to perceive the erosion illustrated in other studies (Kotthoff, 1994).

Table 1: Management Consultation with Works Councils (%)

Areas	Often	Sometimes	Never	No Answer
Personnel Issues	73	22	1	4
Working Time	71	25	1	3
Restructuring	49	35	10	6
Training	11	72	13	4
Wage Levels	8	66	18	8
Other Issues	22	47	2	28

Source: Federation of Employers, 2002.

The more than one hundred thousand shop stewards play a particularly important role in the relations between management and workers in industries because works councils are not allowed to demand industrial action and are involved only with factory affairs (Murakami, 2000). The trade unions, via the shop stewards, can arrange industrial action. They are very important especially when taking into account collective bargaining, due to the fact that trade unions alone can reach local or sectoral collective agreements, and it is the shop stewards not the works councils calling for any industrial action at either local or sector level (Metall, 2000). Besides, apart from collective bargaining the shop stewards are also engaged with training.

Generally speaking, it has become obvious since the decade of the eighties that shop stewards are indispensable in industrial action, particularly for cut-backs in working hours (Eaton, 2000). Strikes caused continuous cut-backs in working time, from more than fourty hours in the eighties to less than thirty-seven hours in West Germany and less than thirty-nine hours in East Germany in the nineties (Hahlen, 2001). Besides, between the eighties and the nineties, the German trade unions arranged for collective agreements which substantially reduced the income disparity between males and females. Though there is still a relatively small income disparity of about twenty per cent before tax, between men and women, the German trade unions have effectively brought about greater income parity for males and females.

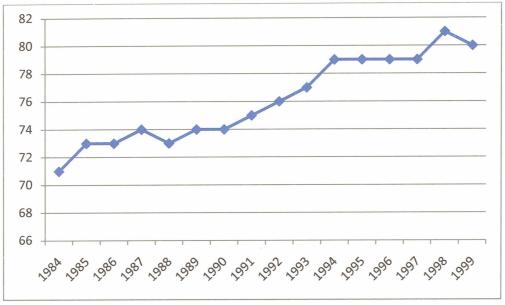


Chart 1: The Closing Gender Wage Gap (%)

Source: IDW, 2001.

The growth of collective bargaining has been supported by a combination of local agreements at company or sector level and of other supportive measures and directives. Under the auspices of this system, a labour institution, notably IG Metall, can start negotiations in a district where a productive and cost effective part of the economy is situated and carry on to extend the provisions of that settlement by negotiating with local manager organizations at national level (Knut and Lloyd, 2003). Besides, when a multisectoral union succeeds in reaching settlements in the metal working industry it can exert influence on manager organizations and labour institutions in other sectors of the economy (Meyer, 1995). The magnitude of the multi-industrial union, IG Metall, helps to serve as an explanation for the fact that even though Germany has only the 5<sup>th</sup> position among the OECD countries when we estimate the level of centralization of collective bargaining, it shares the 1<sup>st</sup> position with Austria and Japan when we estimate the much more meaningful level of coordination (OECD, 1997).

Statistical data shows a quantitative expansion of local collective agreements, about 50,000 collective agreements are implemented regularly, and approximately 7,000 to 8,000 are either settled or adjusted (Zachert, 1999). In 2000 managers reported collective agreements at 55,000, accounting for 70 percent of employees, with a 20 per cent in West Germany and 29 percent in East Germany of firms willingly complying with them (IDW, 2001).

A fairly recent project has enquired into the late revival of tripartite agreements as a result of social pacts (Fajertag and Pochet, 1997). Tripartite arrangements are seen as the answer

to increased economic globalization and public deficit restraints. In the period preceding European Monetary Union the German Government had chosen to cooperate with national economic factors to meet the convergence criteria, therefore participating in competitive corporatism (Rhodes, 1997). I think, nevertheless, that the general notion of social pacts is misinterpreted by emphasizing too much on cutting back wages to increase international competition. Other policies, such as decreasing social contributions and corporate tax to create jobs, and adjusting the welfare state to current economic trends, are at least as significant for social pacts as competitive wages and have to be taken into account (Schmitter and Grotte, 1997).

Even though neoclassical criticism in industrial relations developed in several countries, the neoclassical plan to cut back wages has not been popular in Germany (Strengelhofen and Wachter, 1995). A more solid assumption is that the neoclassical doctrine of the eighties and nineties did not bring about the erosion of industrial relations between managers and workers and German trade unions have never accepted the neoclassical model. A high union membership among politicians over a long period of time shows that labour institutions are incorporated in the economic and social order of Germany. In the German parliamentary session of 1949, 28 per cent of the members of parliament were trade unionists, by 1969 membership amounted to 55 per cent and, by 1980, 62 per cent, by 1990 nevertheless dropped to 40 per cent, however by 1999 built up to 50 per cent (Pege, 1999). More recently, in spite of the fact that union density dropped to an all time low, approximately 75 per cent of the Social Democrat members of parliament are trade unionists and exercise power on the governance of the country (Business Week, 28/06/04).

A few articles of political economy indicate that the German unification has not been completely settled, and there are very important socioeconomic differences and irregularities between West Germany and East Germany.

"Even six years after unification, and only three years before Hassel's erosion thesis was published, East German purchasing power was \$US9,000 in 1996 compared with West German purchasing power of \$US23,000, indicating a significant disparity". (Klikauer, 2002)

Early in the new millennium, in regard to purchasing power, there is still a great disparity between West and East Germany.

"States in the West ranked between 109 and 92, compared with states in the East which ranked only between 81 and 78 in the year 2000, in the same year unemployment in the

West was recorded at 8 per cent, unemployment for the East was at 20 per cent, with New Brandeburg at 23.7 per cent, the town of Sonneberg registered the lowest unemployment in the former East Germany, with 11.8 per cent, still well above the Western average." (ibid. 2002)

It might be a consequence of the unification approach of the fundamentalist Kohl government, that did not support first-rate subsidization in East Germany, but it backed the advance of screwdriver plants, a term used for small facility retailers in West Germany (Dahne, 2001). Unification difficulties are evident in the migration from East to West Germany. In 1999, a decade since unification, 182,500 migrated from East to West, next year, migration went up to 195,500 (IDW, 2001). In the late nineties, the number of social welfare beneficiaries in West Germany decreased to some extent, even though East Germany experienced a small proportional rise. Besides, economic development was greater in West Germany than it was in East Germany. More recently, and following the completion of the reunification process, an extra 3,000,000 people of German origin came back from the Eastern Block countries. About 2,200,000 of those people returned from the independent states of the Soviet Union, 575,000 came from Poland and another 225,000 from Romania (MPI, 2004).

To further develop the narrative in relation to migration flows, both from East to West Germany and from South, Turkey etc, to North, and from Central and Eastern Europe into Germany, with their implications for social security and citizenship, the Federal Bureau of Statistics appears to be the right source.

In 2005 6.8 million non-German residents were registered in Germany, accounting for 8.9% of the total population. The majority of foreign passport holders were Turks with more than 1.7 million residents, followed by Italians with 540,800, and Poles with 326,600 residents. Another 10% of the total population are Germans with a migrant background, meaning that either they have at least one migrant parent, are themselves so-called Aussiedler, or naturalized immigrants (Bundesministerium des Innern, 2005).

A growing proportion of the foreign population is born in Germany. These children were treated as foreigners in the legal sense until the amendment of the citizenship law in 2000. Since then children of foreigners acquire German citizenship if one parent has been legally living in Germany for at least eight years. These children are then allowed to hold a double passport until the age of 23, after which they have to choose if they want to give up their

other citizenship in order to retain a German passport. Since 1913, with the exception of naturalization, German citizenship had only been based on German descent following the principle of ius sanguinis.

In respect to the naturalization of foreigners in Germany the new Citizenship Law reduces the required length of legal stay. On the other hand, apart from some general criteria like not having committed any serious criminal offense, new requirements were implemented: The applicant has to be able to maintain his/her family without depending on social benefits. The application can be denied if the German language skills are deemed not sufficient. In 2006 the federal states agreed on a general citizenship test including a German language test. The Citizenship Law defines another for a refusal of a naturalization, namely real indications, which legitimize the assumption, that the applicant follows or supports attempts which are directed against the German constitution. Since the terrorist attacks of 9/11 this new legislation has been increasingly used to deny naturalization applications of Muslims (Baringhorst et al. 2006).

In theory, the unification as regards employment legislation has been effectively attained in Germany, even though economic integration appears to have been delayed. It is clear that it was less difficult to form a set of labour laws than to develop economically coordinated mechanisms for the country (Hyman, 1996; Klikauer, 2002). One more difficulty in the formation of a new political structure in Germany has been a trade union membership decline. Though income equality between West Germany and East Germany has been nearly accomplished by trade unions and new labour institutions have been established, according to the data, West Germany and East Germany continue to be socioeconomically conflicting. The issues of trade union membership decline and income equality will be further discussed in the following sections. Academic research has disregarded the uneven process of convergence after unification in such a manner that it has belittled the part of the public sector in the industrial relations of Germany.

Hassel and Kotthoff have probably displayed a false argument about Germany. Works councils continue to be powerful, and they complement the particularly important role of the shop stewards. The decentralization of bargaining continues to be at the sector level, and the tripartite arrangements appear to be solid. If the topic is transformation, the research which analyzes the differences between West Germany and East Germany must serve as an example.

## 1.4 A Coordinated Strategy for Reunification

The socioeconomic prosperity of West Germany was sustained by a comprehensive structure of associations between the main participants, like politicians, financial establishments, manager organizations, and unions. Despite the fact that West Germany was a capitalist society, plenty of collective bargaining took place in influential sectors for scholars to use explicit definitions like bargained political economy or to make reference to democratic corporatism (Katzenstein, 1985). Of great significance were coordinated and lasting associations between big companies and financial establishments. Scholars defined this society as an outstanding model of a coordinated market economy where reward schemes helped companies to make lasting arrangements, improve work skills, and move to more affluent sectors, they favoured this kind of political economy against the less integrated and less effective Anglo-American system (Soskice, 1990; Turner, 1998).

While people in Germany expressed dissatisfaction about the state of the economy and debated for important changes, people abroad, with the advantage of a comparative approach, became great admirers (Weaver, 1995). However, German scholars gave an account of the virtuous circle of progress and development that generated dynamic domestic labour markets and resilience, and diversified quality production and new expertise (Streeck, 1992). An empirical study of the developments in the metal works sector provides valid data for the productive cooperation of directors, works councils, and trade unions, and the formation of a resilient and simultaneously innovative organizational structure (Thelen, 1991). In a related empirical study, Ferner and Hyman, suggest that the combination of well-organized trade unions and high membership density is the origin of industrial relations flexibility in modern times, and they also speak of the important services of the works councils for trade unions as a particularly sophisticated form of articulation, to provide an explanation for the robustness of industrial relations (Crouch, 1993). My own analysis of Germany will illustrate the connection between works councils and the adaptability and endurance of trade unions in the complex world of global markets.

The capacity to adjust to incremental adjustment and convert into models of a different kind, as part of an effective and comprehensive national structure is critical for the survival of social partnership in post unification times (Katzenstein, 1989). The attempt by the Christian Democrat leader Helmut Kohl in the eighties to transform the country into a market economy with trade unions of little authority was unsuccessful in changing West

German industrial relations (Webber, 1992). Trade unions were proved to be resilient, other labour institutions emerged as solid, and manager organizations regarded the policy of the chancellor as wrong. Since the great success of the German metalworker's strike for less working hours, relations between the social partners continued to be firm during the prosperity times of the eighties.

Regardless of the demands for organizational change by some managers and unionists, relations of partnership turned out to be solid.

"In the pattern-setting metal industry, the 1987 bargaining round was peacefully resolved in the continuing trade-off between a shorter workweek and more flexible working hours, underpinned by moderate wage gains in a three year contract." (Turner, 1998)

At the end of the eighties, managers and trade unionists alike did not seem to expect the forthcoming economic and social disturbances.

"Talk in the metal industry was of a tough bargaining round and possible strike in 1990, as IG Metall prepared its final push toward the 35-hour week while employers grew increasingly resistant in the face of rising costs." (ibid. 1998).

It turned out that the beginning of the nineties was not troublesome, after the collapse of the Berlin Wall and before German unification, a new settlement based on the two former arrangements was agreed. Some scholars have suggested that successful incremental adjustments will carry on with collective bargaining stamped by periodic controversy and general agreement (Katzenstein, 1989). As productivity increased in the early nineties, both managers and trade unionists received the benefits of social partnership and had no desire to assault each other.

Table 2 displays evidence about the provinces which had an above average productivity growth in the years between 1990 and 2000. During the decade of the eighties, eleven of the seventy-one classified districts had an above average productivity growth, and that was also the case for nine of those provinces during the decade of the nineties (Geppert et al. 2006). In the eighties, it was in particular the large regions such as Munich, Rhine-Main and Hamburg that had an above average initial level to confirm this trend. But the industrialized province of Nuremberg, as well as the classified districts and sectors of Starkenburg and South Schleswig-Holstein, particularly important for the German economy, also had an above average productivity growth in the nineties.

Table 2: Regions with Above-Average Initial Level and Growth of Productivity

	West Germany = 100	Change in index value
	1990	1990-2000
Munich	118,0	20,4
Starkenburg	101,6	15,3
Hamburg Region	110,9	9,5
Central Franconia	104,7	6,3
Danube-Iler	100,1	4,9
Schleswig-Holstein	108,1	3,5
Rhine-Main	127,9	2,9
Upper Swabia	101,4	0,2
Düsseldorf	117,8	0,2

Source: Federal Employment Agency, 2001.

The success of West Germany strengthened the endurance of its organizational structure and added to the collapse of the state controlled economies of the central and eastern European countries. During the eighties, the years when state officials in western European countries were concerned with euro-sclerosis and occupied with European Community affairs, communist regimes were concerned with their state controlled economies being unable to sustain progress like the western nations. New leaders took over to make the regimes less strict, and to proceed with reforms that could possibly restore the economy. When the reformation ultimately denied central and eastern European upper classes the armed forces support for their governments, the Iron Curtain collapsed.

This was in reality an unprecedented economic experimentation. As the state controlled economic systems in central and Eastern Europe broke down, as statesmen asserted their confidence in a free market economy, big issues came forward. Can these nations succeed in an unconstrained conversion? To what a degree will they have to dispose of their old fashioned organizations to move on, and to what a degree will they have to secure the old establishments? How long will the demanded renovation last? Can they draw level with the western countries? Different methods were used in Bulgaria, the Czech Republic, Hungary, Poland, Romania, and Slovakia (lankova, 1997). All the same, in Germany though the problems were identical, the situation was unparalleled (Liebert and Merkel, 1991). Can politically well established and financially well balanced West Germany assimilate East Germany, population 16 million? Can it be achieved without damaging stability and prosperousness? Can East Germans adapt to a system of social democracy and free market, adjust it to the new conditions, and draw even with the western nations? Will the institutional expansion emerge as a viable alternative?

An important priority during the nineties was to assimilate the new land into West Germany on the principles of parliamentary democracy and a free market economy. The chosen strategy was institutional expansion to the former German Democratic Republic, and the elimination of obsolete establishments so that an effective assimilation of East Germany into West Germany becomes possible (Baylis, 1993). Nevertheless, things were more complicated, institutions were indeed expanded to a great extent from West to East, but this took place under the circumstances of a financial crisis, massive redundancies, and the inheritance of outdated techniques and organizational disintegration. The results were diverse and ambivalent, with contradictory points of view expressed at the same time, of success and failure, of development and stagnation, of social partnership recreated in the former GDR or controversy and depression (Jacoby, 1995).

At the time that West German companies started investing in the economy of the former German Democratic Republic, manager organizations stepped in to set up business in the new land. In the same way that trade unionists identified the need to provide for the East, manager organizations realized straight away that unless they also make a move they may lose ground in the West (Bispinck, 1991). In the early part of the nineties, the Federation of German Employers was the first to take the initiative, they expanded manager organizations and also assisted the foundation of brand new departments. In the mid part of the nineties, manager organizations were founded all over the GDR, each associated with established institutions of the Bundesvereinigung der Deutschen Arbeitgeberverbände (Ettl and Heikenroth, 1996). By the late part of the nineties, the Confederation of German Trade Unions had made an official announcement about the expansion of the West German collective bargaining model to the East, and the underlying framework was eventually in the right position for the opening bargaining rounds in the years to follow.

It is of great significance to stress the influence given to trade unionists because of the expansion of labour organizations from West Germany to East Germany.

"The transfer of codetermination law and the election of works councils all across eastern Germany in 1990-1991 made the unions immediately capable of offering resources, training, and other benefits of union membership to newly elected works councilors." (Turner, 1998).

The trade union members, prior to and following their appointment as works council members, regularly turned into trade unionists on the shopfloor, enlisting other employees and representing their trade union.

"Under codetermination law, the new eastern works councilors could claim a formal and protected position in the workplace, from which they could both negotiate with management on behalf of the workforce and build up the union." (ibid. 1998)

In an outstanding organizational modernization, delegates of proprietors, managers, and employees agreed in the early nineties to back up the foundation of Employment and Training Companies (Knuth, 1993). The issue, brought forward and supported by trade unionists, was to hire dismissed employees at idle factories and subsidize training facilities to raise productivity which may result in long term employment for the unemployed. As a consequence of the nineties settlements, Employment and Training Companies were established all over Germany by the Federal Labour Bureau (Knuth, 1998). It is not for sure whether the Employment and Training Companies can bring about new jobs, or mostly help to conceal the redundancies.

#### 1.5 Co-Determination Rights of the Works Council

The recent publications are in disagreement and often abstract about the prospective developments fluctuating between opinions emphasizing the flexibility of the structure to forecasting its impending disintegration. Admittedly, the prospects for the workplace relations in Germany and, in specific, the common industrial policies are subject to decisions made now and in the near future (Frege, 2003; Streeck, 1997). The circumstances may be associated with Britain in the eighties, where the scholars were also disunited about the Thatcher amendments that caused new industrial relations culminating in continuity versus change scholastic arguments which presented plenty of inconsistencies (Basset, 1986; Batstone, 1984). A procedure of extensive structural economic change has taken place in Germany, in reduced circumstances, since the early nineties, and the largely effective development is the most important reason for the late economic improvement. Codetermination has not obstructed the progress of this organizational transformation, the purpose of which has been to adapt to increasing international competition and economic globalization. To the opposite effect, in several occasions co-determination has sustained institutional change, particularly in those issues in which adjustments have necessitated the involvement of employees (Kommission Mitbestimmung, 1998).

An important issue to be addressed is whether decentralization expands the capacity and the autonomy of works councils in relation to trade unions or works councils become progressively integrated into the trade unions discipline, and consequently trade unionists grow more significant at the shopfloor level due to the works councils' progressive dependency on their advisory support.

There are more publications on works councils relations with chief executives than with trade unions (Frege, 2002). A general view is that there is a development of co-managerial works councils. However, these writings are defective because of the inaccurate descriptions. An interpretation of co-determination is that works councils become progressively more associated with decision making on institutional change by managing directors that is taken as an indication of their augmented authority on chief executives (Frege, 2003). Some scholars in Germany suggest that works councils have a particularly strong influence on decision making (Muller-Jentsch and Seitz, 1998). Nevertheless, the publications do not provide us with a persuading explanation why an augmentation of works councils' authority, especially if they are subject to managerial pressure, it is by itself more influential upon decision making.

Co-ordination is an extensively researched area of study in diverse subjects such as psychology, sociology, or political economy. Though there have been some industrial relations studies on collaboration between directors and unionists there have been practically no studies on the preceding circumstances leading to coordination between employers and employees (Gold, 1986; McKersie and Walton, 1991; Spieb and Nerdiger, 1998). I make reference to the theories of a literature review of inter-institutional coordination where the research on the determining factors of collaboration between firms was carried out by organizational theorists (Smith et al. 1995). Power and conflict theories that pay attention to discrimination or prejudice and inconsistencies between organizations (Pfefer and Salancik, 1978). Modeling theories that enquire into the social learning approach of promoting collaboration and therefore emphasizing the significance of compliance and uniformity of coordinative models through formerly established class and institutional attitudes (Di Maggio and Powell, 1983). Social structure theories that stress the importance of internal and external determinants in promoting coordination.

The following analysis derives from a questionnaire sent to 485 works councilors by the Deutsche Postgewergshaft, including telecommunications, mail services and postal union members, and by the Industriegewerkshaft Bergbau, Chemie, Energie, including mining, chemical and gas enterprises.

With regard to the employment settlements reached, 40 percent of the works councilors questioned, engaged in organizational or institutional issues to a greater degree than decreed by legislation. Besides, in 66 percent of the cases there was a working time settlement the board of directors and the works council decided jointly, in 8 percent separately and in 26 percent the works council by itself. Additionally, 45 percent of the works councilors questioned, their objective was to bargain work security as a trade off for variable working time settlements and 37 percent attained it. Lastly, in 41 percent of the companies salaries were bargained higher than the sector level arrangement which is below the 66 percent higher than the sector level arrangement found by the Wirtschafts und Socialwissenschaftliches Institut (Schafer, 2001). The data demonstrates that works councilors are defined as powerful in effect and notwithstanding collaboration difficulties and the demand for further delegation, they persist as significant in the process of decision making.

The opinion of works councilors about trade unionists, even though they are often the same people, was generally favourable. In comparison with other scenarios of organizational change and institutional transformation mentioned above, the results do not display any signals of augmented liberalization or extended integration as regards the relations between works councils and trade unions. The works councilors are faithful and are held in high esteem by trade unionists and also respect the trade unions' sponsorship instead of becoming their opponents. For instance, 58 percent disagreed that coordination is not a significant issue at shopfloor level and 64 percent agreed that collaboration is critical for their bargaining power. Therefore, to the degree their feelings demonstrate behaviour, a large percentage of works councils appeared to carry on performing their duty to support trade unionists as opposed to growing apprehension between trade unions that works councilors' efforts are declining.

Table 3: Works Councilors Perceptions of Works Council-Union Relations

Variable	Mean (Five-Point Scale)	SD (Five-Point Scale)
We have more important problems than membership	2.64	1.16
Success in organizing is not directly important	2.58	1.22
I represent the interests of my workforce	3.31	1.03
My union interferes too much	1.99	0.68

I am proud to be a member of my union	3.83	0.88
I completely share the principles of my union	3.40	0.96
In general employees need the union less now	1.77	1.00
Our union has an outdated image	2.51	1.09
It becomes more difficult to sell union success	2.85	1.11
Being cooperative with management	2.68	1.02
There are too few union officials	3.05	1.09
My union is too far away from its base	2.83	1.08
My union values my union work	3.53	0.86
My union takes my opinion as works councilor seriously	3.72	0.83
All in all I am satisfied with the support	3.64	1.02
The work relationship is good	3.57	1.07

Source: DPG and IG BCE, 2003.

The feelings of works councilors about managing directors were diverse but favourable, sixty-six percent of them defined the workplace relations as coordinative. About eighty percent of works councilors thought of chief executives as not anti-union or against future membership. Furthermore, just twenty-eight percent of them felt that managing directors were not strongly associated with trade unionists. Almost fifty percent of works councilors accepted that chief executives recognized the sovereignty of works councils and avoided to extend their authority over the works councils. A comparable percentage of works councilors described managing directors as reliable social partners. Nevertheless, there was a different opinion about the building of confidence over time, forty-four percent of them believed that the magnitude of reliability persisted as unchanged during the last ten years, as opposed to thirty-eight percent of works councilors who perceived that they had more confidence in earlier years.

Table 4: Works Councilors Perceptions of Works Council-Management Relations

Variable	Mean (Five-Point Scale)	SD (Five-Point Scale)

The relationship is	3.39	1.03
cooperative	3.33	1.03
Manager is a trustworthy	3.14	1.01
partner		
Ten years ago I had more	2.94	1.14
trust in management		
Management is not	4.02	0.98
intimidating union members	0.10	4.04
Management has a good	3.12	1.04
relationship with the union	2.05	4.00
Management accepts the	3.05	1.08
works council	2.22	0.00
Our works council was much	2.32	0.98
stronger ten years ago	2.02	0.03
Our works council does not	2.02	0.82
have much influence	2.07	1.00
Management is generally	3.07	1.06
less willing to compromise	4.10	0.88
There will always be	4.10	0.88
divergent interests  There are differences	3.47	1.10
between workers	3.47	1.10
	3.11	1.17
Today's works councilors are	5.11	1.17
co-managers What is best for the	2.30	0.99
company is best for workers	2.30	0.33
Performance-related pay is	2.88	1.13
more fair than equal pay	2.00	1.13
Industry-level agreements	2.73	1.14
should become more flexible	Sect 3	1.17
Globalization not	3.04	1.09
management to be blamed	3.04	1.00

Source: DPG and IG BCE, 2003.

The first objective of this section was to examine the importance of coordination between employers and employees with a view to contribute to the continuity versus change academic debate for Germany. This debate is primarily about the transformation of the coordinated market economy in Germany in relation to organizational change in the usually collaborative attitudes of managing directors and works councilors. No evidence from recent events was found for that change in a research conducted by scholars (Busch, 2005). The examples of DaimlerChrysler, Siemens and Volkswagen in the last few years also demonstrate a continuing culture of cooperation as labour institutions accepted the cost cutting amendments from managers with no controversy. Other cases in support of our argument are IG Metall cooperating with the managing directors of the metal industry in the

formation of a new pension scheme or a settlement between large banking corporations and the Mittelstand for the facilitation of lending in that important part of the German economy (Trampusch, 2004). If coordination and collaboration are thought as the foundation stones of the German model, then these examples emphasize a high degree of persistence.

The second objective of this section was also to make an effort to analyze the determinants of coordination which are defined by power, modeling and social structure theories. Further research is arguably required to endorse those exploratory outcomes. In more detail, councilors' assistance to constructive power relations with executives was most emphatically dependent on councilors' collaborative behavior. From another perspective, coordinative behavior in this bisectoral survey was not affected by organizational characteristics like industry, company or occupation of trade unionists and works councilors. Therefore the relations between managing directors and works councilors were to a large degree bureaucratic and not entirely dependent upon individual attributes of the social partners. However, this does not convey that collaboration between the two parties is an inherent organizational characteristic of the German model. To the opposite effect, it is a continuously discussed procedure of dynamic relations between chief executives and works councilors. In the strongly organized environment of German employment relations, the coordination between directors and councilors is conditional on everyday power relations. This is a significant result for labour relations literature and research that takes place in Germany and is based on primary data could build on those findings. It becomes clear that although constitutional sponsorship of industrial democracy is essential it is certainly not enough to ensure collaborative industrial relations. Nevertheless, statutory powers for works councils can assist to produce a much better power equilibrium which appears to be a critical prerequisite for coordination.

A democratic society requires an environment in which disputes are resolved through conference and not by coercion. Co-determination is an important precondition for the existence of such a political, economic, and social environment. The objectives of co-determination are equality of capital and work, democracy in the economy, social development, and control of economic power (BMAS, 1995). Co-determination rights ensure employee involvement, employee representation through the works council, as well as participation in economic planning and decision making. Co-determination in Germany exists at the company level as well as the group level. Distinct legislation governs the two

individual systems (Page, 2006). To conclude, the works council rights are defined as information, inspection, supervision, recommendation, give advice, opposition, veto, negotiation, initiation, and the obligation to agree.

A distinction must be made between works councils and supervisory board representation. Co-determination above establishment level is governed by statutory legislation which applies to different sectors and company sizes. The concept of parity co-determination refers to co-determination in the coal, iron and steel industry covered by the Montan-Mitbestimmungsgest Act of the fifties, firms in other sectors with between five hundred and two thousand employees are governed by the Bertriebsverfassungsgest Act of the sixties, and establishments with more than two thousand employees are regulated by the Mitbestimmungsgetz Act of the seventies (EMIRE, 2007). The employee delegates are designated either through the process of being elected by the workers, or they are designated by an independent committee of employees elected by the workers. Finally, the delegates of stockholders are chosen by the yearly general meeting of stockholders.

#### 1.6 A Rhenish Variant of the Anglo-Saxon Model

This part is an effort to make a contribution to the main part of research by demonstrating some concepts about the possible German transformation. It suggests that in spite of the recent changes, there are a large number of complementarities and continuities in the organizational structure of the German financial system. An interpretation of these institutional complementarities is provided which emphasizes on the nature of family share ownership and on patterns of big company demand for finance. In general the current situation can be described as incremental adjustment in the German version of a stakeholder economy. The adjustment has taken place in the areas of institutions and of practice. In the area of institutions, the post-unification alliance of stakeholders which affects the firms has not been substituted for or suppressed by shareholder value. This postunification coalition has rather been augmented through the assimilation of institutional investors into the alliance. Thus one may argue for the formation of an augmented stakeholder coalition in Germany. In the area of practice, the standard objectives which German firms have concentrated upon since the unification have been enhanced by as opposed to have been substituted for shareholder interests. In comparison with the version of shareholder value in America and Britain, the German version is described as negotiated

shareholder value, with two outstanding characteristics (Vitols, 2003). The methods chosen to serve shareholder interests for the benefit of institutional investors have to be negotiated with the partners of the stakeholder alliance, especially the banks and financial establishments. To reach control equilibrium in a reinforced stakeholder coalition, methods selected to serve shareholder interests are regularly modified to take into consideration the benefit for various stakeholders. New methods, like remuneration incentives were chosen to bring into line the interests of directors, shareholders, and workers, therefore the German version of shareholder value is different from the one in America and Britain, especially as far as employee involvement is concerned.

In fact Germany has grown into one of the most distinctive examples of a stakeholder structure of corporate governance. A recent international research has displayed that Germany had the largest blocks of shareholders amongst the sample countries (Barca and Becht, 2001). As chart 2 demonstrates, the median value of the voting blocks for German firms quoted on the stock exchange was fifty seven percent. In comparison with America, the median value of the voting blocks for large firms quoted on the New York stock Exchange was 5.4%.

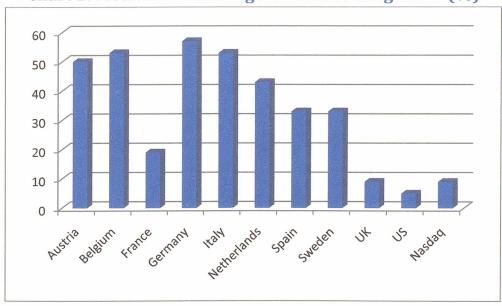


Chart 2: Median Size of Largest Shareholding Block (%)

Source: WZB, 2003.

In another effort to make a contribution to the literature, my study suggests a couple of general concepts about the possible transformation of the German stakeholder economy. Based on the differentiation described initially between the area of institutions and the area of practice, one of these concepts is that the reorganization of institutions has supported the

formation of a hybrid structure where large companies and works councils have an important part (Vitols, 2004). The outcome of this development is an augmented stakeholder coalition, which assists the assimilation of shareholder interests into the post-unification alliance of stakeholders, a coalition led by banks and institutional investors.

A few scholars have recently argued that the insider and outsider division is not adequate to identify the transformation of stakeholder systems (Cioffi, 2000; Goyer, 2002). In Germany, for instance, though the economic environment and business administration have developed into an Anglo-Saxon variant, labour has continued to be influential on the shopfloor with powerful works councils and trade unions. Interpretations of this transformation include the general notion of hybrid models, multi-dimensional structures for organizing business administration networks, and greater emphasis on the procedure of organizational change (Aguillera and Jackson, 2003; Höpner, 2003; Vitols 2002).

In spite of the decrease of block holding in the mid-nineties, Germany is still well ahead of the United States. The median value of the largest shareholders in German quoted firms in the year 2000 was nearly sixty percent, in contrast with about five percent, for firms quoted on the New York Stock Exchange. With a prolonged decrease of five percent every five years in Germany, it will take fifty years to drop to the levels of the United States. The typical definition of large shareholding, or block holding, is that at least five percent of the outstanding shares of the company are held by the same owner (Vitols, 2003).

Accordingly, a comparison of the Dow Jones and the Deutsches AKtienindex, the 30 largest firms in both cases, is quite helpful. In America the median value of the large investors in the Dow Jones is 5.3%. About half of the firms had no large shareholders. By enquiring into the firms of the Deutsches Aktienindex, the index of the thirty largest quoted firms in Germany, one observes the prolonged effect of the largest investors. Just 3 of the Deutsches Aktienindex firms in the year 2002 had not any large investors, Adidas-Salomon, Deutsche Bank, and Siemens. Of those businesses with large investors, insurance companies were the largest investors at 8 of the companies, against institutions and families at 4, financial establishments at 2, and other business at 3.

Table 6: Largest Shareholders in the 30 Dow Jones and DAX 30 Companies (%)

Company	Largest Shareholding	Company	Largest shareholding
Dow Jones		DAX	
3M Co.	5.8	Adidas-Salomon AG	>5
Alcoa Inc.	10.3	Allianz AG	23

American Express	11.4	Altana AG	50.1
AT & T Corp.	7.7	BASF AG	9.2
Boeing Co.	5.3	Bayer AG	26
Caterpillar Inc.	>5	Bayerische	5.3
Citigroup Inc.	>5	Commerzbank AZ	10
Coca-Cola Co.	>5	Daimer Chrysler AZ	12.5
E.I. DuPont	>5	Deutsche Bank AZ	>5
Eastman Codak Co.	11.6	Deutsche Lufthansa	10.1
Exxon Mobil Corp.	>5	Deutsche Post AZ	71.3
General Electric Co.	>5	Deutsche Telecom	43.1
General Motors	5.6	E. ON. AG	7.6
Hewlett-Packard Co.	10.4	Epcos AG	12.5
Home Depot Inc.	6.1	Fresenius Medical	50.3
Honeywell	5.2	Henkel KGaA	58.2
Intel Corp.	5.3	Infineon	71.9
International Paper	6.9	Linde AG	13.1
J.P. Morgan Chase	>5	MAN AG	36.1
Johnson & Johnson	>5	Metro AG	56.5
McDonald's Corp.	9.5	MLP AG	27.3
Merck & Co. Inc.	>5	Motoren	48
Microsoft Corp.	12.3	Muncher AG	24.8
National Business	>5	RWE AG	13.3
Philip Morris Cos.	7	SAP AG	62.5
Procter & Gamble	>5	Schering AG	10.6
SBC Communications	>5	Siemens AG	6.9
United Technologies	>5	ThyssenKrupp AG	16.9
Wal-Mart Stores Inc.	38.4	TUI AG	29.1
Walt Disney Co.	10.8	VolksWagen	20
Median	5.3	Median	21.5
		Annual contract of the contrac	A

Source: Company annual Reports and company websites, 2002.

The growing significance of institutional investors is due to their capacity to take hold of a large allocation of stock purchases from primary shareholders, such as families. This was a general and continued tendency during the late part of the nineties. Families in the United States and the United Kingdom built up their stock purchases. Stock market capitalization amounted to 55% in the United States and 87% in the United Kingdom (WDI, 2002). The firms of these countries were highly valued and the institutional investors started to look for German stocks. The foreign stock purchases in Germany expanded in quick succession in the late part of the nineties and in 1999 reached about 130 billion Euros (Deutsche Bundesbang, 2003). Families in Germany expanded their share of savings in bonds and mutual funds during the late part of the nineties that in the year 2000 came up to the sum of around 80 billion Euros (ibid. 2003). The legacy of the argument that families in Germany do not hold savings in bonds or mutual funds still remains. Life insurance can be a vehicle for indirect

stockholding, traditionally, however, the share of stocks in a typical German life insurance portfolio was relatively small and restricted by various laws, life insurance companies rather have placed their investments directly (Börsch-Supan and Essig, 2002). There is, nevertheless, evidence for change in relation to households and non-profit organizations in Germany. Table 7 demonstrates financial asset shares from aggregate financial accounts reported by the Deutsche Bundesbank. The data shows clearly that the importance of checking, deposit, and savings accounts has decreased, whereas the importance of stocks, bonds, mutual funds and other financial assets has increased between the early eighties and the late nineties.

**Table 7: Financial Asset Shares (Aggregate Financial Accounts)** 

	1980	1985	1990	1999
Checking, deposit and savings accounts	46.7	39.6	37.1	35.4
Building society savings contracts	7.3	5.5	4.1	3.7
Stocks, bonds, mutual funds and other financial assets	31.7	38.5	40.4	42.5
Insurance and pension	14.5	16.3	18.6	18.6
Total financial assets	100%	100%	100%	100%

Source: Deutsche Bundesbank, 1999.

Different explanations of the diminished responsibility of the workers in Germany may be given in relation to collective bargaining, mainly because of the decrease of trade union membership density and the departure of some directors from managers' organizations. On the other hand, the works councils have developed into a more powerful institution which is beneficial for employees as they exert influence on decision making at the factory level and the company level (Thelen and Kume, 2003; Vitols, 2003).

As analyzed above, the effect of institutional investors, works councils and trade unions as stakeholders has either been misinterpreted or underrated in many cases, not to mention the German firms where the local managers have a substantial ownership part. Even though a large number of local managers have the strategy and objective to make firms private, progress has been quite modest and the trend for the most part has been to denationalize firms to a small extent.

What kind of facts can advocate this theory as opposed to the arguments of convergence and no adjustment? One can look for evidence of a bargaining methodology, in which the initial requirements of a social partner are faced with opposition or different recommendations from other members of the stakeholder coalition. One can also anticipate that in the presence of antagonism the initial requirements for shareholder interests will be either adjusted or excluded. As a consequence, one may as well anticipate an adjustment of the techniques of German companies which take into consideration, along with other factors, the needs of institutional investors without necessarily a convergence to the Anglo-Saxon version of shareholder value (Vitols, 2005).

Available data on German firms are in agreement with the general notion that company techniques have actually been adjusted, but continue to be distant from the Anglo-Saxon model. An illustration of this is the utilization of stock options to bring into line the interests of directors and shareholders. An amendment in company regulations in the late nineties sanctioned German firms to use stock options, and made it simple for executives to earn dividend yields. Since the turn of the century, many German companies have actually introduced stock options. Nevertheless, German companies use stock option plans to a smaller extent than American firms.

Table 7: Stock Options as a % of Total Shares in the 30 Dow Jones and Dax 30 Companies

Company	Options	Company	Options
Dow Jones		DAX	
3M Co.	8.8	Adidas-Salomon AG	1.1
Alcoa Inc.	8.7	Allianz AG	0.3
American Express	11.0	Altana AG	1.7
AT and T Co.	8.9	BASF AG	0.5
Boeing Co.	3.4	Bayer AG	0.0
Caterpillar Inc.	9.4	Bayerische	0.0
Citigroup Inc.	7.2	Commerzbank AG	0.0
Coca-Cola Co.	5.7	Daimer Chrysler AZ	4.2
E.I. Dupont	6.7	Deutsche Bank AG	2.7
Eastman Kodak Co.	17.3	Deutsche Lufthansa	0.4
Exxon Mobil Corp.	3.9	Deutsche Post AG	0.5
General Electric Co.	3.6	Deutsche Telecom	0.2
General Motors Co.	3.7	E. ON. AG	0.6
Hewlett-Packard Co.	11.2	Epcos AG	0.9
Home Depot Inc.	3.0	Fresenius Medical	2.6
Honeywell	6.6	Henkel KGaA	0.2
Intel Corp.	11.5	Infineon	1.8
International Paper	6.0	Linde AG	0.0
J.P. Morgan Chase	9.8	MAN AG	0.0

Johnson & Johnson	5.4	Metro AG	0.0
McDonald's Corp	11.6	MLP AG	0.0
Merck & Co. Inc	6.6	Motoren	0.0
Microsoft Corp.	16.6	Muncher AG	0.1
National Business	9.3	RWE AG	1.0
Philip Morris Cos.	6.4	SAP AG	2.2
Procter & Gamble	7.7	Schering AG	1.1
SBC Communications	4.0	Siemens AG	1.4
United Technologies	7.2	ThyssenKrupp AG	1.5
Wal-Mart Stores	1.1	TUI AG	0.0
Walt Disney	9.0	Volkswagen AG	1.7
Average	7.7	Average	0.9

Source: Company annual reports and company websites, 2002.

On the basis of the measures it had previously introduced with a view to improving the structures of the financial and capital markets, e.g. the Securities Purchase and Takeover Act, establishment of the Federal Financial Supervisory Authority, The Fourth Financial Markets Promotion Act, the Transparency and Disclosure Act, the German Corporate Governance Code, in February 2003, the Federal Government presented a 10-point programme aimed at strengthening corporate integrity and at improving investor protection. Important aspects of this 10-point programme are also an integral part of the Financial Markets Promotion Plan 2006, which was presented in March 2003. The Financial Markets Promotion Plan 2006 comprises a total of around 30 measures, some of which are subdivided into further projects. The contents cover the whole spectrum of financial markets. They have the common aim of strengthening Germany as a financial centre and of improving investor protection (BMWA, 2003).

They include, inter alia, in relation to legal changes in company law, the following measures. Creation of an effective enforcement mechanism, enforcement equals checking the legality of companies' actual financial statements. In this area, it is a matter of restoring investor confidence in the transparency and truthfulness of company balance sheets that was lost as a result of the fraudulent practices and balance sheets scandals of recent years. With the introduction of a so-called enforcement procedure, company reports issued by capital market-oriented companies are to be audited at random and in suspicious cases. There are plans to have this audit carried out first and foremost by a body that is organized under private law. The Federal Financial Supervisory Authority is also to be assigned an important role as part of the enforcement procedure. It is, for instance, to be given the right to institute special investigations at this private-law agency even in respect of companies that

do not come under the Banking Act or Insurance Supervision Act, in other words, their own supervision. Hence, the plan is to give the Federal Financial Supervisory Authority a binding right of application. It is envisaged that the law establishing an enforcement agency will enter into force in the coming year (ibid. 2003).

This section demonstrates that the recent developments in Germany may be described as significant, but mostly incremental adjustments in the stakeholder structure of corporate governance. From this perspective it differs from the arguments of no essential change and of full convergence to the Anglo-Saxon version of shareholder value. The most important issue for corporate management and organizational change in Germany over the last few years has been how to adjust and meet the requirements for the creation of shareholder value. These adjustments have been evaluated in two ways.

In the area of institutions, the most significant amendment in the post-unification stakeholder alliance was the assimilation of institutional investors into an augmented stakeholder coalition. In the area of practice, a structure of negotiated shareholder value has emerged. German corporate governance provides for an alternative that is different from Anglo-Saxon business administration, particularly in relation to decision making and to the developments that this bargaining procedure results in. There is support for a process of negotiations, in other words a negotiated shareholder value which often culminates in the adjustment of the initial requirements for the generation of shareholder value when social partners of the stakeholder coalition disagree. Macroeconomic evidence, for instance in the utilization of stock options and the partition of value added among stakeholders confirms this explanation of a Rhenish variant of the Anglo-Saxon model of shareholder value.

# 1.7 From Path Dependency to Path Departure

Enhancing the flexibility of the markets through structural reforms is the focus of the Federal Government's economic strategy for stimulating growth and employment. The programme for this is the Agenda 2010, which the Federal Chancellor presented before the German Bundestang on 14 March 2003. The measures contained therein greatly step up in a major way the pace of structural reforms in Germany. The Agenda 2010 will introduce substantive reforms which extend far beyond the area of goods and services markets and which constitute important components of the Federal Governments strategy for lowering incidental wage costs. At the same time, it will play a full part in bringing the country closer

to achieving the objective that was formulated in Lisbon on 24 March 2000, namely to make the European Union the most competitive and dynamic, knowledge-based economic zone in the world by the end of this decade (BMWA, 2003).

The major elements of Agenda 2010, in relation to structural changes in the German economy with the growth of the service sector and changing large to small firm balance, are strengthening entrepreneurship and supporting start-up entrepreneurs, inter alia, by introducing new types of business start-up for the unemployed, freeing start-up entrepreneurs from bureaucratic burdens, e.g. simplified bookkeeping duties for small business people; introducing innovative forms of support via the Mittelstandsbank, e.g. subordinated loans in the Capital for Employment and Training programme, securitizing credit risks, exempting start-up entrepreneurs from the compulsory contributions to the Chambers of Crafts and Chambers of Industry and Commerce during the first four years. These measures will make it easier for small and medium-sized companies to adjust to structural change. They have already led to a new wave of small and medium-sized business start-ups, 63,000 self-start-ups, Ich-AGs, since the beginning of 2003. (ibid. 2003).

This section draws attention to the reappraisal of some concepts which helps us to analyze organizational transformation. The incremental adjustments which took place in most parts of Europe have brought up the topic of institutional change that was formerly ill-defined. Despite focusing upon a limited number of areas, this analysis brings forward issues particularly important for a more comprehensive interpretation of organizational change. This part focuses on the concept of corporate governance but other related areas can also benefit from analyzing organizational transformation in a theoretical context. For instance, it is the idea of civil society, now reemerging together with some innovative practices in central and eastern European countries (Leszczenko, 2002; Reichard, 2002). Some other notions calling for a reappraisal apply to the issues of governmental deficiencies and the future of industrial democracy which have been high on the agenda as a result of the European Union. In addition, it may be said that as a consequence of the emergence of Europeanization, the need to review the various academic opinions in relation to institutional change has become even stronger. This also affects the area of corporate management as it relates to the economic environment and the broader meaning of governance in the core political context (Federowicz, 2003; Grabbe, 2000). The topic of governmental deficiencies is probably related to the problem of immature democratic establishments in central and eastern Europe (Mokrzycki, 2002).

This analysis offers a balanced point of view about the motive forces of organizational transformation to serve as an explanation for past and future dependency and the attitudes of different actors. In the first part I propose a suitable structure for East and West convergence, and my proposition is based on organizational resources. In the second part well-defined topics of the post socialist system associated with corporate governance are discussed, and a clearer explanation of the concept is given. With the intention to expand further, the third part addresses the intricacy of these topics in the context of developed economies (Soskice, 2000). The fourth part demonstrates clearly that there is a disparity between East and West, identifies the issues that have to be taken into consideration and examines how a solid corporate governance can materialize. The final comments stress the significance of business administration for a better political, economic and social equilibrium in the context of further European integration.

An original theoretical concept is needed that can develop in a sequence of innovative ideas based on the public debate of the late nineties. The convergence hypothesis stems from the Anglo-American practice of coordinating and regulating organizational operations, allegedly the model leading the international economy, and therefore encouraging all advanced societies to shift towards this structure. There are two points specifically in favour of this concept of convergence, firstly, disappointment with state communist systems and economic centralization, and secondly dissatisfaction with Japanese productivity and Japanese practice which has been researched extensively in recent years (Morck and Nakamura, 2000). Nevertheless, the idea of a mixed economy and the end of history caused more extensive research applied to highly industrialized economies and focused upon national historically developed organizational structures (Berger and Dore, 1996). The results illustrated distinct national trajectories in organizational change, as a response to globalization, and displayed every developed national network as being more advantageous than the others, still experiencing at the same time several difficulties, which combined, caused opposing fronts between markets and companies (Casper and Hancké, 1996; Soskice, 1994; Vitols et al. 1997). In fact, taking the last twenty years of economic internationalization into consideration, we find out that academic discussion has not been focused upon a comparison of convergence or divergence, but instead has been focused on the examination of the development of national networks in the context of increasing interdependence, we come across a concept like this in the Varieties of Capitalism (Hall and Soskice, 2001).

An argument based on the path-dependency approach tends to rely heavily on explanations oriented towards the past. However, I can basically accept that state politics and state history definitely play an important role in affecting how capitalist organizations become increasingly integrated, and in fact this is how the path-dependency approach becomes useful (Chavance and Labrousse, 1998; Chavance and Magnin, 2000). This usually applies to developed societies and, in this sense, is demonstrated in the Varieties of Capitalism. The argument is, nevertheless, using a similar path-dependency approach in eastern Europe may often be confusing, inasmuch as it cannot solve the difficulties of elementary and substantial organizational transformation. There is no knowledge on how and to what degree successive governments have been capable of resolving, or in various stages overcoming their difficulties. Rather, there is a tendency for simplistic post facto interpretations. And when we refer to developed countries, for instance, France, which was not just capable of building but also overcoming a dirigiste government, the path-dependency approach is not very useful, because we have to go further than this to comprehend how a sequence of organizational changes, along with standard macroeconomic practices, paved the way for a change of position by the government favouring a firm-led corporate governance, ultimately resulting in a substantial modification of the organizational background of French business administration (Hancké, 2000).

It would be a wrong assumption to say that what I wish to prove is that the German system is more effective in a number of ways than either the British or the French, because this is simply not the case, and this is exactly the reason why I make a more complex argument that the concept of parth dependency is not always right, reliable, or helpful.

The scenario of a convergence to an inefficient or inferior equilibrium may be a real possibility. As I have already noted, I feel that there are currently strong tendencies in the real world, and notably in Europe, which tend to undermine the existing corporate governance systems and might lead to a general adoption of the Anglo-Saxon system although it is in principle possible that the German-Japanese system is the better system as long as it were the the only system and as long as only one system of corporate governance applied universally. The most recent event is the successful hostile takeover by Vodafone for Mannesmann (Schmidt and Spindler, 2002). Note that I do not want to make any claim that some variant of the German-Japanese system is indeed the better system; the recent political turmoil in Germany and the prolonged economic crisis in Japan cast some serious doubts on the actual truth of any such claim. But given the importance of corporate

governance and of the possible convergence, I feel that the issues raised in the preceding discussion, and in particular the question of which system would emerge as the winner in a crisis, is more than an intellectual exercise. Of course, the scenario with a general crisis in different corporate governance systems, or at least in the insider control system, constitutes an extreme case. Having preceded a rather strong proposition, I need to add some caveats.

The last two decades developed in a completely different manner in East and West Europe. There were also differences between countries in eastern and western Europe, still with regard to management topics, the most notable inconsistency was that in East Europe, unlike in industrially developed West Europe, the economic recession that took place during the early eighties was initially resisted but later stimulated considerable organizational transformation. There was no country that could meet the demand for large improvement without considerable institutional change. The important outcome of economic recession in eastern Europe was wasting the organizational resources, inclusive of human resources, which eventually added to the disintegration of the structure.

"Until the symbolic collapse of the Berlin Wall, with very few exceptions, the firms located between the Elbe and Kamchatka were not subject to any typical market pressures international or domestic, but this was precisely the pressure behind the necessary changes in western economies, even if governments try to dampen or delay it" (Federowicz, 2003).

Since the early nineties, eastern Europe has become susceptible to these pressures, although to a different extent in different countries and industries. In fact, this accounts for discrepancies and irregularities between countries, though in a way, eastern companies found themselves under the circumstances of internationalized markets immediately, whereas western firms had experienced incremental adjustment, as a response to globalization, which was partially generated by the prosperity times of the sixties. During the same period, in East Europe the revenues of premature financial success were mostly wasted in an effort to recover the expenses incurred as a result of one party political, economic and social control.

As a matter of fact, even in developed and industrialized economies the concept of corporate governance cannot entirely be explained by the relationship between managers and shareholders. At all events, this is not the way to comprehend the concept of corporate management, and arguably not the most practical in a comparative analysis. An analytical framework is needed with the potential to display the relationship between owners and

managers and also identify its determinants which probably originate from different organizational environments. An approach like this helps us to understand how corporate governance operates, and more significantly, observe the organizational change that paved the way for the formation of a corporate management style which has become predominant in different countries, and also helps us to perceive the meaning of the dynamics of organizational transformation. What seems to be lacking in post socialist societies is coordination and consistency between corporate governance styles on the one hand, and policies for decision making on the other.

To analyze the intricacy of management mechanisms at the company level, it is helpful to make a comparison between two established and persistent economic models, the Anglo-American and the German. In defiance for the demands for adaptation, the two models hold on to their conflicting attributes, with each one defined by the process of incremental adjustment instead of innovative modifications (Casper, 1999; Casper and Vitols, 1997). The differences help us to identify the fundamental characteristics which play an important role in business administration at the moment. Expressing the same thing differently, the conflict between the two models of corporate governance facilitates the construction of an analytical tool for cross national comparisons which essentially diverge from the Anglo-American model of business administration.

For instance, with regard to Germany or Japan, we discover that financial markets are different from those found in the United States or the United Kingdom. Some scholars have argued about the pros and cons of bank based structures against market based structures (Levine, 1999). The discussion is basically focused on four countries. In bank based economies like Germany or Japan, banking corporations play a significant role in the allocation of resources, the mobilization of funds, the process of investment, and the provision of financial derivatives. In market based economies like the United States or the United Kingdom, it is the stock exchange that plays an important role in allocating resources, mobilizing funds, and overseeing the investment. Analysts are divided between those who believe in the efficiency of markets and those who believe the opposite. This gives rise to our main argument, a network of corporate governance interrelates with other significant elements of developed capitalist structures, in specific, the legislation about industrial relations, learning and training, especially vocational training at work, and the various organizational operations performed by firms, such as quality control or technological modernization. As regards corporate management, there is no doubt that this explanation is

currently starting to change, a point of view that becomes even clearer if we review recent developments.

"In the last twenty years, economists have evolved the corporate governance issue in ways that view it centrally as a problem between owners of companies, or between those people providing financial resources to companies and, on the other hand, the top managers of those companies" (Federowicz, 2003).

In a scenario like this, the topic of corporate governance has become well known as the principal agency approach. In other words, shareholders have clear objectives they want the board of directors to accomplish, and from the shareholders' point of view, corporate management has to provide top level managing directors with this capacity. This illustrates, in a greater or less degree, the approach followed by experts, or the manner they have approached this issue more recently.

More extensive research on the economy of Japan in recent years limited the Anglo-American predominance in the intellectual market for institutions and paved the way for continental oriented studies. The increasing European integration during the nineties strengthened the concept of a continental corporate governance and assisted the development of a European corporate management in opposition to the Anglo-American model. Nevertheless, the concept of a continental variety was based on the German environment, and directed attention to other countries somewhat rarely, as a consequence demonstrating less the real nature of the European continent, and more the urge for a united Europe. In reality, every single country pursued organizational transformation in a distinct manner, in an effort to merge its organizational structure with some innovative designs, and to become more responsive to the strains of internationalization rather than working towards the formation of a European corporate governance. There are several organizational structures found in continental corporate management to anticipate an even coordination.

With regard to corporate governance, the opposing fronts of capitalist growth are first, the Anglo-Saxon model, close to a free market idea but not equal to it, the shareholders are scattered all over the organizational expansion but the directors are consolidated and exposed to a competitive environment, and second the German or Japanese model of capitalist growth, not as close to a free market idea yet also subjected to some market type competition, the shareholders are consolidated as well as organically interrelated with

institutional investors whereas the directors are less concentrated and have more liabilities towards financiers and employees.

Another major difference of liberal and coordinated markets is the character of decision making, whether it allows managers to dominate the organizational operations of the firm, or it is based upon codetermination, with managers and workers running the firm in the context of a consensus based organizational environment. However, decision making does not relate only to managers and workers, it is also determined by the relationship between owners and managers. A consensus based economic environment that is broadly defined as codetermination between owners, managers, and workers is typical of the Rhenish variety of business administration, whereas an organizational environment with proprietors and shareholders who are not accountable to executives is characteristic of the Anglo-Saxon model of corporate governance. The discrepancies and irregularities in the character of decision making, the mechanisms of power relations, and the dependence on shareholders define the two models.

Observing the organizational dynamics of emerging structures, we can make reference to the theory of low level equilibrium, as defined by scholars, for eastern European countries following the years of socialist control (Greskovits, 1998). This argument is about the relationship between the economic structure and the social structure of these countries, and takes into consideration the existing problems with regard to their ability to reinforce democracy, and the consequences of the important economic developments, that presumably culminate in social unrest. However, the unrest has not developed to a degree that might have jeopardized the success of organizational change. According to the low level equilibrium theory, these countries have already succeeded in building popular institutions and the basics of market relations, even though they are somewhat substandard and relatively immature. As a result, the low level or low quality equilibrium of the structure is quite steady and enduring.

There is not actually a market for institutions, market forces cannot exactly determine what the corporate management environment in a certain country is, and when they occasionally do, this is not necessarily the right decision. The best structures in a given period for certain product markets are not always found in regions or districts with the highest demand. The best structures interchange and, at the organizational level, there is no durable selecting mechanism. Because of this, the historically formed national economic environment plays an important role in a government's flexibility, and, with it, contributes to the formation of

enduring capitalist organizational transformation. However, the long term financial robustness of a country may have a significant impact on this procedure, and originates to a certain extent from its global standing, and from its cultural status at the international level.

This section discussed a theoretical concept for an international comparison of business administration. Even though the field of corporate governance is extensively researched, the analysis focuses on developed economies and the differences between them, and often tries to expand an identical theoretical concept to other countries. Nevertheless, the evolution of business administration in relatively undeveloped economies like the former GDR is also influenced by political reforms. Resistance to change that exists in the process of organizational transformation, impairs the development of corporate governance in these countries. The argument is that the study of business administration in an East-West comparative analysis should also include a much broader debate on the economic and social nature of agreements both official and unofficial. This discussion also analyzed the relevance of path-dependency. It supplemented the approach of Varieties of Capitalism with new concepts which make it more appropriate for an East-West comparison.

## 1.8 Collective Bargaining and Incremental Adjustment

In this section I will make an effort to discuss as adequately as possible the issues of wage setting and decentralized negotiations in Germany, and I will also try to reference adequately some of the main arguments, and to ensure that referencing is up to date. This part makes an effort to give another explanation of the German model which draws from studies of the performance of large German firms since the late eighties (Rehder, 2001). I will put forward three major arguments in this section. In my first argument, I suggest that, because of the rules of collective bargaining in Germany, it is advantageous for large firms to preserve centralized organizational structures. In specific, big companies have a vested interest in preserving the peace keeping role of centralized sector level arrangements. As a consequence, my research focuses on the role of large firms in the continuous evolution of the German collective bargaining institutions.

As opposed to abandoning the model, and this is my second major argument, large firms have actually been capable of achieving a substantial amount of resilience and versatility since the mid-nineties. Big companies have tactically been capable of increasing effectiveness and productivity in relation to their costs (Hassel, 2006). This has added to the

lasting stability of collective bargaining organizations as the augmented cost efficiency has restrained the workers from abandoning the centralized organizational structure.

However, this does not mean there have been no changes. As I develop my third argument I give an account of the statutory amendments for collective bargaining which provide for an alternative to the disintegration of the structure. In this sense, I suggest that the balance of collective bargaining has moved for making provisions for standard rules focusing on egalitarian relationships between employers and employees to the promotion of resilience and versatility focusing upon the sustenance of entrepreneurial activities in uncertain circumstances. This development has triggered a revision of the correlation between organizational operations and the industrial relations system (Morgan, 2003). The effectiveness of diversified quality production was initially based on the manufacturing sector that provided large earnings and equal rights and opportunities. Nevertheless, it culminated in a rearrangement of the correlation between entrepreneurial activities and the workplace relations system and the process of collective bargaining had to be adapted to the requirements of production.

An important outcome of a centralized bargaining structure is its peace keeping role. By switching the controversy in decision making between employers and employees to labour institutions outside the organization, managers in particular can achieve a larger degree of peace keeping inside the organization.

"Bargaining rounds take place between employer's associations and trade unions. Employers can maintain a good relationship with their workforce by staying removed from the process. Moreover, by being members of a bigger association, employers are not as easily singled out for trade union activity and industrial action. Lastly, in many European countries, the employers' associations even provide an insurance against losses in an industrial dispute by maintaining strike funds." (Hassel and Rehder, 2001)

Centralized collective bargaining structures are particularly advantageous for managers provided that labour institutions are capable of opposing their decision making. When employees can disturb the composure of the firm in sustaining workplace stability, managers have a vested interest in the preservation of a central system.

Note the use of the term wage bargaining centralization. Some of the political economy literature distinguishes between centralized bargaining systems at the national level and intermediate bargaining systems at the sectoral level (Iversen, 1999). In our understanding,

a centralized wage bargaining system is defined here as any bargaining level above the level of the firm.

For managers centralized collective bargaining structures may also be a disadvantage. An important result is that centralized collective arrangements limit the range of regional versatility. All settlements reached at the central level have to include a large number of diverse businesses. For that reason, managers sometimes have to take measures in relation to remuneration and work time that do not always serve their personal interests or those of their companies. Managing directors can diverge from wage patterns only to a small extent, and often have to add optional bonus schemes (Hassel, 2003). Managers would have otherwise been capable of negotiating more suitable pay schemes and working hours at the company level. Centralized collective arrangements may as well include measures relating to human resource management which might not have been taken at the firm level. They also prevent any rapid fluctuations in remuneration and other amendments. As a consequence they hold back and impede certain industrial policies that managers may have implemented.

Nevertheless, large companies in Germany did not want to demolish the centralized collective bargaining structure as a means of counteracting or removing its undesirable effect. Instead, they resorted to firm level bargaining for a solution. Bargaining at the firm level has been quite prominent in Germany for a while now. Managers were favourably disposed towards cooperation and they thought of it as an integral part of the corporate governance model in Germany, as it helps them to maintain workplace stability by assimilating the workers into the decision making procedure (Kommission Mitbestimmung, 1998).

Founded upon a persistent elaboration of expert knowledge, job coordination, and research and development, diversified quality production is helped by cooperation as it assists the assimilation of workers into company level alliances, and institutional change, which is debated with works councilors, adjusted by firm level agreements and put into effect simply and rapidly. What is more, company level collective bargaining has also brought about a new trend in remuneration that makes provisions for a higher level of wages (Hassel, 1999). Centralized arrangements disregard the dissimilarities between companies which provide different wage systems. Large firms can bargain with the works councilors payments above the going rate and they can also offer extra bonuses to attract skilled workers.

In an effort to determine the significance of company level agreements, I enquired into the emergence of these pacts in some of the largest firms in Germany in the nineties. During that period of time, most of the companies bargained a firm level agreement. These firms employed more than 4 million workers. About half of these workers were affected by the pacts. 156 company level agreements were made in 55 firms (Monopolkommission, 1998).

In organized negotiations that relate to firm level agreements in big German companies, some of the managers' interests can be easily identified, these interests are to exercise power over labour costs, to maximize efficiency by enhancing the endurance of the organizational operations, and to reassign responsibilities between the workers which are particularly important for the accomplishment of versatility. Table 8 illustrates the three distinct kinds of arrangements.

Table 8: Types of Pacts of Employment and Competitiveness in Big German Companies

	A .				
	Work redistribution	Labour cost-cutting	Productivity		
	pact	pact	pact		
Frequency	23	29	27		
Employee	Reduction of working	Reduction of the	Additional working		
concessions	hours	wage drift	hours		
	Labour Mobility	Retrenchment of	Measures against		
		bonuses	absenteeism		
·		Paying below	Reorganization of		
		collective agreement	work		
			Modification of		
			payment schemes		
Employer	Employment security	Employment security	Investment and		
concessions			production		
	Vocational training	Investment and	-		
		production			

Source: MPIfG, 2001.

The strong participation of works councilors and trade unionists in decision making can be explained by the inherent characteristics of German business administration. German firms have always been defined by the strong participation of organized employees in decision making. In most companies, eighty per cent of works councilors are trade unionists, in some cases they are even more. Besides, works councilors and trade unionists are usually involved in the executive committees of firms. In large enterprises which have company level agreements, works councilors, trade unionists, and other employee delegates are in the

supervisory boards of corporations. As a result, managers for the most part accept councilors and unionists as mediators in employment agreements. They would rather assimilate them into decision making instead of endangering the stability of enterprises (Bronferbrenner, 2000; Hassel and Rehder, 2001).

Internal flexibility within the context of external inflexibility has traditionally been the modus operandi of the employment relations in Germany. As some scholars have indicated, bargaining versatility at the firm level and extensive regulation in collective arrangements have been inherent characteristics of the workplace relations in Germany (Rehder, 2004). Are the company level agreements of the nineties, simply a continuation of the success of incremental adjustment to changing socioeconomic conditions? In this part, I will display that in spite of the solidity of bargaining organizations, the authority and capacity to regulate working standards by collective arrangements has changed to an extent that indicates a more substantial modification of the German model.

The incremental adjustment of the nineties in Germany may be interpreted in a different way. The expansion of employer organizations from the west to the east in the aftermath of reunification was the driving force towards the decentralization of the collective bargaining structure. Once employer organizations were expanded from the west to the east, the effect of higher wages was immediate. In the mid-nineties an alliance of several economic actors who had pressed for the expansion of western organizations disintegrated. The companies of the metal industry in eastern Germany which could not pay the higher salaries complained about the collective bargaining structure (Bispinck, 1993; Henneberger, 1993). The system was rescued by the inclusion of hardship clauses into the collective bargaining structure. Firms could register for exclusion from the centralized arrangement and would be allowed this provided they met certain criteria. It was the only point since World War II, companies in Germany constitutionally obliged to participate in a centralized arrangement were permitted to abstain from collective bargaining so as to survive. A study conducted by trade union officials found that 181 firms registered for hardship clauses in eastern Germany in the nineties (Bahnmüller and Bispinck, 1999).

The German model of centralized bargaining agreements and company level arrangements has changed. Firm level agreements used to take place within a predetermined context. Organizations at the sectoral or local level used to decide on incremental adjustment at the company level and determine the extent to which firm level actors are capable of making their own decisions. Based on law, collective bargaining supersedes company level

arrangements. Firm level actors must be authorized to revise payment schemes and work conditions at the company level. When the centralized agreements do not include this authorization or the possibility of delegating bargaining to the firm level, company level actors are constitutionally obliged to abstain from bargaining of these issues.

"The delegation of bargaining rights from the central to the plant level has been a process of enabling plant-level actors to deal with issues which were principally reserved for the associations. The associations took their right to restrict plant-level bargaining seriously and in particular trade unions tried to regulate as much as possible at the central level. Companies had to wait to be enabled by collective agreements to change practices at the plant level. (Hassel and Rehder, 2001)

The firm level agreements in relation to employment issues in the nineties have in several occasions displaced the centralized arrangements. Despite that statutory legislation has not been modified and most agreements do not breach the rules and regulations, institutions have lost their ability to restrict company level arrangements by implementing collective agreements. Even though firm level bargaining enforced centralized arrangements, the agreements of the nineties demonstrate a tendency to regulate at the company level (Beyer and Hassel, 2002). The supremacy of centralized arrangements on important issues and practices in comparison with firm level agreements has been overcome.

Whereas the advantages for maintaining a centralized collective bargaining structure outbalance the disadvantages for complete delegation, the adaptation of the collective bargaining institutions in Germany to a globalized economy has triggered a substantial modification of the industrial relations system. To a certain degree this adjustment sounds like the term organized decentralization that is to say a dual system that combines centralized administration with elements of delegation (Traxler, 1995). The general notion of organized decentralization relates to a bargaining system in which the centralized process of organized negotiations has been deliberately delegated to lower level organizations in a way that does not eliminate control by the higher order organizations over collective bargaining at lower levels (ibid. 1995). On account of their peace keeping role, large firms have to pursue versatility and acknowledge the trade unionists' part as a veto player. Therefore the organizational structure is left solid. However, in spite of the organizational solidity we can also observe the development of organizational adaptation to a competition driven model of regulated wages which is based more on the departure from collective bargaining agreements rather than upon their practice. Although centralized arrangements at the

industry level make provisions for a universal system of payment schemes and work conditions, the rules and regulations of some labour institutions and several big companies may essentially differ from the minimum and recommended requirements of production. Flexible work time systems can facilitate production to meet the demand without necessarily a rise in wages for overtime. Formal centralized arrangements combined with firm level agreements in relation to competitiveness allow enterprises to progressively adapt their wage patterns to the business cycle.

The national collective bargaining structure has traditionally made provisions for higher incomes and a better work environment for both white-collar and blue-collar workers and has always excluded low road strategies. It has also managed to preserve peace keeping to a large extent. Furthermore, organizational provisions for vocational training, which were an integral part of industrial relations in Germany for years, for the most part increased the dedication of workers and maximized production, both characteristics of a high road strategy (Streeck, 1997). As a result, firms had to pursue a new approach. Diversified quality production has surfaced as a tactical response by companies to the restrictions of the inflexible external environment of industrial relations and remuneration. Diversified quality production does not apply to the entrepreneurship of a particular firm but illustrates a certain kind of industrial policy. It relies upon a particular environment to facilitate the manufacture of products and the provision of services that companies are not capable of manufacturing themselves or providing on their own. For example, peace keeping is one of the common and unspecified redundant capacities that make the system function properly (ibid. 1997). Peace keeping at the firm level provides for first rate production, so that higher wages yield good results.

In this part I made another effort to add to the main body of research on the process of institutional transformation and organizational change through incremental adjustment, especially from a perspective that emphasizes on institutional evolution, as institutions designed with one set of goals in mind are turned to other ends (Thelen, 2003). In theory, organizations are defined as rigid, for the reason that organizational evolution always takes some time to become efficient (Genschel, 1997). As a consequence, institutional transformation or organizational change which doesn't happen through radical change is hard to define. Having said that, because the demand for adaptation to an international economy is high, institutional activity may have to change, whereas the organizational structure remains stable.

# 1.9 The Restructuring of Labour Institutions

The existence of a solid, unified, efficient, and coordinated workforce was an important determinant of the post-war prosperity of West Germany and its progress after the devastation caused to happen by the National Socialist Democratic Party towards democracy and stability. However, a more careful analysis indicates that the West German variant, was also defined by a small number of labour institutions, and it was probably not as responsive to the needs of industrial unionism. During the fifties, there were divisions between the DGB labour institutions, and membership density ranged from 1,528,000 for IG Metall to 38,000 for Gewerkschaft Kunst (Streeck and Visser, 1998). What is more, several labour institutions in the DGB were not industrial but occupational by definition, like the Gewerkschaft Erziehung und Wissenschaft or The IG Druck und Papier, which accounted for the professions of teaching and printing. After a transitional period the workforce became strongly dedicated to democratization, and the urge for political reformation was determined by the need for economic, social, and industrial democracy. Consequently, Mitbestimmung, in other words cooperation between managers and workers in decision making was the permanent subject. The works councils and the trade unions were wellorganized for action against any anti-democratic development. With regard to the constitutional system of government and the power of collective bargaining, councilors and unionists have contributed substantially to the employment relations of the Federal Republic, that is to say an extensive network of organizations which can resolve the disputes between managers and employees. The term German model first came to mean what it does today in the Federal Republic of Germany during the eighties (Dufour, 1998; Muller-Jentsch, 1995). The German model of industrial relations has been a source of resilience in the country, and an important determinant of its progress towards democracy.

Class opposition was historically an important foundation of trade union conceptions of solidarity. Yer the understanding of class was always somewhat problematic, and has become increasingly so. Unions were traditionally organized on the basis of particular constituencies, distinct occupations, specific employers, and individual sectors of the economy. In uniting one group of workers, unions could divide them from others. To some extent, the ideal of class solidarity can be seen as an effort to overcome such divisions. And typically, if class was able to unite it was not so much through common interests in the present as through a vision of the future, "trade unionism often involved the articulation of an alternative social order comprising a wider class solidarity" (Richards quoted by Hyman,

2002). Workers collective consciousness involved a sense of common identity which was conditioned by perceptions of antagonism to an external threat, typically, the employer; but what was necessary to give this true class significance was a totalizing understanding of the context of this opposition, and linked to this a perception of a different form of economy and society. "But if the traditional class utopias have lost their credibility, class solidarity is still possible" (Touraine quoted by Hyman, 2002).

More recently, strong tendencies of institutional change have become evident in most labour institutions. With reference to union revitalization strategies the conventional techniques are not adequate to improve the services of the associates in a modern post-industrial economy. Members should not be considered as simply associates but they have to be regularly involved in unionism. Organizing has to be an all-inclusive policy which enlists new unionists and motivates old members. This demands a complete institutional rearrangement. Trade unions need to become less centralized, and associates have to lay their hands on more tasks and responsibilities. It is necessary to educate organizers, and to allocate a larger amount of economic assets to organizing. Additionally, labour institutions should be considered less as bargaining organizations and more as a political front that inspires unionists to become motivated and sympathize with a common principle. Ordinary topics have to be combined with principles of economic stability. Members should be conscious of belonging less to a union that bargains payments but more to an institution which stands for positive ideas. In America and Britain this is interpreted many times as an emphasis on militancy.

In some cases union mergers offered a good chance for internal restructuring and facilitated the decision making process (Muller, 2001). As the analysis demonstrates, nevertheless, there is not a standard model of union mergers and the result in relation to internal restructuring heavily relies on the main characteristics of the trade unions involved as well as on the nature of relationships between them. As table 9 suggests, union mergers are in fact a recent phenomenon. Although the amount of associates of the Deutscher Gewerkschaftsbund continued as the same at seventeen for the best part of the post 1945 era, this was succeeded by union mergers that reduced the amount of associates to seven.

**Table 9: Union Mergers** 

Union	Merged With	New Name	Membership	Year of Merger
IG Druck und	Gewerkscaft Kunst	IG Medien	175,044	1989

IG BSE	GGLF	IG BAU	539,744	1995
IG CPK	IG Bergbau und Energie	IG BCE	891,587	1997
IG Metall	GTB	IG Metall	2,630,000	1999
IG Metall	Gewerkschaft Holz	IG Metall	2,763,485	2000
Gewerkschaft Offenliche	IG Medien	Vereinigte	2,888,482	2000
Transport und Verkehr	DPG	ver.di		
ÖTV	HBV, DAG			

Source: IAB Bertriebspanel, 2002.

For many years sector level collective bargaining has been a main characteristic of the industrial relations in Germany. Strong labour institutions and comprehensive managers' organizations bargained collective arrangements at the national or local level, and this way reduced the possibilities of controversy between firm level administration and works councils. The robustness of the relations between the social partners, together with the reduced exercise of militancy, provided the foundations of social partnership. Over the past ten years nevertheless, there has been increasing apprehension that this dual system may become eroded or substituted for something else (Hassel, 1999; Jakoby, 2000; Thelen, 2000). Though it is not well defined what this something else could be, there are indications that works councils and trade unions have to revise collective bargaining. There are other issues to be considered. For example, the increasing proportion of firms and their corresponding managers' organizations that have decided not to participate in sector wide collective agreements. In the late nineties, 52% of companies in West Germany and 73% of firms in East Germany were not included in a sector wide collective agreement. Nevertheless, the companies in Germany that implement the rules and regulations set by sector wide collective agreements employ the majority of the workers.

**Table 10: Collective Bargaining Coverage** 

	West Germany		East Germany	
	Companies	Employees	Companies	Employees
Industry-wide	45%	65%	22%	46%
Company-level	3%	8%	5%	11%
Without	52%	27%	73%	43%

Source: IAB, Bertriebspanel, 2002.

German trade union federation strategies, nevertheless, seek to adapt the coverage of collective bargaining to the requirements of managers and employees. Their strategies aim at factions of employees which have not been the focus of attention. They include the latest bargaining issues which have become significant on account of financial restructuring and the requirements of firms, or on account of institutions trying to recompense employees for losses not indemnified by the welfare state. Many of these original strategies were initially implemented at the firm level and it is still not clear whether their provisions can extend to the entire sector. There have been a number of cases recently where company level administration and trade union in Volkswagen included original clauses in a firm level arrangement which were subsequently spread throughout the metal sector. In a way, Volkswagen is a laboratory for sector level agreements in the entire metal industry. Other examples are IG Metall, Debis, and ÖTV.

On the whole these laboratories of innovative agreements and new agendas indicate that trade unions have the capacity to adapt their collective bargaining policy as well as tactics to the demands of managers and employees for more versatility. In several cases trade unions expressed dissatisfaction at the low membership density of white collar or female workers in their institutions but now the IG Metall settlement, as well as Debis and ÖTV arrangements against income discrepancies, can make trade unions more appealing to these groups. In particular on topics like vocational training and research and development, there is a lot in common for collective agreements between managers and employees. There are, nevertheless, some reasons to be cautious. In case the supporters of a revised collective bargaining policy have to deal with some strong opposition inside their own institutions, arrangements like the ones settled by Volkswagen may be restricted.

Union mergers that took place within the Deutscher Gewerkschaftsbund raised questions relating to the character of the federation. Some scholars find it difficult to explain the role of a powerless and economically subordinate federation against a small number of labour institutions, notably IG Metall, which have the capacity to bargain independently with politicians, owners, and managers. (Behrens et al. 2002). However, by bringing these innovative agreements into a formal organizational framework, the Deutscher Gewerkschaftsbund can achieve a better position than before.

My argument is that institutions must encourage the formation of alliances with political fronts, to increase their social influence on economic groups, to invest more financial resources on activities that relate to strategic objectives, and to enlist organizers from various workplaces. This point defies the notion that institutions have to stick to their last and do not necessarily have to become all-inclusive. Nevertheless, the argument is that institutions in reality have to stick to their last when they influence working lives inside and outside the factory or the office, for this is what works councils and trade unions have done ever since they were founded many years ago.

Though internationalization has become a slogan in the current academic discussions, German labour institutions are only interested in some well defined issues in relation to globalization. There is no academic discussion on the strengths and weaknesses of internationalization like in America and Britain. Labour institutions in Germany have not been involved in anti-globalization demonstrations e.g. Seattle, Washington, Davos, Prague, and they do not appear to be against internationalization. German labour institutions are mainly concerned with global industrial relations and political decisions, both of which are associated with their specialized sections for economic policy. The demands and requirements for political decisions in global industrial relations have been a major issue since the seventies and are especially related to the Gewerkschaft Textil und Bekleidung. Accordingly, the clothing and textile industry has formed a special relationship with institutions like the Kinderhilfswerk TDH and religious organizations in developing countries.

The formation of alliances with political fronts is irregular and infrequent, and is not prioritized as a long term revitalization strategy. Forming alliances has not been coordinated. Many efforts are made at the regional level and are contingent on the resourcefulness of unionists. An explanation for this cautious approach may be that Germany, in comparison with other developed countries, has a reputation for having some quite influential social factions (Kriesi, 1995). This can be difficult for works councils and trade unions because they have to strive for superiority with other actors. From another point of view, this contest makes it more important for labour institutions to collaborate with political fronts, to be more receptive to these social factions that can influence the workplace, and to develop further the activities of their members.

The social dialogue was brought in by an EEC treaty in the late eighties as an instrument to inspire actors to promote contractual relations. It has been employed occasionally and up to this point, the quantity of agreements reached by mediation between ETUC, UNICE, and

CEEP in relation to employment issues has not been as satisfactory (Kuhlman, 1998). In more recent times, nevertheless, there has been an increased interest in the use of social dialogue in collective bargaining (Bansbach and Keller, 2000). However, the possibility of the social dialogue evolving into a main instrument of inter-regional institutional cooperation is rather small. In other words, the institutions have no means to force the managers to negotiate. ETUC has so far developed largely by borrowing resources from European institutions to gain recognition with its own national constituents and by using the opportunities provided by these European institutions to try and change employer attitudes (Martin and Ross, 1999). This method can be employed at the regional level as well. Only when managers have a personal interest in industry regulation, like in the case of appointed employees, they may become inclined to apply this method (Behrens et al. 2002; Sorries, 1997).

IG Metall is one of the trade unions in Germany that has made quite some progress towards the European harmonization of collective bargaining policies. IG BAU introduced a project in the mid-nineties about institutional coordination and other industrial issues in the European Union (Lubanski, 2000). There was also an arrangement in the late nineties with the unions of the construction sector in Austria and Switzerland about transnational wage bargaining. This was succeeded later by another settlement with the labour institutions of Holland and Belgium that was to embody the Basic Declaration of Principles on Wage Bargaining in the European Building Industry of the Euro Tarifpolitic der Bau und Agrargewerkschaften. IG BCE has groped to regain the initiative by realizing the potential of reciprocal agreements in order to establish a solid mining and chemical union in Europe (Zagelmeyer, 2000).

The contribution of inter-regional trade union committees may not be spectacular, but it is imperative for promoting a spirit of European integration. The foundation of these committees can assist the harmonization of industrial relations and increase transnational collaboration in the European Union. The role of inter-regional trade union committees is to resolve regional development problems and other workplace issues. Topics like the cooperation between managers and workers in decision making, social security, and environmental affairs are some examples.

Before this section concludes other important trends in German industrial relations such as the continuing fall in trade union membership will have to be included in the discussion. Only just over one-fifth of employees in Germany are union members, and union density has fallen sharply since the early 1990s, in part because of a sharp fall in manufacturing employment in Eastern Germany after unification. The vast majority of union members are

in the main union confederation, the DGB, but within it individual unions, like IG Metall and Verdi, have considerable autonomy and influence.

There are some 8.3 million trade union members in Germany. However, this includes a substantial number of retired trade union members now twenty per cent of the total and growing. As a result, a recent independent report estimated union density in Germany was less than twenty-three per cent in 2003 and it has fallen since then (Visser, 2006).

Politically the DGB emphasizes its normal neutrality and ensures that at least one member of its national executive is a member of the Christian Democratic CDU. There are also some CDU members in leading positions in individual unions. However, the overall position of the unions and that of most union officials is closer to the Social Democratic SPD, although there are also some important figures who support the Greens, and middle-ranking union officials played a role in the creation of the left-wing Linkspartei PDS.

Overall union membership has fallen steadily since German unification. The DGB has been most severely affected losing 43% of its membership since its peak in 1991, despite absorbing the DAG with 460,000 members through the creation of Verdi. Union membership in the former East Germany, which initially was high, fell very sharply as overall deployment there declined. Trade union membership is strongest among manual workers in manufacturing and in the public services, but much weaker among workers in the private services sector (Fulton, 2007).

Besides the well known difficulties of institutional change, I tried to draw attention to some propositions for union revitalization which combine different strategies. Institutions in Germany have to develop a tactical approach at the European level and in many cases focus on shopfloor policies. With regard to the latter, success is dependent on enlisting members and educating organizers combined with organizational transformation and assigning authority to the regional or local level. As managers introduce amendments in the workplace, trade unionists also have to reply with adjustments which serve their own vested interests. Making the first move can reinforce employee power in the workplace and create a new economic landscape.

The objective of this section was two-dimensional. Firstly, I wanted to draw attention to the reorganization of German trade unions in those areas which appear to be the most important. For example, organizing the unorganized, mergers and internal restructuring, social partnership, political activity, coalition building, and cross-border trade union

collaboration. Secondly, I described some of the latest developments in these areas and I also proposed union revitalization strategies at the national and international level.

#### 1.10 The Reformation of Welfare Schemes

In spite of the prediction based on the varieties of capitalism approach, the shift of big German companies towards shareholder value since the late nineties appears to have been consistent with the perseverance of an original structure of industrial relations that includes codetermination at the company level. This part suggests that co-determination and shareholder value are incompatible by definition, the reason is that it becomes easier for empowered employees to oppose major shareholders (Kostyuk and Panagiotopoulos, 2008). However, if the restructuring of corporate governance, through voluntary redundancy or early retirement is facilitated by a generous social security system, co-determination and shareholder value become complementary by the inclusion of one more institution in workplace relations, and this is the Welfare State (Boyer, 2005). Incidentally, a threefold compatibility like this was evident during the golden age of industrial relations in Germany even though the context was not the same, because of co-determination and works councilors the patient capital provided by banking corporations was compatible with the empowerment of employees at the company level, and because of centralized bargaining this organizational compatibility was also present at the national level. An institutional complementarity like this confirms the role of the welfare state as a facilitator of corporate restructuring.

In fact, it may be difficult to demonstrate that the coexistence of co-determination and shareholder value is because of the ambitious welfare state, an institutional complementarity between several institutions and not only two, may be verified only by the construction of a model or by econometrics (Ernst, 2001; Milgrom and Roberts, 1990). It might not be as easy to critically analyze an uncertain set of circumstances like this. As a result, this theoretical explanation provides for a hypothesis instead of a conclusion, but it manages to draw attention to a different concept in the academic debate on the workplace relations of Germany. The argument is that the evolution of national systems of corporate governance and industrial relations should not be disengaged from the reformation of welfare schemes.

Co-Determination

Shareholder Value

**Chart 3: The Catalytic Role of a Third Institution** 

Source: PSE, 2005.

In the academic literature of the welfare state some theoretical doctrines have emerged which are able to explain the paradox of welfare state flexibility in times of economic and social constraints and despite the difficulties of fundamentalist governments (Pierson, 1996; Pierson and Weaver, 1993; Weaver, 1998). These theories have been practically confirmed by the evolution of welfare systems during the late nineties, and they are able to account for the magnitude of diversification observed by the more recent developments in welfare systems. However, because they are not able to explain the paradox of organizational path departure, this section tries to revise the theoretical doctrines of the welfare state. I will review the latest theories, compare them with the reformation of the welfare state in Germany, and try to revise them. Enquiring into the subject of organizational transformation in the German welfare system, I follow the example of the deviant case study in comparative economics (Pierson, 1994). My research of the German welfare system has four purposes. Firstly, it tries to bring forth some ideas which can explain the reforms of welfare states. Secondly, it identifies trends which were formerly disregarded or ignored and makes new propositions about the effects and the results of welfare state reformation. Thirdly, it is an effort to clarify these theoretical doctrines which can put together an essential supporting structure for a more comprehensive interpretation of the welfare system reform. Lastly, it draws attention to the latest developments which also have to be interpreted by these theories.

There are several advantageous circumstances which can assist governments to suppress the opposition from the general public and to succeed in carrying out reforms, firstly, policies to decrease, or avoid liability, secondly, organizational abilities, and thirdly, an effective strategy. The most significant blame avoiding strategy is probably the formation of a general agreement to spread liability (Weaver, 1986). To shift blame, it is important for governments to include leftist political factions and labour institutions into a reformation alliance, inasmuch as they are usually advocates of the welfare state. On the contrary, in governments where the opposition is not a supporter of the welfare system, the general public will probably not criticize the government for reductions in expenditure due to the fact that there are no other options (Kitschelt, 2001). Governments with centralized jurisdiction like the United States and the United Kingdom, have to face fewer obstacles in the process of making laws and are capable of carrying out reforms (Huber and Stevens, 2001; Tsebelis, 2002). In many cases, nevertheless, the interrelation of governmental organizations with welfare state reforms is intricate and complicated (Bonoli, 2001; Hering, 2003). From another perspective, an effective strategy that justifies the welfare system reform by including popular beliefs facilitates governments to overcome resistance from other political factions (Schmidt, 2000).

For governments, the economic and social cost of welfare state reforms was quite large in western Germany, but it was even larger in eastern Germany. While in western Germany most people would be contended with the preservation of the existing state of affairs, about seventy five percent of the people in eastern Germany would rather political parties expanded the welfare system (Roller, 1999). In unified Germany, the economic and social cost of welfare state reforms was quite large with regard to the privatization of governmental programmes. When people are questioned if they support national or private programmes for pensions and health services, the response is clear, sixty per cent of the population in western Germany and eighty per cent in eastern Germany support national programmes, only 20 percent and 10 percent, support private programmes (Kohl, 2002). What is more, unpublished material on social security also indicates that people are favourably disposed towards state responsibility. A large number of people, both employed and retired, are in support of the maintenance of the present level of public benefits even if that demands an increase in social security contributions.

Many theories have been practically confirmed by the reformation of the welfare system in Germany during the eighties and especially during the nineties. In the eighties, the Social

Democratic Party was included into a political alliance with the objective to protect the welfare system. In the nineties, the Social Democratic Party strongly opposed the moderate reductions supported by another political alliance formed by the Christian Democrats and Neo Liberals. Following the unsuccessful effort of Helmut Kohl to secure the support of the Social Democratic Party for reductions in expenditure in 1997, the Social Democratic Party disagreed with the government, pledged to cancel these reductions in expenditure, achieved a parliamentary majority in 1998, and carried out its pledge. (Bonoli and Powell, 2004). Having said that, the reductions in expenditure put into effect by the government in 1999, caused a great deal of controversy in the Social Democratic Party, estranged sections of their voters, resulted in the loss of the federal elections and the majority of the Social democratic Party in the parliament, and caused further controversy between the works councils and the labour institutions. As a result, in 2000 the new government introduced a gradual privatization of the German pension system. This legislation by the government controverts the latest theoretical doctrines of welfare state reforms about the role of the Social democratic Party as a welfare state supporter over the last twenty years.

Some scholars have indicated that fluctuations in public opinion with regard to the reformation results of the welfare system may be interpreted by the sufficiency or insufficiency of an effective strategy which can authorize unpopular amendments by appealing to popular values (Hering, 2003). They have also indicated, nevertheless, that German parliaments up to now have not been successful in the selection of an effective strategy to convince other political factions about the indispensability of the welfare state reformation. Helmut Kohl's neo-liberal internationalization strategy in the late nineties damaged his reputation between interest groups and resulted in the loss of the federal elections (Kocher, 1998). Neue Mitte, another liberal strategy selected by the German Social democratic Party, has up to now been unsuccessful (Kocher, 2002). Table 11 demonstrates that the German Social Democratic Party suffered the loss of the reputation that it gained in the elections by crusading against the government's reductions in expenditure. The public opinion was that the major beneficiaries of the welfare system reformation in the nineties were the government, the managers and the prosperous instead of the youngsters, the workers, and the ones in need.

Table 11: Who Benefits from the Government's Reform Policies (Responses in Percent)

	CDU (1998)	SPD (1998)	SPD (2002)
The State	57	38	50

Employers	53	19	43
The Wealthy	45	14	39
The Young	24	36	21
Employees	10	42	12
The Unemployed	7	35	7
The Poor	6	33	6
The Elderly	3	23	7

Source: Institüt für Demoskopie Allensbach, 2003.

The urgency to shift blame and the need to secure the support of interests groups and labour institutions essentially determine the reformation policies that governments use to carry out welfare system reforms. Some scholars have argued that the more obscure the changes and the longer the delay between when painful decisions are made and when they actually take effect, the better the chances the politicians have to avoid blame (Weaver, 1998). Other scholars have argued that there is every reason to believe that policy makers will systematically seek to bring about changes that cause their major expenditure implications only at a later point in time (Pierson, 2001). The argument of blame avoidance is for that reason able to explain firstly, why an increase in the age of retirement or social security cutbacks, for instance, are postponed and last for a large period of time. Secondly, it is able to explain why governments decrease the visible reform strategies and the immediate reductions (Hering, 2005).

The innovative private pension scheme that the German government initiated in 2001 was planned as an inclusive and comprehensive programme against the reductions in social security and other benefits. As the size of the private pension scheme increases, the size of the public pension scheme decreases. What is more, social security contributions will remain the same at around twenty percent of gross earnings divided equally between employers and employees. The government's original programme was to make private pension schemes compulsory, but the Bundesrat programme was delayed by works councilors and opposed by trade unionists (Hering and Kpessa, 2007). Nevertheless, the welfare system reformation includes an act which demands the revision of this option in a few years. Furthermore, private pension schemes are partly compulsory due to the fact that the increase in private pension programmes essentially shrinks the size of public pension schemes. What is more, the government's objective is to make sure that workers finish up with an amount of private pension payments of around seventy per cent of their earnings, in other words an amount equal to that before pension privatization.

For some reason, the efforts to overcome the theoretical inconsistencies of welfare state reforms have been inadequate. In the research of the comparative politics of the welfare system, there has been only one project on welfare reforms which had an overwhelming impact in restructuring and consolidating the powerful theories of the welfare state (Esping-Andersen, 1990). In this section I will propose a new theory of incremental adjustment which is based on these powerful theories of the comparative politics of the welfare system, adds on Esping-Andersen's research, and is therefore institution-centered. It is an interpretation of results which is able to capture path departure in the world of welfare capitalism and to differentiate it from path dependency.

My argument is that by examining the interrelation of a dual dynamic of institutional interference and creative opportunism, we can interpret the results of the welfare state reformation. The privatized pension system in Germany was defined by a mutual overruling of reformation barriers. Firstly, the minister of finance, having the support of international financial organizations, overruled an objection by Gerhard Schroeder and the minister of employment about the government's reductions in expenditure. Secondly, Gerhard Schroeder overruled an objection by the minister of finance to make provisions for the privatization of the pension system. I identify this dual dynamic as institutional interference and creative opportunism using an idea by scholars' research on organizational evolution and their account of the messy logic of organizational transformation (Offe, 2001; Orren and Skowronek, 1994). Institutional interference and creative opportunism is a dual dynamic which supplements the theories developed in the current literature. The ongoing developments in the financial affairs of the European Union offer a good example of the effect of the mechanism of institutional interference on the welfare system reformation. The German chancellor and the minister of employment, who was the leader of the Christian Democratic Union for a long time, are good examples of creative opportunism. The ideas and activities of these two members of parliament had a great impact on the German welfare state during the period of organizational path departure.

Another argument is that European organizations exert an influence on the welfare system of Germany and are much more important than simply institutions which provide economic aid from international sources. Identifying European organizations with economic constraints misinterprets the character of these institutions and underrates their influence. Primarily, organizations have positive as well as negative characteristics (Offe, 2001). European organizations are not all about financial restraints. They have objectives, and also

comprehensive programmes. They make provisions for politicians with common values to draw from resources. These positive characteristics of institutionalized activities are also of a growing significance for European organizations. It started as a plan of economic convergency criteria with no immediate effect on the German welfare state but grew into a comprehensive programme with many objectives which entail welfare state reforms. It was a few years ago that European organizations elaborated on a comprehensive plan for the reformation of welfare systems. These strategic organizational objectives are frequently accepted and implemented by finance as well as employment ministers at the national level (Bundezministerium der Finanzen, 2000). In spite of the existence of economic constraints, European organizations exert an influence at the national level.

I also argue that the politics of governments, as well as the ideology and interests of social partners such as works councils and labour institutions play an important role in the reformation of welfare states. They are able to explain the solidity of welfare systems in spite of organizational restraints. For instance, the stability of the welfare state in Germany until the early nineties can be interpreted by the general agreement between the managers, the employees, the works councils, and the labour institutions (Nullmeier and Rub, 1993; Offe, 1991). Economic and social reformation constraints were of secondary importance. The main reason why governments in Germany did not introduce any modifications was their strong belief in the preservation of the welfare system. As scholars have rightly suggested in a research on the welfare state of Germany, the absence of any open conflict was not only due to the tactics of its containment, the success of peaceful negotiations can be partly explained by the fact that there was not much conflict potential to be contained in the first place (Offe, 1991). Others draw attention to the commonly held national values and perceptions of local identity which prevented German governments from taking into consideration any fundamental changes for the welfare system (Schmidt, 2002).

My proposition is that we have to take political developments into consideration if we are to understand the blame avoidance and credit policy tactics of German governments. The importance of economic and social developments may be different between countries. Some cross-cutting developments are currently emerging. For instance, a development that emerged in the late nineties is now cutting across the German welfare system. The decrease and stability of social security contributions has offered an opportunity for the German government to avoid blame, as well as to implement its credit policy. The economic and social controversy during the nineties has generated a contribution resistance between the

people in Germany which can be compared with the tax resistance in some European neo-liberal welfare states (Hering, 2008). The emergence of this development has resulted in a political compromise in the area of benefits. Reductions in expenditure are not popular between the people and they result in generating blame. But if reductions in expenditure result in lowering and stabilizing social security contributions, these cutbacks may well be popular. Consequently, governments may be inclined to give up blame avoidance strategies if reductions in expenditure offer a chance for credit claim.

Another proposition is that we also have to take into consideration the ideals and values of labour institutions to draw attention to the powerful role of these organizations. Industriegewerkschaft Bergbau, Chemie, Energie, was the trade union that built an innovative and all-inclusive pension system. Due to a small amendment in the legislation by the German government, in response to a proposal by the social partners in the chemical industry, labour institutions were motivated to bargain with managers about welfare schemes. Since Industriegewerkschaft Bergbau, Chemie, Energie accepted to negotiate about the welfare schemes under the amended regulations, it came as no surprise that its employees welcomed the plan for the privatization of pensions and health services (Czada and Lütz, 2004). IG Metall, the metal industry workers' union, did not take the opportunity offered by the German government to bargain about welfare schemes and vetoed the proposal for private pension systems. Because of the much larger influence of IG Metall in Germany, Deutscher Gewerkshaftsbund also rejected the government's plan. One year later, however, both IG Metall and the union federation welcomed privatization.

Furthermore, German governments sometimes welcome an organizational change, but their ideas and values makes it impossible to implement it. For many years, the department of employment in Germany had an instructions manual which defined the character of the welfare state. It was clear that a pay as you go system is not reversible once it has started. A conservative idea like this was predominant in the German department of employment from the sixties to the nineties. Employment ministers in Germany did not think that institutional change is viable, and used the PAYG system as an ideational weapon that opposed the supporters of capitalization in the Christian Democratic Union (Hering and Klassen, 2006). However, the predominance of ideas and values is dependent on the competence of the politicians who advocate them or upon their popularity. The change of personnel in the department of employment since the elections of the late nineties brought new politicians in influential posts who think that the remuneration difficulties can be resolved. To sum up the

main points of this argument, when governments are firmly persuaded that funding systems cannot be reversed, they will not make an effort, but when they are willing to introduce reforms, they may be able to resolve these issues.

I have demonstrated that comparative politics need another model of cause and effect to interpret organizational transformation in welfare systems than it has been used so far to account for institutional change in relation to other developments in the economic environment (Glatzer and Rueschemeyer, 2007). I have proposed a couple of new theories which have to be included in the current debate, institutional interference and creative opportunism. These two theories are able to explain the paradox of organizational path departure in the welfare system of Germany. They provide for an interpretation of recent events that the latest theoretical doctrines of organizational change cannot explain, the ability of the Social Democratic Party to innovate, the overthrow of government's strategy of blame avoidance and other old policies, the controversial, though effective reformation procedure, and the role of European organizations. Institutional interference and creative opportunism serve as an explanation of the organizational transformation of the German Welfare State and may be able to interpret important reforms in welfare systems that will probably happen in the years to come.

However, the coalition government assembled by Christian Democrats and Social Democrats more recently makes it uncertain whether more substantial reforms can be expected. The last parliamentary elections made it evident that there is no support for a policy of reformation as the Christian Democrats did not have a large enough number of votes for a more comprehensive strategy, while the Social Democrats, who experienced sharp divisions and a loss of reputation since the turn of the century, found themselves in almost a similar position but with a more social attitude. This indicates that there is no general agreement as regards social security and industrial relations reforms, and there are probably internal struggles in the two parties at the moment. Even though the coalition government does not have to fear opposition from other major parties, its reformation policy is best defined by the uncertainty about the welfare state and corporate governance. The two parties are aware that more cruel reforms will not be tolerated by the people (Eichhorst and Kaiser, 2006). Therefore, the coalition government persists in the policy of incremental adjustment without radical reforms. Nevertheless, future reform announcements are more social democratic than they used to be under the Shröder administration. The announced reforms

include the rise of tax share in welfare schemes which comes from the rise in Value Added Tax. In exchange, social security contributions will become less.

# 1.11 A Comparative Advantage of Skill Profiles

In this section I will make an effort to develop the narrative by trying to discuss and fully explore key ideas at several points about the formation of organizational compatibilities so that the relevance of this part becomes clear. The section expands on the concept of institutional complementarities by demonstrating the influence of operational management on the welfare state. The explanation of this organizational compatibility is provided by a critical analysis of the aggregate investment in human resources. In other words, different aspects of the welfare systems fit together and fit with different aspects of the production systems, in particular their labour market components and this fit is not a one-to-one correspondence between the welfare state and the production strategy (Huber and Stephens, 1999). An important argument about the systemic divergence of capitalist models is that the cohesion and durability of certain organizational structures are dependent on the complementarity or compatibility of their component parts. This theory has been used to compare the American and British to the Japanese and German institutional configurations as well as other similar varieties of capitalism (Aoki, 2001). This theoretical perspective has also been relevant to the French model of capitalism, in agreement with several scholars (Amable, 2003; Crouch and Streeck, 1997; Hall and Soskice, 2001). From this point of view, for any organizational structure, production strategy is another component which is of critical importance in the formation of institutional complementarities between microeconomic and macroeconomic issues.

Besides, different organizational structures form the institutional environment for different productivity policies, and there is not, generally speaking, a more effective business system in comparison with others, whwn the degree of state interference differs, the capitalist mode also differs. Different institutional conditions may give rise to different production patterns that may respect functionally alternatives, and sometimes functionally equivalents, responses to common economic challenges (Mocetti, 2004; Streek, 1992). That's in contrast with the hypothesis of best practice in the long term. All these concepts shall become clearer in the next few pages. I speak of the theory of competitive advantage which defines that distinct productivity policies are strategically complementary with distinct

organizational frameworks, and this can result in a more efficient economy (Hall and Soskice, 2001; Piore and Sabel, 1984).



**Chart 4: Another Triadic Complementarity** 

Source: University of Bologna, 2004.

This is the way the academic literature presents the different varieties of capitalism. Today's comparative political economy is also defined by other comparisons of different models, fordist vs. specialized production, Anglo-Saxon vs. Rhenish capitalism, deregulated vs. institutionalized economies (Albert, 1993; Crouch, 1993). In coordinated market economies like Germany, companies are dependent on non-market relations to interact with intermediaries and develop their own competitiveness. The monetary policy is founded on a long-term programme, this approach of patient capital makes provisions for companies to secure the services of high skill workers as well as to finance business activities which are profitable in the long term. In this system there is a more developed network of relations between investors, suppliers, customers, and in this way investment does not depend on quarterly balances, it is easier to obtain information about the firms, as well as to monitor the production activity. The information flow is sustained by the organizational structure of the firms which favours consensus oriented decision making. Rarely, in fact, are the managers capable of unilateral actions as often happens in Anglo-Saxon economies (Mocetti, 2004). The production strategy is based on a continuous procedure of skill learning, and the diversification of product quality. Nevertheless, firms that select such policies are exposed to the hold-up problem by the workers and the poaching of high skill

employees by competitors. The means of solving this difficulty is a policy which harmonizes wage systems all across an industrial sector, that is to say coordinated collective bargaining which acts as a defense mechanism for companies against the departure of employees and also ensures that workers receive the maximum payment in exchange for the services they provide. What complements this organizational structure, at the firm level, is a comprehensive network of works councils and empowered employees, often trade unionists themselves, with substantial authority on the shopfloor. The works councilors can assist workers to resist lay-offs or disadvantageous policies at the workplace, and they can support them to invest in company specific vocational training. An extensive state supported vocational system makes provisions for a large number of skilled employees.

In liberal market economies like Britain, companies synchronize their operations basically through free market arrangements. The monetary policy is more sensitive to short term profits. Several tasks and responsibilities are performed by only one party and that is usually the managers. Until very recently companies were not obliged to recognize employee representation through works councils and trade unions are still thought as enfeebled. The existence of a competitive labour market also affects the policies adopted by employers and employees. This liberal economic environment makes it easier for firms to employ or dismiss workers so as to profit from a favourable occasion but makes it more difficult for them to adopt a production strategy founded on a long term programme. They support employees to learn generalized skills that can be transferred between companies instead of firm specific skills, vocational training, or career plans (Ebbinghaus and Manow, 2001; Boyer and Hollingsworth, 1997). From another perspective, France with its dense regional network and flexible specialization diverts from the economy in northern and southern France. To compare coordinated and liberal market economies is not to deny that we find substantial variations between continental European, Scandinavian, and Mediterranean coordinated economies, and it is certainly possible to discern some difference between Anglo-Saxon market economies.

According to the academic literature, social protection is considered to be the principal institution in the construction of different models of post-war capitalism, and discrepancies and irregularities between welfare states are ascribed to different methods of government interference (Esping-Andersen, 1990). Welfare systems are not simply a combination of different social programmes, to talk of a welfare state is to denote the fact that in the

relation between state and economy, a complex of legal and organizational features are systematically interwoven (Esping-Andersen, 1996).

Although social protection has been criticized by neoliberals, and was held responsible for the careless management of financial resources, for diminishing returns, and for decreasing employee motivation, an ideology, in brief, which helps greater income equality but at the same time hinders the development of the economy, here we emphasize on the beneficial effect of the welfare state (Atkinson, 1996). Redistribution policies are imagined as a holed bucket, income is transported from the richer to the poorer in a holed bucket and part of that will be lost during the journey (Okun, 1975). Economists didn't always share the same opinion of the welfare system but the changed political climate implies that sympathetic economists get higher rewards than critical ones. In Germany temporary jobs were introduced in 1985, but successive legislative acts have put narrow constraints to the duration and renewal of such contracts, in France use of atypical contracts was also liberalized in 1985, but in 1990 a new legislative act restricted their use and increased their costs (Mocetti, 2002).

Different organizational structures are responsible for a comparative advantage for different production systems. In agreement with this, organizational change in social protection challenges the thesis of convergence as rules and regulations are determined by the path-dependency of countries. A good example is the procedure of regulation in industrial relations, in Europe the dissimilarities persist not only as a result of institutional infrastructures which come from the past, but also as a consequence of the corresponding strategies of the economic agents (Regini, 2002). In spite of similar pressures faced by almost every country, the responses to these pressures are quite dissimilar. There is a general tendency for making workplace relations more flexible but there are also dissimilarities in production strategies and welfare systems. This partially confirms the interdependence of social protection and production.

Skill profiles are hard to measure as they cannot be easily observed. Nevertheless, some reliable indexes can be used for that purpose. They include the indicators for individual dismissals, temporary employment, collective dismissals, social spending, unemployment protection, average length of tenure, share of specific training in the national training system, subjective perception of the workers about transferability of their skills, deferred wage schemes, level of educational scholastic human capital, level of professional human capital, skilled workers as percentage of total workforce, and share of formal training in the

national training system. The final index is calculated as a weighted average of the indicators after each indicator has been standardized to vary between 0 and 1. Firstly, we have to refrain from generalizations which are usually found in the research of human resources. Social protection is not considered as a combination of education and experience, or the volume of certificates relevant to the population. The attributes of skills obtained, the nature and the skillfulness of the vocational system are also taken into consideration, and the European Household Community Panel seems to be the right source.

Table 12: The Numerical Indexes Obtained

	Work Protection	Social Protection	Specific Skills	Industrial Skills
Germany	0,703	0,829	0,718	0,688
Denmark	0,405	1,000	0,356	0,971
Netherlands	0,595	0,779	0,405	0,782
Belgium	0,676	0,767	0,574	0,595
France	0,757	0,815	0,767	0,541
United Kingdom	0,243	0,556	0,396	0,441
Ireland	0,297	0,515	0,509	0,516
Italy	0,919	0,571	0,829	0,446
Greece	0,946	0,659	0,920	0,305
Spain	0,838	0,748	0,671	0,675
Portugal	1,000	0,576	0,784	0,357
Austria	0,622	0,731	0,584	0,578
Finland	0,568	0,954	0,463	0,810

Source: Eurostat, 2004.

The EHCP data clearly demonstrates that continental European coordinated economies like Germany and France are the most balanced with a high level of work and social protection as well as a high level of specific and industrial skills. Scandinavian coordinated economies like Denmark and Finland are the countries with the highest level of social protection and industrial skills, but a low level of work protection and the lowest level of specific skills. Mediterranean coordinated economies like Italy and Greece are the countries with the highest level of work protection and specific skills, but an average level of social protection and the lowest level of industrial skills. Anglo-Saxon market economies like Britain and Ireland have the lowest level of work and social protection, a low level of specific skills, and an average level of industrial skills. Most importantly, countries with high levels of either work or social protection also demonstrate high levels of either specific or industrial skills. To the extent that skillfulness is related to productivity the Eurostat data defies the argument that there is a big tradeoff between equality and efficiency.

In relation to income distribution and inequality in Germany, labour market changes have been a main driver of rising inequality. First, the distribution of gross wages widened significantly after 1995, after a long period of stability. Second, the share of jobless households has increased by 4 percentage points since 1995 to 19%, the highest level across the OECD area. The increase in inequality is also linked to changes in household structures, such as the increase in the number of people living alone or in single parent households. Government redistribution through household taxes and benefits has reduced income inequality and poverty but not enough to stop the rapidly increasing gap between rich and poor. Transfers are less targeted to lower income groups than in other countries. More German adults and children are living in poverty, that is living in a household with less than half the median income, today than in 1985. For the total population the income poverty rate increased from 6% to 11% while for children it increased from 7% to 16%. There was no increase among older people, their poverty rate remained stable at around 7% and 11%. Although poverty rates are high, people do not stay poor for long. Only 2-3% of the population are poor for 3 or more years in a row, which is only half of the OECD average, also, fewer households than in most other countries struggle to purchase basic goods and to have decent housing and other living conditions (OECD, 2008).

Publicly provided health, education and social housing reduce overall income inequality, but by less than in more other countries. Germany ranks in the middle of OECD countries when looking at social mobility. What your parents earned when you were a child has more effect on your own earnings than in more mobile countries, such as Denmark and Australia, but less than in Italy, the United Kingdom, and the United States. The job status of the parents affects the education performance of the child. Students whose parents have a high occupational status achieve PISA outcomes comparable to Finnish levels while those with parents with a lower status have levels similar to those in Mexico and Turkey. Wealth is distributed much more unequally than income, the top 10% hold more than hlf the total net worth. For comparison, the richest 10% have a quarter of total disposable income. The comparative results of the OECD study go up to the year 2005. Very recently, new national income estimates for 2006 and 2007, based on the same data source, became available. These estimates suggest that income disparities and poverty have continued to increase in 2006 but that this trend has come to an end in 2007 (ibid. 2008).

The evolution of industrial relations theory, since the mid seventies, has brought about another argument which emphasizes on the effectiveness of national welfare states, by

taking into consideration the production systems. This argument is about the concept of market imperfections because of mental patterns. The relationship of employers and employees demands an investment in relationship specific resources which generates some sort of a dual monopoly, and as this particular relationship goes on, it also generates mutual gains in the long term (Buechtemann and Walvei, 1999). Both empirical and theoretical approaches provide for an interpretation why, from a microeconomic point of view, long term industrial relations are complementary with and, in several occasions, instrumental to, if not even a necessary prerequisite for efficiency.

We observe that a high level of employment legislation indicates the predominance of deferred wages, with a bonus that increases with job status. Deferred wages may be the reason for the increased commitment of the employee to the company that also increases the opportunity cost of the departure of an employee from the firm, or a continuous training procedure with increased skillfulness, the wages, in this case, are another index of the value of the employee to the company. The point is that the resignation of workers may be expensive for the firm, and it would be more expensive when the managers have substantially invested in their training.

A premium that rises with job status may be the outcome of a certain policy, a sum withheld at the beginning and to be returned at the last period of the relationship, to safeguard the training investment of the manager (Freeman and Lazear, 1996). In the seventies, the Electronic Data System Corporation required the payment of \$12,000 if the trained workers left the firm after three years from hiring. Some difficulties may arise if we consider cases of credit restrained (Milgrom and Roberts, 1994). The work would be more precious for employees and the managers could rely on their commitment to the company. Normally, to agree with deferred wages, that is to be sure that they get the bonus that increases with job status, the employees must also have some sort of an external reassurance.

A perception of the welfare state as a defense mechanism, and not just as an institution of equality and stability, helps us to identify another organizational compatibility, which is the relationship between employment legislation and production strategy. In times of rapid structural changes and great volatility that disrupts established economic relations, the workforce needs insurance against a rainy day (Agell, 1999). It is widely accepted, in sociology, the general idea that reforms in production regimes cause and regularly affect the attitudes of employees in different manners. In agreement with the academic literature, the social policy preferences mainly depend on four variables, the level and the typology of the

skills required, the industry to which they belong, the production strategies of a country and the level of existing social benefits (Kramer et al. 2000). Besides, the attitudes of workers may be the reason for differences in party politics, economic choices and labour institutions (Manow, 2001). The demand for employment legislation is dependent on risk exposure, and this, in turn, is strongly related to the portability of skillfulness (Baldwin, 1992; Iversen and Soskice, 2001). As liquid skills are related to specific skills, employees with specific skills are more probable to become long term unemployed in the instance of job loss and as a consequence are more likely to be supportive of social protection. Welfare states are considered, in this sense, as the result of a political choice, the outcome of a democratic procedure when employees can stand up for what they think as beneficial. This analysis is basically related to the manufacturing sector but some preliminary analysis in this area seems to confirm this analytical approach and to consent new and more particular considerations, sector by sector, which becomes a proposition for further study.

## 1.12 A European Perspective of Employment Legislation

Given that the three countries compared in this thesis are all member states of the European Union it is imperative that the role of EU legislation and its interaction with national legislation is discussed for each country. This will help to integrate the three case study chapters and to provide a more evenly developed comparative aspect.

The discrepancies and irregularities in international labour markets can to a substantial degree be interpreted by the actual or potential ability of government agents to adjust to institutional change or business cycle fluctuations. This ability is dependent on the national organizational structure. The more flexible the adjustability of a national labour market the less difficult is the problem of long term unemployment. With reference to the distinct organizational structures, several economic studies based either on theory or practice as well as international studies of labour market regulation and labour market policies indicate that different mechanisms of income and employment security are responsible for the number of persons who are unemployed and the relative frequency of becoming reemployed after a short period of time (Auer, 2000; Blanchard and Wolfers, 2000; Hemerijck and Schludi, 2000; Jackman et al. 1991; Scharpf, 2000). Employment protection legislation, in other words rules and regulations on involuntary redundancies, part time jobs, temp work, industrial policy, in other words the extent and continuity of the welfare state, and the combination of active labour market policies can be interpreted in two different

ways, firstly, they are significant component parts of the welfare state which makes provisions for employment security, secondly, they are influential on the political, economic, and social organizational structure. Moreover, employment protection legislation, active labour market policies, social security, collective bargaining, and social security contributions, are also influential on other related institutions. However, the focus of this section is on mechanisms of income and employment security, therefore a discussion on collective bargaining, and social security contributions is not the central focus of this review even though it constitutes an essential supporting structure of my proposition.

Legislation can be effectively complementary in two different ways, firstly, amendments can be component parts of comprehensive agreements which constitute organizational change that is worthy of approval or acceptance, secondly, amendments in certain policies can be complemented by other amendments in different policies in a way that the sequence of events can produce a greater socioeconomic effect and win public opinion. Therefore, we can anticipate the path of reformation to diverge not simply because of the theory of path dependence (Pierson, 2000). We can also expect the proceedings and results of changes in legislation to be contingent on the actual or potential ability of national organizational structures to adapt to institutional change. Hence, it is possible to argue that the ability to handle organizational change is enhanced if at least one of the following prerequisites is met. Firstly, administration is powerful from the point of view that it has the actual or potential ability to plan and carry out organizational reforms that have an effect on complementary policy areas. On the other hand, administration is enfeebled if the need to negotiate with social partners, and constitutional autonomy in collective bargaining and social security contributions are present (Immergut, 1992; Jochem, 2003). Secondly, in nations that the power of regulation of certain policy areas is divided between the administration and social partners, legislation can be complementary only if the administration is able to act in harmony with managers' organizations and labour institutions. Efficient tripartite harmonization is dependent on both the national organizational structure and on the ability of the administration to adjust to institutional change. Arrangements which are accepted by all parties and social pacts are made easier by centralization and unconstrained top organizations, institutionalized advice on financial affairs, as well as by the actual or potential ability of the administration to plan a schedule for tripartite agreements and its ability to intimidate social partners by means of one party interference (Ebbinghaus and Hassel, 2000; Hassel, 2003).

The recent and current developments in Germany after a long period of time of incremental adjustment demonstrate the combination of active labour market policies, the modest reduction of welfare benefits, and the relaxation of the rules and regulations for part time work, whereas German policy makers abstained from a large reduction in social security benefits and the complete removal of regulatory controls from the labour market. These amendments have only been partially successful as an effort to adjust the German society to the globalization of the economy and the requirements of European legislation given that the number of persons who are unemployed on a long term basis persists as relatively high. Consequently, the combination of effective policies of labour market flexibility and employment protection legislation has not been successfully implemented. The experience of similar efforts in the past for extensive reforms has not been very good. For the reason that German administration is not strong enough considering the independence of social partners in collective bargaining, the federalization of the political system, the deficient organizational structure for negotiation with social partners, tripartite arrangements in the Alliance for Jobs have not been as successful (Eichorst and Konle-Seidl, 2005). In comparison with other continental countries, it was more difficult for Germany to respond effectively through social pacts to the necessity of reformation arising from the circumstances of Europeanization (Streeck, 2003). Other efforts at government driven reformation to adapt the German legislation to European standards like the Hartz Report or the forthcoming Agenda 2010 were diluted by policy makers, the federalization of the political system, and the fragility of the organizational structure caused by the presence of influential insiders and the absence of general agreement in spite of the fact that the main objective was the decrease of the number of persons who are unemployed (Cox, 2001). Even though the necessity for organizational adjustment persists as strong, the potential of more comprehensive changes in the organizational structure is not that great. The German institutional structure defined by an administration without much political strength having to face powerful social partners, appears to be unable to design and implement a reformation programme that brings the country into line with external requirements.

If we now compare Germany with Britain, and as we will see in chapter 2, the reformation of the labour market is the result of a long series of events that started as a response to large socioeconomic problems during the eighties under the Thatcher administration and its main objective was to increase the level of wages. When New Labour came to power in the late nineties, the New Deal, in other words the legislation for active labour market policies was introduced for the first time in the history of the United Kingdom and the Laws which

originate from the European Constitution on informing and consulting also had to be reformed. In the policy area of advising and counseling, the selection of delegates is now based on a hierarchical order with shop stewards coming before the representatives of informing and consulting commissions and the employees selected ad hoc for a particular task. As far as multinational corporations are concerned, the government accepted early the European Works Council Directive. This had the following implications. First, it formed legally based representation and participation agreements in Britain, albeit for a relatively small number of workers, only those employed by multinational corporations. Second, consultation is no longer thought as exclusive but as inclusive, and the selection of employee delegates is institutionalized for both organized workers and unorganized workers. Last, since the beginning of this decade, the British state has also implemented the EU directive on Information and Consultation Rights. The capability to adopt and implement these reforms was high due to the institutional strength of British governments resulting from majority voting, the absence of federalism and the relatively weak role of trade unions after initial reforms restricting their influence (Berger and Compston, 2002). Therefore, in relation to the legislation, the United Kingdom has followed a multiple channels path, but has been left with a disintegrated organizational structure of advising and counseling (Gospel et al. 2003). However, the fusion of these policies appears to be suitable for the institutional structure of the labour market in Britain.

In comparison, and as we will see in chapter 3, the reformation of the labour market in France happened for quite different reasons, labour institutions were confidently dependent on powerful insiders and employment protection legislation because of excessive redundancy costs and economic support from the dirigiste state. In an effort to bypass the opposition of labour institutions a more versatile labour market had to be created by removing government regulatory controls. Nevertheless, a relatively large increase in fixed term employment contracts transformed the modus operandi of the French labour market and the economic environment on the whole with a substantially large number of employees now in the employ of temporary job agencies. This triggered a chain of events that culminated in the amendment of employment protection legislation (Eichhorst and Konle-Siedle, 2005). The deregulation of fixed term employment opened the window of opportunity and obliged the labour force to make concessions, while other amendments following in succession were supported by the now substantial part of employees in temporary contracts. Most of the organizational change that took place in France was the outcome of trilateral agreements between administration, workers, and labour institutions

and many times included arrangements that relaxed employment protection legislation as a trade off for strict regulation of temporary jobs. The recent and current developments suggest that efforts by the government to introduce institutional change unilaterally cannot be successful. Nonetheless, because of a relatively large increase in funding by the European Union, and the requirements of EU legislation, active labour market policies that always played a much less prominent role in the past have more recently become an integral part of the French labour market so that policy makers can now take advantage of the complementarity of policies in a way that it was not possible before.

With regard to active labour market policies our comparative analysis shows that the three conflicting European economies followed a similar path. They all shifted from rather expensive but relatively inactive labour market policies to strict activating policies that took place between the mid nineties and ten years later. There was a recent reduction in welfare benefits to the persons who are unemployed on a long term basis in Germany, while in Britain unlimited means tested social assistance for those unemployed was essentially left untouched, and in France an increase in welfare benefits for those who lost their entitlement to normal unemployment benefits was followed by a slight reduction. Therefore, it is possible to argue that the three European countries converged towards active labour market policies with stricter regulation which helps the state to keep track of the number of persons who are unemployed, more regular penalties for those who abuse the benefit system, and more rules and regulations that tend to restrict the availability of social security, but there was no substantial reduction in the level of welfare benefits. Because a more restrictive welfare state makes transfers to the unemployed less accessible, the persons who are unemployed on a long term basis are inclined to make concessions with respect to the level of wages offered. Nevertheless, although employment protection legislation was relaxed during the last ten years, the versatility of the labour market is not adequate in any of the three nations where the prospect of new employment opportunities for activated jobseekers continues to be restricted.

Our review also demonstrates the way that employment protection legislation, and active labour market policy was restructured in the three countries during the last ten years. It recommends that firstly, the relaxation of employment legislation protection and secondly, the introduction of active labour market policy are beneficial for the adjustability of the labour market, while the maintenance of a generous welfare system does not appear to be inconsistent with a low level of unemployment. Nevertheless, the difficulties faced by the

three countries were not the same. We can observe that the three countries moved from path dependency to path departure and all three of them made an effort to relax employment protection legislation and to establish active market policy. A higher than expected level of labour market adjustability was attained in the liberal institutional structure of the United Kingdom as well as in the hybrid institutional structures of France and Germany. The nonexistence of stringent employment protection legislation and the substantial restructuring of labour market policy were beneficial for the three countries. While in the United Kingdom social security benefits are relatively small, France and Germany maintain a high level of benefits, even though they have made them less accessible. Whereas France changed from a passive labor market policy system to an active labour market policy system to an active labour market policy system later on. The two hybrid organizational structures were dependent on agreements of cooperation and codetermination so that organizational change was fairly easy.

#### 1.13 Conclusions: Neocorporatism vs. Globalization

The adaptability of the German model of workplace relations demonstrates that industrial democracy which is held in high respect by some scholars will probably not become obsolete in an international economy (Soskice, 1990). The social partnership, a main characteristic of a coordinated market economy, particularly the dual dynamic of labour institutions and works councils, provides for an alternative to the neoliberal policies, and a comparison could be made with other countries. Extensive liberalization of the Swedish economy had already started twenty years ago (Rothstein, 2002). The resilience of the German variety in contrast with the decorporatization of the Swedish model, apart from its ambitious welfare state, demonstrates that a decentralized variety of a coordinated market economy is more appropriate in the context of global competition (Thelen, 1993; Turner, 1998). A more comprehensive analysis of the Scandinavian model was beyond the scope of this chapter but the decentralization of the German variety was extensively discussed. Section 1.1 introduced a debate on institutions, distinct in many ways from interpretations founded on individual or political choice.

A major theme in the research of German industrial relations is the formation of new institutions and a schedule fulfillment pact for managers and workers (Heidenreich, 1992).

This was an advantage for both sides but with regard to politics the process was not quite as successful. It was also the reason for the disengagement of employees from the production line although large firms achieved flexibility on the part of employees. The politicization of workplace relations is often used by scholars to interpret the organizational sclerosis of large firms and to serve as an explanation for the fact that the unofficial agreements integrated with the official structure but at the same time undermined it, and this is thought as one of the main characteristics of German Labour relations (ibid. 1992). Consequently, the unofficial agreements which undermined the official structure offered another option, but oddly enough the new framework became much more stable. Section 1.2 gave an account of the late institutional structure which serves as an illustration of the adaptation of eastern industrial relations to western standards.

From a theoretical point of view, political stability in Germany has been practically achieved, while economic and social harmonization has been put off. It is clear that it was much easier to reform the employment legislation in Germany than to form a stable organizational structure (Hyman, 1996; Klikauer, 2002). Another obstacle in the reformation of industrial relations has been a recent decrease in the membership of labour institutions. Although the wage gap between eastern Germany and western Germany has been reduced because of the role of works councils, and new labour institutions have been founded, as the more recent developments have indicated, the differences between East Germany and West Germany persist. Research has previously ignored this in a way that it has underestimated the role of the public sector in German industrial relations. Section 1.3 discussed the uneven process of convergence between West Germany and East Germany after unification.

The economic and social progress of Germany was sustained by a comprehensive network of partnerships that included several partners, such as banking corporations, works councils, and labour institutions. In spite of the fact that Germany was a liberal economy, it was also described by definitive terms such as bargained political economy or democratic corporatism because of its coordinated structure and the large number of collective agreements (Katzenstein, 1985). Powerful coalitions of major banks and large firms were very important. Scholars have portrayed the German model as a good example of a coordinated market economy with payment plans which help companies to sign long-term contracts, develop vocational training, and expand to diversified industries, they have been favourably disposed, for the most part, towards this variety of capitalism as opposed to the allegedly less efficient Anglo-Saxon model (Soskice, 1990; Turner, 1998). Section 1.4

illustrated the connection between works councils and the adaptability and endurance of trade unions in the complex world of global markets.

In my effort to make a contribution to the main part of research, I analyzed the determining factors of the power, modeling, and social structure theories. More studies are clearly needed to confirm these preliminary findings. In this analysis, power theories provide for the most evident conclusions. In particular, works councils' willingness to build close relations with management is very clearly conditional upon works councilors' cooperative attitudes. From a different perspective, collaborative attitudes in employment relations are not influenced at all by institutional characteristics such as sector, firm, works council, and trade union. Consequently, the relationship of labour institutions with management is to a large extent formal and not dependent on the personal characteristics of the social partners. Nevertheless, this does not entail that cooperation of the partners is an inherent attribute of the German model. To the contrary, collaboration is a constantly debated issue, determined by the dynamic relations between managing directors, works councils, and trade unions. In the organizational structure of industrial relations in Germany, the cooperation of management and labour institutions is dependent upon day to day relationships. This is also an important statement for the academic literature of employment relations in general. It makes clear that although statutory support of industrial democracy is necessary it is not adequate to secure collaborative workplace relations. However, constitutional support for labour institutions may be able to bring about a different equilibrium of power which seems to be a prerequisite for cooperation. Section 1.5 examined the importance of coordination between employers and employees with a view to contribute to the continuity versus change debate for Germany.

In another effort to make a contribution to knowledge I also analyzed some concepts about the transformation of corporate governance in Germany. Generally speaking the ongoing developments may be defined as incremental adjustment in the German variety of a stakeholder economy. The incremental adjustment has taken place in the areas of institutions and of practice. In the area of institutions, ever since the reunification, the coalition of stakeholders has not been replaced or hindered by small scale investors. The stakeholder alliance has instead been reinforced by the inclusion of institutional investors into the social partnership. Therefore, I argued for the emergence of an augmented stakeholder coalition in Germany. In the area of practice, the well established goals which large companies have focused upon, have not been replaced by shareholder value but have

been reinforced by the stakeholder alliance. In contrast with the model of shareholder value in the United States and the United Kingdom, the German variety can be described as bargained shareholder economy, which has two distinct attributes (Vitols, 2003). The use of strategies to increase the profits of large firms through shareholder value must be discussed with the partners of the stakeholder coalition, particularly the banking corporations and institutional investors. To keep in a state of balance in an augmented stakeholder alliance, policies for shareholder value are regularly adjusted in order to take into consideration the advantages for the economy and the society in general. A large number of strategies, such as remuneration incentives were used to compromise the interests of investors, managers, and employees, as a result Germany persists as distinct from the model of shareholder value in the United States and the United Kingdom. Section 1.6 made a contribution to the main part of research by demonstrating some new concepts about the possible German transformation.

To examine the complexity of corporate governance at the firm level it was quite useful to analyze a well known and controversial topic about the differences between two long lasting and established models such as the Anglo-Saxon and the German. In contrast to the expectations for convergence, the two varieties persist as different, and are both defined by the process of incremental adjustment, as opposed to a tendency for groundbreaking modifications (Casper, 1999; Casper and Vitols, 1997). The differences serve as an explanation for these factors which play a significant role in determining organizational change at the moment. In other words, the controversy surrounding the two models provided for the foundations in the construction of an analytical mechanism for crossnational comparisons which take a different course to the Anglo-American variety of corporate management. Section 1.7 supplemented the approach of varieties of capitalism with some concepts which makes it more appropriate for an East-West comparison.

Based on the continuous improvement of know-how, work organization, and vocational training, diversified quality production policies are assisted by codetermination as it helps the assimilation of workers into company level coalitions, as well as organizational change, which is discussed with trade unionists, regulated by firm level arrangements and achieved in a simple manner. In addition, negotiations at the company level draw our attention to a general tendency in wage systems which provides for a higher level of earnings (Hassel, 1999). Centralized agreements overlook the large differences of firms which offer variable remuneration schemes. Big companies are able to negotiate with workers' representatives

wages above the going rate, as well as more appropriate remuneration schemes, so they can bring in more qualified employees. Section 1.8 added to the research on the process of organizational transformation through incremental adjustment.

In spite of the problems related to organizational change, I attribute special importance to some other concepts about the restructuring of labour institutions which combine distinct policies. German trade unions need to develop a strategy at the European level and also focus on workplace practice. In relation to the latter, the revitalization of labour institutions depends upon the recruitment of new members and vocational training complemented with delegation of power to the local level and organizational change. As directors introduce reforms at the shopfloor, workers will also have to respond with amendments which are advantageous to the employees. Groping to regain the initiative increases workers' authority at the workplace and forms new strategies. Section 1.9 drew attention to the reorganization of German trade unions in those areas which appear to be the most important.

With regard to the reformation of the welfare system, political, economic, and social developments had to be taken into consideration so as to comprehend the strategies of blame avoidance and credit claim by governments. The significance of these developments may differ between European countries. Some innovative cross-cutting reforms are worth mentioning. For example, an innovative reform that started a few years ago and is now cutting across the continental countries, is the reduction as well as stabilization of public benefit contributions which also provided an opportunity for the German government to carry out its policy of credit claim. This controversial issue over the last ten years or so has recently brought about a contribution resistance in Germany that is on a par with the tax resistance in other countries of Europe. More recently, this development culminated in a substantial reformation of the German welfare system. Cutbacks in spending are not welcome by the people and usually culminate in public unrest, however, when cutbacks in spending are supplemented by a reduction and stabilization of public benefit contributions, the results are welcome. To sum up, governments are likely to abstain from blame avoidance when low expenditure provides an opportunity for credit claim. Section 1.10 demonstrated that the evolution of corporate governance and industrial relations should not be disengaged from the reformation of welfare schemes.

Section 1.11 expanded on the concept of institutional complementarities by demonstrating the influence of operational management on the welfare state. When these diverse interpretations are taken into consideration, a definite but general conclusion comes to

light, the coordinated market economy in Germany has been adjusted and is heading towards an unparalleled hybridization, which bears only a slight resemblance to a liberal market economy.

Finally, in section 1.12, with regard to active labour market policies, our comparative analysis between Germany and the two countries studied in the other cases showed that the three conflicting European economies followed a similar path. They all shifted from rather expensive but relatively inactive labour market policies to strict activating policies that took place between the mid nineties and ten years later. There was a recent reduction in welfare benefits to the persons who are unemployed on a long term basis in Germany, while in Britain unlimited means tested social assistance for those unemployed was essentially left untouched, and in France an increase in welfare benefits for those who lost their entitlement to normal unemployment benefits was followed by a slight reduction. Therefore, it is possible to argue that the three European countries converged towards active labour market policies with stricter regulation which helps the state to keep track of the number of persons who are unemployed, more regular penalties for those who abuse the benefit system, and more rules and regulations that tend to restrict the availability of social security, but there was no substantial reduction in the level of welfare benefits. Because a more restrictive welfare state makes transfers to the unemployed less accessible, the persons who are unemployed on a long term basis are inclined to make concessions with respect to the level of wages offered. Nevertheless, although employment protection legislation was relaxed during the last ten years, the versatility of the labour market is not adequate in any of the three nations where the prospect of new employment opportunities for activated jobseekers continues to be restricted.

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# Chapter 2

### The Evolution of Trade Unions in Britain

**Miltiadis Panagiotopoulos** 

# 2.1 Introduction: Partnership or Organization?

In an effort to set out the structure of the chapter so the reader has signposts about where the analysis is going and why, the aims and objectives of the chapter are summarized in a few research questions. The analysis explores the impact of stakeholding on the role of trade unions as regards the relations between employers and employees, adds to the research on the decline of unionism by trying to determine if the late developments point to regeneration, and inquires into the effect of European statutory legislation on British industrial relations and trade unions.

Furthermore, the chapter makes an effort, section by section, to propose that labour institutions should be in favour of a cooperative relationship with management on the condition that the corporate environment is favourable, to argue that trade unions are necessary for collective action and should not be thought as outdated organizations, to maintain the theory that organizational change can originate from a gradual evolution as well as a radical shift, to study the degree to which social partnership and collective organization are real substitutes or whether they can emerge complementary, to enquire into the evolution of stakeholding and business ethics by exploring the attitudes of workers in Britain, to research the dispersion of the organizing model and collective organization in the United Kingdom, to describe a form of neo-pluralism which provides for an essential supporting structure for the revitalization of industrial relations, and to discuss the influence of American corporate governance on British workplace relations and labour institutions.

The research of workplace relationships in Britain has in recent years started to reflect on important developments such as the change from an industrial economy to a service economy, the increase in the number of female employees, the gradual loss of power for labour institutions, and the diminution of collective bargaining. Because of this, there seems to be a general agreement on an essential supporting structure for future progress. In general, there appears to be a concensus that at the heart of employee relations is the employment relationship, the organizations associated with its administration, and their particular importance for a large number of socioeconomic developments (Marginson, 2006; Marginson and Sisson, 2004; Sisson, 2008). The employment relationship was at the heart of employee relations in the past, but more recently special prominence was attached to the role of labour institutions and organized negotiations. The modern field of industrial relations is in trouble, partly because it has too narrowly defined around the study and

promotion of trade unions and collective bargaining, a rejuvenated industrial relations needs to return to the broader subject domain that characterized it in earlier decades, the study of the employment relationship, this does not mean rejecting trade unions, it does mean framing the field more broadly so it covers all the major actors and institutions in the employment relationship (Kaufmann, 2007). There seems to be a general agreement that workplace relationships is more of a field of research and less of a branch of learning, and its main objective, according to some scholars, is to develop theory "in" rather than theory "of" (Hyman, 2004). With regard to analytical techniques, there appears to be a concensus that inter-disciplinary approaches that pay equal attention to inductive, deductive, qualitative, and quantitative analysis are more appropriate (Creswell, 2004).

Two influential propositions for the revitalization of labour institutions in Britain have attracted a lot of attention recently. One focuses on the relationship of trade unionists with managing directors and is an effort to bring forth an innovative style of cooperative relations founded upon the concept of social partnership, which implies a great deal of collaboration (Tailby and Winchester, 2000). Supporters of this proposal acknowledge that unionists are subordinate or intermediate actors and suggest that they have to take advantage of the resources of managers to increase their institutional influence and this way create more chances to recruit new members. Another proposition focuses on the renewed interest in recruiting union members and revitalizing the labour movement which is based on the principle of membership increase and the reinforcement of collective organization. From this perspective, institutions have to rely on their internal resources which is founded upon the assumption that employees' willingness to provide for their colleagues is the only way to long term revival.

The terminology and diverse interpretations of social partnership and collective organization are different and are usually described by scholars as genuine alternatives for the revitalization of British trade unions (Kelly, 1996). Nevertheless, what is evident, is that elements of both are sometimes combined in union strategy. The TUC, for instance, has made an effort to bring out a culture of organizing all over the labour institutions and founded an Organizing Academy to educate trade unionists in the methods of the organizing model. On the other hand, it has supported social partnership as regards the relationship with managers, founded a Partnership Institute and recommended several rules and regulations which can support the formation of partnership arrangements. The chapter continues by studying the degree to which social partnership and collective organization are

real substitutes, or whether they can emerge complementary, as components of a composite policy for the revival of trade unions.

I will now make an effort to define and explain the terms social partnership and collective organization more clearly. There is no easy or precise definition of social partnership or collective organization. The ILO view social partnership as all types of negotiation, consultation or simply exchange of information between, or among, representatives of governments, employers and workers, on issues of common interest relating to economic and social policy. As an explanation of social movements, an inquiry into collective organization involves examining those factors that cause the setting of standards of social integration, as well as those factors which lead to standards of defiance and conflict. An explanation of collective organization in sociology will involve the explanation of those things which are similar or dissimilar to collective actions at different times and in different places. The theories of collective organization emphasize how group behaviour can, in some sense, be linked to social institutions.

The strategies that institutions may use to serve their interests are diverse and may be defined in different ways. Institutions may have to depend on various rules and regulations, they may be of an antagonistic or a collaborative nature as concerns their relationship with managers and may either select the organizing model and membership growth or to service their members through a network of agents. Partnership arrangements are evidently an effort to develop joint interests with managers and support the concept of a productivity coalition, in which protection and growth are theoretically traded for employees' devotion and versatility. In several occasions, this is described as a mutual expression of common interests and dedication to cooperation (Knell, 1999). Partnership arrangements usually try to minimize the effect of centralized organizational structures and often include long term settlements, they also depend on practices which eliminate the need for regular negotiations or decrease the participation of institutions in wage setting agreements (Allen and Haynes, 1999). The main objective is to deemphasize the importance of controversy between managers and employees, by alleviating the problem of conflict in workplace relations particularly when industrial disputes can be reasonably expected.

A policy of social partnership is an effort to improve the relations between unions and managers. Nevertheless, it may also be an effort to reform the relations of unions with employees. From a different point of view, social partnership is based on the subservience of trade unionists and the diminished importance of the role of labour institutions in the

promotion of the interests of employees (Blyton and Turnbull, 1998). In support of this view is the important role played by non union officials in the designation and implementation of partnership arrangements, in a number of occasions such as Asda, CSL, Hyder, and Tesco. There is proof that social partnership leads to a decrease in the amount and scope of responsibilities of shop stewards (Kelly, 1999).

The role of managers in the formation of institutional strategies has been a major point in the research of industrial relations, and there has been an increased interest about the influence of management policies on the determination of institutional strategies. This, subsequently, initiated a debate about the determinants of management values. Scholars have described the significance of production, the role of pressure groups, and the conveyance of decision making from trade unions to managing directors in a number of different ways (Healy and Kirton, 1999).

In several occasions, social partnership has surfaced from a financial emergency, as a consequence of government propositions to cut down labour costs to increase competitiveness. This is what happened with social partnership arrangements at Barclays, Blue Circle, the Cooperative Bank, Hyder, National Westminster, Rover, and Scottish Distillers (IRS, 1997). This indicates that an explanation of social partnership as a reaction to a favourable long term economic environment may not be accurate. Social partnership may be the outcome of short term economic transformation and financial emergency and, to the extent that it includes incremental adjustment, it may be the adaptation of institutions to negotiations and practices in the face of organizational change. There is some proof for this argument in the number of partnership arrangements that was the outcome of manager coercion of institutions. This was evident in the threat of dismantlement of labour institutions, the possibility of dismantlement unless partnerships were agreed, or the possibility of closure and increased unemployment. There is limited evidence of employer dominant partnership arrangements which had a negative effect on trade unions. Some agreements include terms which restrict the capacity of labour institutions to bargain by supporting the procedure of joint consultation or joint problem solving, for example, at Blue Circle, Hyder, Scottish Widows, Thames Water, and United Distillers (IRS, 2000). There is also proof that the influence of trade unions has diminished because of these agreements. In several firms the tasks and responsibilities of employee delegates and trade unionists were restricted, for instance, at Allied Domecq, Asda, Blue Circle, Hyder, and United Distillers (IRS, 1998). In many occasions, nevertheless, partnership arrangements are defined as labour

dominant, for example, the case studies of Legal and General and Tesco that will be discussed in one of the following sections. Partnerships are recommended as a policy for the revitalization of labour institutions, but sometimes partnerships have also emerged from a threat to the status of trade unions and in several cases may stand for institutional assimilation into a manager dominant procedure of reformation.

In spite of the support by the Trade Unions Congress and other institutions, partnership arrangements continue to be somewhat restricted in the industrial relations of the United Kingdom (Guest, 2001; Heery 2002). There have been several partnerships in some sectors of the economy, like banks and retailers but, in some other sectors, partnership arrangements have not been very successful, for example business services, cement and water. What is more, one of the most well known partnerships at Hyder has virtually disintegrated after the buying out of the firm, and the threat for liquidation for Rover and Vauxhalls's Luton industrial plants have hindered partnership arrangements in the car sector. Because of these obstacles, are there any other restraints to the diffusion of partnerships in the United Kingdom?

Although executives are in favour of the concept of collaboration, this may not result in the recognition of partnership arrangements between managers and unionists advocated by the Trade Unions Congress. A fairly recent study conducted by the Involvement and Participation Association indicates that executives are favourably disposed towards partnerships but consider them as not important for the role of labour institutions (IPA, 1997). Partnership arrangements for managers, it appears, can be functional in a union free industry with the participation of independent workers (Knell, 1999). In the United States HRM focuses upon the relations of independent workers, and may be considered by executives as another option to the advantages of devotion and versatility, which are thought as main characteristics of partnership arrangements between managers and unionists.

With reference to the institutional policy of collective organization, what is clear in the propositions of its supporters, is that it should be comprehensive. As a consequence, in establishing the Academy, the Trade Unions Congress stated that its goal was not only to enlarge membership but to support trade unionists to attract employees at the rough end of the market who are in need of help from labour institutions. There was also an urge to combine collective organization with other strategies, so as the apprenticeship of females, junior employees, foreign labour, and employees on temporary agreements can be

prioritized. Arguably, industrial policies have been fused and the enlistment of trade unionists is targeted at companies covered by recognized agreements and at employees with a large participation in trade unions. However, between unionists participating in the Academy, there is proof of a new approach of enlargement in the effort to utilize Academy Organizers to attract non unionists. There is more proof that unionists attempt to increase recruitment in associations of employees on contingent contracts who have been disregarded in previous years, and a number of activities by Academy Organizers have been targeted at female employees (Heery et al. 2000).

Demonstrating the argument of conflicting interests, the prevalent attitude of the manager about organized employees is competitive. The issue of partnerships has not been defined clearly by the Organizing Academy and apprenticeships have emphasized the need to specify levers, which may be used to put pressure on managers to recognize labour institutions. In recent campaigns, nevertheless, trade unionists are realistic and, especially when concessions are involved may pursue the full collaboration with employers in providing opportunities for employees and removing obstacles to partnership arrangements (Heery et al. 2002). As social partnership does not describe clearly the role of unionists, collective organization does not define clearly the role of managers.

In the United States, the organizing model became popular by means of a management transformation and the appointment of the 1967-68 generation in influential posts of labour institutions (Heery et al. 2001). In the United Kingdom, the less radical organizational change has originated from a comparable but less militant, revival of institutional management. Therefore, the establishment of the Organizing Academy by the Trade Unions Congress has stemmed from the official institutionalization of the Academy, by John Monks, when he was General Secretary in the late nineties. As a consequence of this, the Trade Unions Congress founded a new Campaigns and Communications Department, and the urge for the support of collective organization has originated from employees who joined the institution. In some of the most determined trade unions, there has been a more radical transformation, with new unionists developing new strategies. What is more, the Organizing Academy, has implemented a policy of revival by means of a selective process in an effort to educate a large number of young employees or female workers as well as to develop collective organization (Heery, 2002).

Industrial policies have included organizational expansion and have been inspired by the American Federation of Labours' Organizing Institute and the Australian Council of Trade

Unions Organizing Works Programme. Quite a few trade unionists have become associated with labour institutions in these countries and facilitated the exchange of employees so as to promote institutional expansion and gain experience. This has resulted in the acceptance of the ideas, vocabulary, and strategies which sustain the American organizing model, while collective organization policies in European countries has also influenced organizational change in the United Kingdom.

In spite of the Organizing Academy and other labour institutions, collective organization continues to be somewhat restricted in the United Kingdom. The resources allocated by trade unions to collective organization are limited, several labour institutions recruit only a few trade unionists, if any at all, and the most vigorous efforts to bring about a new form of unionization have been restrained. Membership decrease was an important issue in many developed industrialized economies during the nineties. This decrease was also evident in Britain. According to the British Household Panel Survey, unionization decreased from 9,947,000 to 7,807,000 trade union members at the end of the nineties (BHPS, 1999). The Labour Force Survey indicates that aggregate density as a percentage of the workforce decreased from 38.1 percent to 30.2 percent during the nineties (LFS, 1999). As opposed to the United States, where membership decrease in the privatized companies surpassed membership decrease in the nationalized firms, in the United Kingdom membership density declined equally. Since the turn of the century, the number of union members has become stable at thirty percent of total employment, but regardless of the recognition law, there seems to be no indication of a large increase (Charlwood, 2003). This indicates that there are obstacles to the spread of the organizing culture and the revitalization of trade unions through efforts to take advantage of internal resources and by recruiting new unionists or by the means of organizing militant movements. An essential supporting structure for defining these obstacles has been offered by scholars who suggest that there are many reasons why the employees may want to mobilize themselves and promote the organizing model (Kelly, 1998). These include a feeling of rejection and unfairness, a sentiment of oppression and wrongfulness by the manager, the existence of an organizing approach to mobilize the workers, the assurance that the organizing model is successful and can result in the elimination of unrighteousness, and the participation of trade unionists who can be active and sustain the organizing approach when they have to face manager resistance.

However, things are rather promising, and it would be a mistake to exaggerate the level of employee dissatisfaction in Britain. The worker behaviour findings of the 2004 Workplace

Employee Relations Survey indicated that most employees in the United Kingdom feel secure, satisfied with their job and committed to their tasks and responsibilities, but only a few of them also think that they are fairly treated by their employers (Blanchflower et al. 2006). Besides, fair treatment is more probable to be mentioned by non unionists. There is a large diversity in the workplace, and the evidence suggests a high possibility for the mobilization of trade unionists. The low level of employee dissatisfaction between several non unionists, nevertheless, may be considered as an obstacle for labour institutions to organize employees in militant movements.

This section has introduced a critical evaluation of two different propositions for the resurgence of trade unions in Britain, social partnership and collective organization. These propositions rely upon two different options with regard to institutional representation, organizational practice, the clarification of employee benefits, and the interdependence of managers and workers. The two propositions are antithetical as regards the development of the capitalist system, on the one hand defining joint interests for managers and employees and on the other the opposite. It is amazing, nevertheless, that these propositions have not been promoted by too many labour institutions up to now. However, they have both been supported by the Trade Unions Congress, while other labour institutions, for example, Britain's General Union, Manufacturing, Science and Finance Union, Public and Commercial Services Union, The Public Service Union, Union of Shop Distributive and Allied Workers have also made arrangements and in several occasions subsidized apprenticeships at the Organizing Academy. Taking into consideration this fusion of policies, the focus of this chapter is to determine whether social partnership and collective organization can be complementary in a strategy for institutional revitalization.

In my study of the workplace model of Germany, I have given an account of the expansion of trade unions by the means of fighting for partnership. Institutional expansion and worker campaigns, I demonstrated, were the prerequisites for implementing the mixed policy of sector agreements and coordination with the help of works councils, which has sustained a correspondingly successful stakeholder economy in Germany. If there can be a synthesis of social partnership and collective organization in the United Kingdom, it will have to happen in a comparable way, as a result of the revival of trade unionism, and industrial arrangements which can restrict the authority of managers and respond to the needs of employees.

# 2.2 Business Ethics and Stake Holding

It was twenty years ago that Ken Gill emphasized the importance of strong labour institutions for a stakeholder society. In the meantime, union membership density has decreased from almost fifty percent to about thirty five percent of the employees, as a consequence of high unemployment, unfavourable statutory provisions and management resistance (Ackers and Smith, 1996). As a result, during the eighties and the nineties the influence of trade unionism was diminished, as large companies conformed to fundamentalist policies in a plan to devise an industrial relations system in the United Kingdom without strong trade unions. It was ten years ago, that an innovative idea in human resource management, offered a chance to labour institutions, leading both employers and employees to a workplace relations system distinct from the one promised in the eighties. At the beginning of the twenty first century, social partnership has emerged as another option in industrial relations, and a succession to the Thatcherite strategy to enfeeble and disregard trade unions. The term is used in addition to other concepts, like business ethics and stake holding and is supported by the European Union, New Labour, the Trade Unions Congress, the Involvement and Participation Association and leading managers. The Confederation of British Industry uses the same rhetoric, although in a careful manner (CBI, 1999).

So far, the role of stake holding was ambiguous and vague, it was restricted in a joint effort between management and labour institutions and other sporadic efforts by European Works Councils (Ackers and Black, 1994). This section is more relevant to the reformed consciousness emerging in industrial relations than to the advantages of those occasional, premature and, until now, unsubstantial efforts. I want to demonstrate that stake holding, in spite of its ambiguous role, is a good chance for trade unions to come back from political, economic, and social exclusion. For this purpose, I present a radical interpretation of stake holding and worker participation, so as to differentiate these concepts from the human resource management policies of the eighties and the nineties, and examine how they can help labour institutions in their effort to reclaim part of the lost ground in the workplace. Firstly, I introduce a matrix of ideas, derived from the debate on the part of trade unions in industrial relations, as a foundation for analyzing the vague rhetoric used by political, economic and social groups. Secondly, I question these statements, by arranging in detail semantic threads of stake holding and clarifying other conceptual tools. Lastly, I propose an outline of stake holding, based on the theories of Antonio Gramsci, which offers a chance to labour institutions to obtain a central role in workplace relations. From this point of view social partnership as a strategy may be quite influential in the political, economic, and social developments. This part focuses on the impact of stake holding upon the role of trade unions as regards the relations between employers and employees, and also helps us to understand the latest trends in corporate governance.

The primary, and most fundamental, theory is Alan Fox's frames of reference, which reflects upon the behaviour of employers and employees and the role of labour institutions. From one perspective, stake holding can guarantee an improved variant of pluralism which can also sustain the authority of trade unions. From a different point of view, it may be interpreted as one more unitarist stratagem to compromise the sovereignty of labour institutions. Although stake holding appears to be based on pluralism it is also in agreement with the feeling of discontent for industrial dispute (Provis, 1996). Therefore, we have to comprehend what kind of pluralism British trade unions can look forward to. Without doubt, social partnership signifies concepts or notions of mutual concession and of employee involvement. As a result, current discussion on stake holding focuses on the issues of business ethics in industrial relations, and emphasizes on three different, but not completely separate, definitions of these patterns, minimal pluralist voluntarism, industrial democracy, and neocorporatism (Ackers and Payne, 1998).

These pluralistic concepts of stake holding have an impact on the formation of institutional policy and the preferred course of action. The restoration of bargaining and consultation is dependent on the success of obtaining manager assistance and employee support. During the time that the Tories were in government and the European Union was distant, labour institutions had no alternative but to focus on the shopfloor. Nevertheless, the possibility of increased European integration, advocated by the Socialists, gives rise to the expectation of statutory legislation, coming on the scene, as a new saviour, to redeem the weakened labour institutions. Since the late nineties, the concept of stake holding as an alternative form of economic management or a new style of worker participation has established its reputation with European Works Councils. As a consequence, we can anticipate the language of members of parliament, entrepreneurs, and trade unionists to illustrate the recent developments as well as the new possibilities. Nevertheless, if stake holding is founded upon a disintegrated system of industrial relations between managing directors, works councilors, and trade unionists, the threat to long term institutional authority is evident. In spite of the fact that the academic literature of workplace relations provides for

different explanations, stake holding is better understood as an option between pluralism and unitarism.

This analysis helps us to clarify the ambiguous and vague meaning of social partnership and to question some statements. To what an extent is stake holding voluntarist or neocorporatist? How the restoration of bargaining and consultation can be achieved, as an alternative form of economic management, as an all inclusive variant of sector agreements, or as a new style of worker participation? To what a degree is social partnership dependent on a plularist or unitarist structure? Furthermore what should be the new equilibrium of collectivism and individualism in industrial relations as regards employee rights at the national and European levels? This account relates to the formation of institutional policy about government subsidies, management funding, and employee benefits.

The former Public Service Union Secretary, Roger Poole, has given a comparable explanation of stake holding and business ethics. The most important issue for labour institutions is the restoration of bargaining and consultation within the context of social partnership with employers and statutory legislation for employees (UNISON, 1998). Britain's former General Union leader, John Edmonds, has also reflected on social partnership in industrial relations and on the roles of managers and workers. When employers overstate human resource management, employees have to respond to their verbosity in an effort to build up the influence of trade unions (GMB, 1998). In this way, stake holding may become functional, and could bring about a different relationship between managers and workers. Labour institutions take a chance in supporting employee involvement schemes. A strategy like this may be the driving force for a unitarist ploy, to enfeeble trade unions, and consequently decrease the authority of labour institutions. It is the responsibility of trade unions to persuade employees that union-management collaboration and employee involvement are of no use for labour institutions without collective organization. To this end, they have to imbue themselves with new life and try to secure the support of workers. Scholars speculate that this is a risky strategy.

"Traditionally, we have insisted that trade unions must be the sole channel for working people. The German works council system breaches that principle. All employees, whether trade unionists or not, have the right to elect their representatives, and even the elected representatives do not have to be in a union. So the British unions are gambling that we can match the German performance and capture most of the works council seats. If we succeed works councils would become our dream solution to the problem of declining trade union

power. But, if we fail, we join the French trade unionists in a nightmare scenario where nonunion representatives dominate the local committees and unions are marginalized. We have made the policy change with our eyes open but success is certainly not guaranteed." (Taylor, 1994)

Although the Involvement and Participation Association favours neither a collectivist nor an individualist attitude in the workplace, it focuses more on organizing rather than on partnership and is favourably inclined towards a wide range of employee privileges as visualized by the European Union (IPA, 1997). The Confederation of British Industry, with its heterogeneous workforce, is rather cautious. Its General Secretary, Adair Turner, has stated, that what has to be created is a basic system providing workers with a good chance to become involved in industrial relations (CBI, 1999). The Confederation of British Industry has taken a stand against constitutional legislation such as The Social Chapter and the European Works Councils rules and regulations, for the reason that its members fear that works councils are mechanisms to restore trade union power. All the same, in comparison with the Institute of Directors, they minimize the importance of ongoing developments, and emphasize their ability for incremental adjustment. Divisions within the Confederation of British Industry were evident in the discussion about the European Union, where supporters of the Involvement and Participation Association's views disputed the Institute of Directors positions. Scholars portrayed a shift in industrial relations.

"Hammondism is not enough, because it still takes collective bargaining as the model for pay determination. If collective bargaining fades away like yesterday's product line, as it is already starting to do, then trade unions will have to rethink their role and purpose even more radically than the EETPU and the AEU have already done. In truth, this radically unitarist, individualist and voluntarist agenda leaves little place for unions as we know them." (Ackers and Payne, 1998)

Other commentators have indicated that employee involvement, during the last twenty years, has traded the unitarist ideology and the doctrine of mutual concession for a framework of collectivist principles and standards (Provis, 1996). The vocabulary of stake holding used by the Trade Unions Congress gives a reply to the ethical turn of enterprises, by, immediately, identifying employers' hypocrisy and by describing team working in a way that emphasizes concepts like equity and legitimacy. The theoretical and practical understanding is that public values are springs of action which can not only motivate people, but also serve to persuade them. Trade unionists need to realize that a new emphasis on

values demands a new perception of the process by which differences are reconciled. What is the meaning of this process for labour institutions? For about ten years, the debate on industrial relations has omitted or neglected trade unions. In a state of everlasting conflict between managers and workers any talk of a stakeholder society was dismissed as not important. In my opinion, stake holding offers a new reality which, may be ambiguous and vague, but is not without substance as the objections of the neoliberals suggest. The inclusion of works councilors and trade unionists in a stakeholder economy offers a chance for a new approach to workplace relations, employment security, work flexibility, sharing in the success of organization, information, consultation, employee involvement, worker representation, and an alternative for labour institutions to restore their organizational influence on the workplace.

The works of Marxist scholars provide for a different approach for comprehending the recent developments in Britain (Butler et al. 2000; Gramsci, 2000; Laclau and Mouffe, 2001). We can point out the difference between a war of manouvre or a militant strategy and a war of position or mutual concession. A modern approach that is more suitable for a western liberal economy, is one defined by a voluntarist attitude instead of an authoritarian behaviour. To make progress, labour institutions have to go beyond working towards financial benefits, and develop a hegemony which should be related to a plan that provides for the demands of the working class in opposition to the supremacy of the bourgeoisie. Furthermore, a plan like this should does not have to be restricted to unrealistic language, but should be assimilated into organizational operations. As indicated, because of fundamendalist policies, trade unions have found themselves in a hostile environment. This also applies to labour institutions in Britain. Like in the past, but on a much more favourable terrain, their potential is in question. A coalition of parties, politicians, and groups such as the Institute of Directors, have cast doubt on the endurance of trade unions, they disregarded them and enfeebled them by means of statutory legislation, coercion, concessions and restrictions. The policies have included human resource management and employee involvement to win public support. Occasionally they marginalized labour institutions and from time to time they created an economic environment where trade unionists were not present. Some of these strategies were popular with workers as they favoured the role of trade unionists on the shopfloor, however, following ten years of this sort of administration, there is now an increasing crisis of expectations when managers fail to deliver what they pledged (Ackers and Payne, 1998; Denham, 1996). Up to now, trade unions have been marginalized, and for this reason, they have focused on defending fundamental employee rights. Nevertheless, they fall short of resources which simply adds on their lack of effectiveness in modernizing employment standards. The issue is not a choice between conflict and cooperation, but how can trade unionists grow into active agents and how can they get a central role on the shopfloor? To express the same thing differently, how can trade unionists develop a hegemony to become joint architects in our society, and influence the industrial relations of Britain?

Social partnership is arguably a policy which makes provisions for devotion and versatility on the shopfloor. Instead of drawing a merely nominal or artificial distinction between real and phantom employee involvement, stake holding is a strategy that provides for labour institutions to climb up the escalator of participation (Ackers and Preston, 1997). How far trade unionists can succeed in increasing their authority is dependent on their ability to take the initiative. Instead of thinking of social partnership as something undesirable, or something to be disregarded, the new unionism considers it as an option. In the same way that concepts like civil society, were an answer to the insufficiencies of industrial relations in the past, trade unions can hope that stake holding may be the answer to the problems of workplace relations at the moment. To sum up the argument, as an alternative to the dilemma between aggressiveness and tolerance, opposition and collaboration, social partnership can provide labour institutions in Britain with a chance to shape their destiny.

#### 2.3 Human Resources and Voice Mechanisms

The emergence of social partnership in Europe is arguably a critical development and becomes a research priority, however until now, hardly any empirical studies have been directed towards the evaluation of this concept and several research issues continue to be unresolved. How can business ethics and stake holding be promoted and become a new reality on the shopfloor? How can such an innovative development materialize and to what an extent is this determined by national trajectories of collective bargaining? Most importantly, taking into consideration the recent trend for British labour institutions to advocate more radical ideas and quite different propositions, what is the theoretical and practical knowledge of works councilors and trade unionists with social partnership?

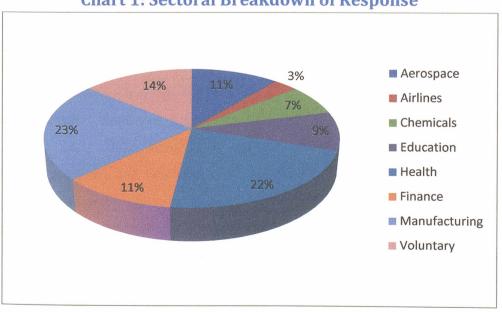
The last ten years was a period of critical importance for the political, economic, and social evolution of trade unions. The comeback of left wing governments in the United kingdom and other countries has resulted in the retreat of New Right leadership. As an alternative, a

different socioeconomic order, founded on the Third Way, has already started to appear, which casts doubt upon the supremacy of the status quo. In other words, the effect on trade unionism is strong, albeit inferred rather than explicit. The development of stake holding provides for government interference in the field of industrial relations, with the intention to make sure that voice mechanisms are present for the deprived and underprivileged. In the United Kingdom for instance, this is evident in the acceptance of the National Minimum Wage and Statutory Trade Union Recognition. Social partnership is the foundation of a new form of bargaining between managers and workers which draws attention to the significance of consensual workplace relations. Of great importance is the need for social partners to give greater emphasis on mutual gains, for example, education and vocational training (Lucio and Stuart, 2002).

Stake holding has a number of distinct characteristics. It is not confined in the dispersion of philosophical ideas and a set of principles from America. The shift in politics, organizational change, and the current socioeconomic environment make it necessary to introduce a form of bargaining in industrial relations founded on the understanding of either side's position. Even so, it is necessary to specify a sequence of significant viewpoints. A book entitled The Mutual Gains Enterprise, for instance, proposes an essential supporting structure that makes provisions for labour institutions to take part in decision making in traditionally anti-union firms in America (Kochan and Osterman, 1994). This publication emphasizes on a wellknown theory of the eighties, which disregarding a few exceptions, demonstrated that in spite of the financial difficulties of the period, employers and employees were able to realize the potential of innovative organizational structures. The available data for social partnership confirm this trend, and illustrates that there are several excellent companies in America which have greatly improved because of their cooperation with trade unionists (ibid. 1994). Mutual gains organizations teach their employees specific skills, make provisions for them to participate in activities, and manage their workers in conformity with rules and regulations founded upon fairness and equality. Trade unions have a significant role in the promotion of this organizational structure. The main objectives of mutual gains organizations are fulfilled, in agreement with the academic literature of industrial relations. when there is a loyal relationship between employers and employees.

This section enquires into the recent and current publications on the evolution of business ethics and stake holding. This part explores the attitudes of British workers drawing empirically from a Manufacturing, Science and Finance Union questionnaire. The MSF was

one of the major labour institutions in Britain, with about 425,000 members. It is now a part of the Amicus trade union after merging with the Amalgamated Engineering and Electrical Union in 2001. Over eighty members of parliament were also members of MSF. They were primarily members of the Labour Party. The MSF itself was the result of a merger in January 1988 between the Association of Scientific, Technical and Managerial Staffs and the Technical, Administrative and Supervisory Section. The General Secretary of MSF from 1992 until the merger with Amicus was Roger Lyons, who continued as Joint General Secretary of Amicus's MSF section. Amicus merged with the Transport & General Workers Union in May 2007 to form Unite the Union. Although for the most part it accounted for highly trained or experienced employees, mainly technical and scientific, it also dealt with a wide range of employment relations issues and had a reputation for the development of several groundbreaking policies, for example, about collective organization and vocational training. Accordingly, its employees present an exceptional database for assessing the evolution of social partnership in Britain. The purpose of the questionnaire was primarily to classify, and not so much to interpret, and was focused on the latest trends in industrial relations and on the patterns of stake holding in main sectors of the Manufacturing, Science and Finance Union. On account of the impact of social partnership on the tasks and responsibilities of trade unionists on the shopfloor, the focus of this section on the attitude of British employees towards the transformation of employment relations is a very important topic of research.



**Chart 1: Sectoral Breakdown of Response** 

Source: MSF, 2002.

Fifty five percent of trade unionists stated that they were given the chance to make known their feelings about important issues, in comparison with thirty percent who stated they were not. The changing nature of the relationship of employers and employees can, nevertheless, influence the conventional techniques of communication between labour institutions and their members. Sixty five percent of employees admitted that trade unions may have to accept conditions of confidentiality on certain issues and manage their membership communication in different ways. The aerospace delegates of MSF acknowledged that a procedure like this could be controversial.

The influence of stake holding was, less evident with regard to work environment issues and other relevant topics. Twenty three percent of trade unionists stated that management has become more committed to employment security, in contrast to forty two percent who stated that administration has not changed. A result which comes as no surprise taking into consideration that about two thirds of employees admitted that the principles of social partnership have not been developed to a large degree. What is more, measures to improve the employability of staff have become a new priority according to twenty five percent of trade unionists, and opportunities for non vocational training exist at the workplace according to twenty eight percent. It is not surprising, that two thirds of Manufacturing, Science and Finance members did not agree that there has been an increased investment by the labour institution on the quality of their working lives. The small expenditure is in conflict with the ambitions of the Manufacturing, Science and Finance Union. For instance, when questioned on the recent transformation of the work environment, the majority of workers agreed that the heaviness of tasks and responsibilities has increased.

The survey also assessed the degree of Manufacturing, Science and Finance Union participation in decision making. The extent of employee involvement was measured in relation to collective bargaining, conference and communication, and trade unionists were requested to state their opinion on policies of representation and participation. Manufacturing, Science and Finance Union involvement was more frequent with regard to remuneration and work environment issues, and less common in relation to financial administration, sixty five percent of employees stated that they were involved in the formation of remuneration policies though fifty six percent stated that they were not involved in financial administration. Medical care and security issues indicated a substantial amount of negotiations and conference. Only ten percent of workers admitted that they did not participate in the formation of these policies.

Table 1: Levels of Union Involvement (Valid Percentage)

	Negotiate	Consult	Inform	Not Involve
Pay and working conditions	65	13	11	12
Health and safety	32	45	13	10
Equal opportunities	23	36	21	21
Levels of training	5	22	38	36
Training opportunities	7	29	34	29
Performance appraisal	17	33	21	29
Staff and human resources	7	21	34	39
Business investment	1	11	32	56
Family friendly policies	26	25	18	31

Source: MSF, 2002.

There is a large number of voice mechanisms in relation to employee involvement. The results of the survey also display that straightforward, collective modes of representation were, on the whole, considered to be the most appropriate. Employees stated that they passed on their own views by means of notice boards in eighty five per cent of instances and through news letters in seventy seven per cent. Regular sessions which normally include various activities instead of only a debate, were mentioned by eighty four per cent of trade unionists. The most unusual approach of collective representation was the use of electronic media, which was reported by just twenty five per cent.

It has to be said that employee involvement is an indication of the stakeholder structure of the economy, but a theory like this cannot easily be supported by empirical data, as some scholars have argued.

"It should come as no surprise that stakeholder theory cannot be fully justified by instrumental considerations. The empirical evidence is inadequate, and the analytical arguments, although of considerable substance, ultimately rest on more than purely instrumental grounds." (Donaldson and Preston, 1995)

The broadness of stakeholder theory and its complication are a possible interpretation for the insufficiency of empirical data to demonstrate the sovereignty of stakeholders (Freeman et al. 2003).

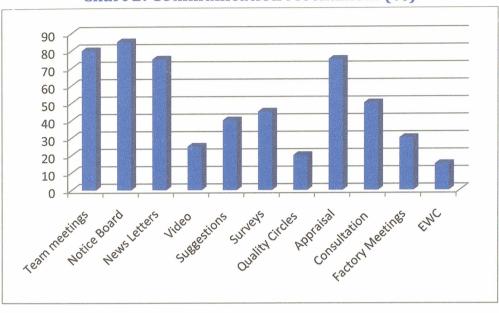


Chart 2: Communication Mechanism (%)

Source: MSF, 2002.

Even though it has been around for a long time, business ethics is another concept that is hard to measure. Business ethics has evolved as a conceptual extension of social morality, and is relevant to the ethical criteria of organizational entrepreneurship (Goodpaster, 1997). Important to business ethics are moral standards such as the concepts of integrity, honour, companionship, consideration, righteousness, justice, loyalty and equality (Lawrence et al. 2002).

At the beginning labour institutions were worried that the promotion of social partnership could bring about the erosion of the current relationship between employers and employees. The growing interest of managers about stake holding was considered, by trade unionists, as an effort to centralize administration and diverse from the previous policy which was more interested in mimicking the American economy. The advocates of employee involvement, for instance, were thought to be preoccupied, with reference to their language, with the traditional maxim of tearing up the rule books and starting again. As a consequence there was an increased apprehension about the effect of social partnership between employers and employees on worker representation and participation, and there was also speculation over what kind of business ethics and stake holding could be anticipated. From the employers' perspective business ethics and stake holding stand for a

set of principles and values which have an effect on the relationship between managers and workers, for example, the promotion of total quality management, a shift in the them and us feelings, and the determination for the resolution of common difficulties. This perception of social partnership as a set of principles and values in workplace relations was not in agreement with the more radical positions of trade unionists, who, by contrast, regarded stake holding as a good chance to extend the range of collective bargaining.

These results are particularly important for the evolution of social partnership in the United Kingdom. Evidently, the engagement of labour institutions with stake holding, has no predetermined limit. Trade unions can decide on policies in relation to the efficiency and character of social partnership they come into, not only with regard to their own development but also their ability to deal with disagreement and controversy. In other words, strategies are determined by employers' capacity to deliver on current issues in relation to stake holding when employees often have to expose themselves to uncertainty. As scholars have suggested, business ethics and stake holding are dependent on the concepts of mutual trust and efficacy on the shop floor (Higgins, 1996; Lucio and Stewart, 2002). In this way, the concept of mutual trust demonstrates it is not fair for employees to expose themselves to uncertainty, and the efficacy principle illustrates that it is not fair for managers to be subject to liabilities, if workers are not willing to perform their own part of the deal. In the event that those prerequisites are missing, the two sides are more probable to participate in shrewd negotiations. The survey results display that labour institutions will have to become involved in social partnership in a careful manner. Most importantly, they exhibit that, taking into consideration the absence of reciprocal agreements on the shopfloor, employers and employees should be in favour of the continuation of shrewd negotiations as a more likely alternative to the emergence of an industrial relations system based on mutuality.

# 2.4 New Deal for Union Organizing

The main objective of this section is to research the dispersion of the organizing model and collective organization in the United Kingdom. For this reason it presents empirical data from a TUC questionnaire and also analyzes a few case studies. Firstly, it enquires into the degree to which recruitment in British labour institutions has been affected by the organizing model and includes an organizing approach. It provides a literature review of the

recent and current publications on institutional strategies to enquire into the extent to which national trajectories have been adjusted to the organizing model and identify the determining factors which can promote or restrain collective organization. Secondly, it presents some case studies of employee mobilization which draw on the organizing model with a view to determine its advantages and disadvantages for British trade unions. In contrast with organizing campaigns in the United States, collective organization in the United Kingdom points to a less militant course of action (Waldinger et al. 1998). To describe organizational change, this part gives examples drawn from the public and the private sectors, which include simple but skillful assignments, an effort to gain recognition by a developing labour institution, an effort to revitalize recruitment by a recognized labour institution, and an effort to reinforce representation and participation by a formerly disregarded faction of employees, such as apprenticed to managers. Prior to the display of any data to back up some arguments, it becomes imperative to analyze the concept of the organizing model in some detail.

The concepts which formed a set of organizational principles and values, the organizing model and collective organization are related to several determinants of good practice.

"Reliance on planned organizing campaigns, in which the union researches targets and sets clear and timed objectives which are subject to periodic review, reliance on paid lead organizers to oversee organizing campaigns and foster activism among the target workforce, involvement of activists and running of campaigns through a representative organizing committee, the use of mapping techniques to identify all members of the workforce and rank them systematically in terms of the propensity to become active in the union, the identification of issues, and grievances around which a campaign can be developed, the use of actions to mobilize the work force, which can range from badge-wearing and the signing of a petition to street theatre and protest strikes." (Heery et al. 2000)

We have to determine the degree to which organizing unionism had an impact on the industrial relations of the United Kingdom, but we can also observe the more radical organizational transformation that has taken place in the workplace relations of the United States through similar policies.

"Use of one-to-one recruitment in which trained, volunteer recruiters seek to persuade non-members to join either at the workplace or through house calls, reliance on the principle of like-recruits-like, such that recruiters have the same demographic and occupational identity

to those being recruited, the demonstration of union effectiveness in the course of the campaign by publicizing concessions from the employer, the identification of the levers, allies and pressure points which can be used to discourage employer opposition and press for union recognition, and the development of community support so that the campaign extends beyond the workplace to embrace community, political and consumer organizations." (ibid. 2000)

The findings of a survey by the Trade Unions Congress at the beginning of this decade indicate clearly that there is not a uniform application of organizational techniques and institutional practices in the United Kingdom. British labour institutions have regularly used one-to-one recruitment and close to fifty per cent of them have frequently used polls and petitions to increase their influence on the shopfloor. Other methods, nevertheless, like systematic rating of non-members and the formation of an organizing committee, are limited to a relatively small number of trade unions and the effort to diffuse collective organization also appears to have been somewhat restrained. However, labour institutions such as the Iron and Steel Trades Confederation and the Graphical, Paper and Media Union were greatly affected by the organizing model and they used to be considered by some as the leaders of the movement (Waldinger et al. 1998). In 2004, the ISTC merged with the National Union of Knitwear, Footwear & Apparel Trades to form a new organization called Community. The GPMU was a trade union in the United Kingdom and the Republic of Ireland between 1992 and 2005.

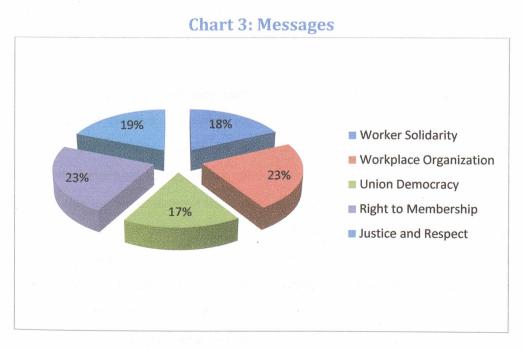
**Table 2: Organizing Methods and Principles** 

	All unions	Large unions	Academy unions
	(percentage)	(percentage)	(percentage)
Establishing	29	54	44
membership targets			
Establishing an	21	39	50
organizing commitee			
Identification of	34	31	38
issues			
Raising the profile	45	62	63
through surveys			
Systematic rating of	7	15	19
non-members			
One-to-one	69	92	75
recruitment			
Reliance on like-	26	50	33
recruits-like			
House calls to non-	2	0	6
members homes			

	T T T T T T T T T T T T T T T T T T T		
Link-up to	3	0	0
community			
Public campaigns	5	17	13
against anti-union		7	

Source: TUC, 2000.

The answers in relation to some of the most important principles and values of collective organization clearly demonstrate a greater effect. Large numbers of employees stated that recruitment often emphasizes the need to resolve problems through workplace organization, justice and respect at work, worker solidarity, representation and participation in a union democracy, and the right to membership. Although the results illustrate the great effect of collective organization, they also correspond to the old policies advocated in the past by several British labour institutions as well as to the commitment of trade unionists to a political cause. A number of trade unions, such as the National Association For Teachers in Further and Higher Education, Public and Commercial Services Union, and Transport Salaried Staffs Association stated that confidence in recruitment strategies was growing as a result of the decentralization of industrial relations and this provided some sort of motivation for supporting collective organization. NATFHE merged into University and College Union in June 2006, the PCS is the sixth largest trade union in the United Kingdom, and the TSSA is a trade union for white collar workers in the transport industry in the United Kingdom and the Republic of Ireland.



Source: TUC, 2000.

This data draws attention to the characteristics of recruitment and collective organization. First of all, it points out that the organizing approach is related to the evolution of institutional strategies. Components of these policies include an enhanced recruitment activity, a well organized enlistment process, the assignment of lay volunteers, the formation of an economic programme, and the funding of research and development on labour institutions. The TUC emphasizes that the diffusion of collective organization in the last few years has caused the modernization of industrial relations and, in spite of significant restraints, it has been a success story. Secondly, the data indicates that collective organization relates to knowledge acquired by vocational training, and that labour institutions responsive to influence from abroad are more susceptible to organizational change. Thirdly, these findings demonstrate that collective organization is related to an enlargement policy and an emphasis upon female apprentices, junior employees, foreign labour, workers on contingent contracts, non members, staff on temporary agreements, and those at the rough end of the market. Finally, collective organization relates to an effort to strengthen the representation and participation of trade unions, which is evident in the United States, and is coming to the United Kingdom (Heery et al 2000; Weaver, 1998).

An organized course of action was launched by the Communication Workers Union and indicated a great deal of employee discontentment as a consequence of one sided incremental adjustment in working standards. The need to enlarge membership prompted the labour institution to act accordingly and as a result it has directed an operation to mobilize the employees and guarantee acceptance. The trade union has set a number of goals, as part of a formal and long-lasting process, such as to give intellectual and moral direction to workers, to enlist lay volunteers who can form a committee and recruit new members on the shopfloor, to identify issues in relation to employee involvement, to enroll trade unionists and support egalitarian principles and collective organization, to provide services to the workers for a particular purpose, for example, to attract public interest before a political election, to succeed in gaining recognition, and to promote the idea that increased funding for the Communication Workers Union can also expand unionism in other sectors (CWU, 2000). Due to the fact that the labour institution had no recognition, the organizing campaign was carried out by an employee committee, formed and managed by a lead organizer from the Academy. A systematic rating of non-members took place and the outcome was the recruitment of more than one hundred trade unionists who requested the acceptance of the trade union and demanded to be treated fairly, with respect and dignity. The committee identified issues of great importance for the employees, like the harassment

of some workers by callers and the need to be able not to receive requests of an offensive nature. These points were sharply defined as they were important for the workers and were regarded as winnable. It was thought that management was exposed to damage by criticism and that influence can be exercised on the firms which provide for and partially finance the telecommunications industry. There was a previous decision by TypeCo where the employees have the liberty to advise clients that they are not permitted to make requests of an indecent content and the workers also have the power to cancel a request when they are harassed.

The diffusion of collective organization by the labour institutions of the United Kingdom is primarily directed to established trade unions where recruitment of new members is cost effective. Another case study serves as an example and is particularly important inasmuch as it tries to apply the organizing approach to in-fill enrollment. It was started in the late nineties by the Public Service Union, at Regal, a major National Health Service Trust with a large number of trade unionists but without adequate rules and regulations and has been conducted successfully up to now by an Academy apprentice. The trade union has set a number of goals, such as the modernization of recruitment policies, a systematic rating of non-members, to increase the number of lay volunteers, to improve the reputation of the Public Service Union, to develop worker representation and participation, to recruit trade unionists, and guarantee employer concessions for the employees (UNISON, 2000). Like in the case of the Communication Workers Union, the organized course of action was launched by a lead organizer who contacted trade unionists to find out if they want to become involved in the campaign. The workers who responded, organized a committee which was comprised of fifteen delegates from various professional and vocational backgrounds. Moreover, several employees were appointed to participate in the recruitment process although they were not willing to join the committee.

Another operation was initiated by the former Society of Telecom Executives, which changed its name to Connect, and was directed by an Academy trainee who investigated the recruitment difficulties in British Telecom. As the campaign was launched, so did the investigation and the labour institution reported that most workers were satisfied with the firm's new recruitment process. The purpose of the organized course of action was to improve the public image of the trade union as well as to collect data which can be analyzed and support the campaign. The goals of the labour institution were to discuss the concerns of employees associated with the Society of Telecom Executives, to organize a systematic

rating of non-members, to produce statistics about the trade union, to display the efficiency of the labour institution by supporting the diffusion of collective organization, and to build up a national structure of employee delegates (STE, 2000).

Trade unions which have selected both the organizing and partnership models will be more effective at external organizing than labour institutions which have selected one or neither. Institutional activity and regional organization are probable to also have a great effect on the efficiency of the organizing model (Charlwood, 2001). Trade unions can influence institutional activity and regional organization by means of vocational training and the placement of apprentices on the shopfloor. Nevertheless, the objectives of this strategy are likely to differ within labour institutions as much as they differ between labour institutions, which demonstrates the inconsistencies of human resource management, and the inconsistencies of the organizational behaviour and culture theories (Fairbrother, 2000; Willman, 2001). Trade unions will become more efficient if they are managed more democratically as union democracy can also help the management to become sensitive to the needs and requirements of trade unionists. When a labour institution is responsive to the needs of its members they are probable to remain active as opposed to when the labour institution is indifferent (Delaney et al. 1993). This has an effect on the role of trade unionists on the shopfloor. The supporters of the revival of collective organization maintain that leadership accountability is required as a precondition for the resurgence of trade unions. The efficiency of internal organizing will be higher in workplaces where the labour institution is militant, compared to other places where the union is co-operative or workplaces where the trade union is marginalized.

# 2.5 A Spirit Reborn of Rational Pluralism

In this section I will make an effort to describe a form of neo-pluralism, which provides for an essential supporting structure for the revitalization of employment relations. This analysis adds on the special importance attached to labour institutions by Oxford pluralist scholars like Clegg and Flanders, reclaims part of their early understanding of the political, economic, and social effect and revises this concept for an alternative workplace relations system. My argument is that the problem of order, which has been located by industrial relations theorists on the shopfloor, has shifted to the interaction of business and community. Political science by attaching special prominence to the shopfloor and by omitting other

economic issues, has detached itself from the continuous procedure of social evolution and disengaged from the current discussion on the interdependence of firms with other actors. Accordingly, I propose a distinct methodology for analyzing the employment relations system, by reviewing several different ideas in relation to the ongoing developments in workplace relations and the interrelation between business and community. This part stems from various theories and concepts from outside traditional public policy. A number of topics, such as economic failure and success, employer organizations and trade unions, industrial democracy and business ethics, support mechanisms and social partnership, and the organizing model and collective organization, for the most part, indicate a reformed industrial relations system. Although the latest vocabulary illustrates the transformation of the controversial interaction of business and community, it also reminds us of the social science of Durkheim, which inspired pluralism in employment relations and third way economic policies. My proposition essentially differs from the paradigm of Marxism, and suggests that a new form of pluralism presents a more credible variant of workplace relations by focusing on the expansion of decision making organizations. I conclude with a fresh interpretation of the complementarity between industrial relations and the political, economic, and social environment.

Some scholars have tried to revise traditional pluralism in a new, different and interesting manner:

"Functionalist tradition has dominated the field historically, although usually implicitly and without the theoretical apparatus often associated with functionalism in mainstream sociological theory, the focus is on the subsystem, which may be analyzed in the explicitly functionalist perspective primarily in relation to the larger system of which it is a part. The root metaphor, is the organism, however disguised. The primary unit of analysis is the institution. Major issues relate to the historical development of institutions, the relationship between institutions and their environments and institutional interrelationships, especially collective bargaining. Institutional theory in general is concerned with cultures, structures, and routines, with the way in which institutions become embedded in culture, and internalized by individuals, but the focus is on institution and culture, not on the individual interest. This orientation is obviously more congenial to sociologists than to economists." (Martin, 1999).

An interpretation like this may be surprising for several industrial relations theorists. In other words, most of them will probably think that this is a case of classical Marxism instead of a

revision. In fact, the organic descriptive term is related to another theory, Human Resource Management, as a variant of Parson's general agreement doctrine (Ackers, 2002; Dunn, 1990). Workplace relations scholars who are seeking for a socioeconomic lineal descent, are more probable to agree with different explanations (Gerth and Mills, 1991). Nevertheless, this interpretation emphasizes on the significance of pluralism as a system of ideas concerned with economic stability and social harmony. Another argument is that the descriptive terms regulation and system can also have a conformist meaning. Economic stability is imperative and without social harmony there could be no effective legislation. This explanation is evidently about the new problem of order. Even so, it does not contribute to unitarism or general agreement. It has also been suggested that, differential interests require continuous reconciliation, regardless of the production process (Martin, 1999). In my opinion, this interpretation about industrial relations implicates some progress. A new form of pluralism should be focused on trade unions, but instead of the comprehensive and variable social science of Durkheim, the emphasis should be on Parson's social consensus theory (Ackers, 1999). In contrast with the seventies and the eighties when the trend was to disregard the complementarity of business and society, there is now a revived enthusiasm between politicians and economists for the concept of integration.

Table 3: Pluralism and Neo-Pluralism Compared

Pluralism	Neo-Pluralism
Interests	Interests and Values
Workplace conflict and economic order	Social breakdown and social cohesion
Trade unions and collective bargaining	Moral communities and social institutions
The forward march of labour	Civil society and democratic rights
The frontier of control	Relationship capitalism and stakeholding
Joint regulation	Ethical employment regulation

Source: Ackers, 2002.

For other scholars, the reason for community failure is the international neo-liberal environment, because it has not been adjusted to the current needs and requirements.

"In fact one reason why the past twenty-five years in world history has seen such profound social transformation is that such pre-capitalist elements, hitherto essential parts of the operation of capitalism, have finally become too eroded by capitalist development to play the vital role they once did. I am thinking here, of course, of the family." (Hobsbawm, 1997)

The family is very important in the academic discussion on social decline. A critical analysis of Marxism, gives an account of a historic crisis of capitalism, defined by the need for an

identity and order in a fragmented world (Hobsbawm, 1994). From this perspective, society will face the consequences for economic disorder, which breaks down the notions of duty and trust and finishes by sawing off at least one of the branches on which it sat. This failure is not necessarily in connection with the lack of order on the shopfloor, as it was considered in the sixties and the seventies. To a certain extent is the degeneration of business ethics which originates from the political environment, and spreads throughout the economy and the society. As a result, the capitalist economy decomposes, every social relationship which does not help to bring about revenues, and it replaces it with a relationship of marketing or purchasing. As I mentioned above, this interpretation of self-destruction has a long lineal descent which goes back to Marxism (Adler, 1998).

Table 4: Marxism and Neo-Pluralism Compared

Marxism	Neo-Pluralism
Socialism	Social market capitalism and liberal democracy
Workers mobilization and capitalist crisis	Social regulation and partnership
Economic militancy and strikes	Stakeholder consultation, employee involvement and integrative bargaining
Organized labour	EU, UK state, unions, public opinion, enlightened employers and managers

Source: Kelly, 1998.

For an attempt to generalize comparatively and to add to theoretical understandings to work, it has to be based on a clear understanding of the society being examined and the changes undergone in relation to changes in family structure and dependencies. Parsons has argued that broad changes in family structure have occurred primarily because of the industrialization process. As we have also seen, various writers have criticized this basic fit thesis on the grounds that it is too rigid a formulation and not particularly well-supported by empirical evidence (Hammonds et al. 1996).

If Parsons view is rejected, it doesn't mean that changes have not taken place, if not always between institutional structures, then almost certainly within these structures. For example, some writers have argued that family in Britain has undergone three major stages of development (Willmott and Young, 1973). Pre-Industrial family, characterized as stable, productive as an economic unity, having economic links with wider society, and father as head of household exercizing economic control over family. Asymmetrical family,

characterized as disrupted by industrialization process, involving a clear separation between home and work, having absent fathers, and emphasizing women's role as mother and domestic labourer. Symmetrical family, characterized as stable, child-centred, involving greater levels of equality between males and females, and mutual adaptation between needs of home and economy.

Another writer has developed the last of these three categories (Bott Spillius, 2008). An indepth study of 20 London families developed the idea of joint conjugal and segregated conjugal roles as a means of identifying changes in gender and role relationships within the family. There is evidence that class was a significant factor in determining the type of roles played within the family, and that social networks played a significant role.

It is argued that joint conjugal role relationships are more likely to develop within the family if the social network surrounding the family is highly dispersed, rather than highly connected (ibid. 2008). Joint conjugal roles are typical of middle class families, but found increasingly in working class families where husband and wife share domestic tasks and interests, a dispersed social network, people known to family may not be known to each other, and husband and wife have similar interests. Segregated conjugal roles are typical of working class families, but may be found in some middle class families where husband and wife have different tasks and interests, a highly connected social network, people known to family are also known to each other, and husband and wife have separate interests.

Family life, considered in terms of basic conjugal relationships, has changed significantly over the past years. For a variety of reasons, increasing emphasis is now being placed on the concept of a symmetrical form of family relationship. Symmetrical forms of family relationship are a trend that has not, as yet, been fully realized across the class structure. Writers note that amongst the poor and the elderly symmetry has not been established (Willmot and Young, 1973). Young married couples, on the other hand, are starting to display increasing levels of symmetry. If the symmetrical family form either exists, or is coming into existence in contemporary British family life, the following features of family life seemingly need to be present, the married couple will increasingly be home centred, the extended family structure will increasingly be less important, male or female roles will cease to be segregated and instead will achieve greater balance in relation to the home and work.

As I have already indicated, pluralism in employment relations was founded on Durkheim, the concept of moral communities, and the important role that labour institutions can play.

This ideology became less significant as pluralism in workplace relations was diminished to a more realistic definition of militancy on the shopfloor, to the extent that it was eventually mixed with Parson's general agreement doctrine. The proposition, that in the times of Human Resource Management and stake holding, the answer is a mixture of pluralism and unitarism, is based upon the wrong assumption that the latter is not related to political unity (Provis, 1996). During the sixties and the seventies, Parson's social consensus theory, created the impression that pluralism in industrial relations was all about controversy, particularly when it appeared as radical pluralism during the eighties and the nineties. At the beginning, nevertheless, pluralism was regarded by labour institutions as an organizational structure to restrain industrial dispute. Therefore, it is extraordinary, to find out that some writers have argued for the social science of Durkheim to explain the issue of economic failure (Ackers, 2005).

The concept of civil society is particularly important in this discussion. Besides, it draws attention to a formerly neglected issue in industrial relations. Labour institutions in the United Kingdom are reminiscent of the guilds which are considered to be the foundation stones of pluralism in workplace relations (Brown, 1998). What is more, trade unions and other normative organizations are of particular importance for the emergence of pluralism in general (Rowley, 1998). From this perspective, labour institutions are not only significant as mechanisms to oppose management on the shopfloor, as scholars of employment relations describe them, but as partners in an egalitarian and moral society with the objectives of workplace stability and social cohesion. This idea was fundamental for the theories of Clegg and Flanders, and demonstrates the devotion of the British school of industrial relations pluralism to the causes of working class in history. Pluralism in workplace relations has proved itself through dynamic and resilient policies, which in the past included an active and powerful coalition of workers. Furthermore, the popularity of social democratic governments creates an environment for trade unions that is closer to traditional employment relations instead of value-added ideas taken from Human Resource Management. From another point of view, the weakening of labour institutions has caused a representation gap on the shopfloor, damaged the relationship between business and community, and also impaired the relations of employers and employees. However, the directives, rules and regulations of the European Union can provide for an alternative.

It has become more widely accepted that workers are owners and clients apart from labourers, and that these multidimensional attributes cause a unique, and occasionally

contradictory understanding of organizational operations (Heery, 1993). In this way, the concept of stake holding can assist pluralism in industrial relations to include shareholders, managers, and workers. The research on social partnership, suggests that a new form of pluralism would not only have an impact on the settlement of disputes, but also have an influence on the reconciliation of duties (Ackers, 2001). Workplace relations have been explained, up to now, with regard to efficiency, as the need for employers and employees to increase production (Ackers, 2002). On the other hand, this is not something which can be achieved in a forceful manner. An employment relations system can include an element of force, however, it also needs an element of cooperation founded upon an enduring relationship of fidelity and support. Social partnership and business ethics indicate that a contract is not sufficient unto itself, but it also implies external common values and principles. In brief, industrial relations have to be understood as a human and moral relationship as well as a financial affair.

These different interpretations provide for some arguments about the complementarity of business and community. First, the cause and effect of social decline can be described as political egoism and financial corruption, and we have to tackle them both at the same time if we want to restrain the erosion of society. Second, though social decline produces an effect on everybody, it is the impoverished and underprivileged, and their descendants, who are mostly subjected to failed households, run-down districts, substandard education and insecure, part-time occupation. These are the people that labour institutions were able to accommodate sufficiently until the seventies and the eighties, but have more recently been neglected (Giddens, 2000). They have increasingly found it difficult to join a fragmented society. There is a general tendency for social discrimination, while elite circles emerge as exclusive societies, and abstain from state schools and public welfare. This deteriorates the standard of living for the impoverished, but also escalates social fragmentation. Lastly, a society needs moral standards to subsist and political organizations to support them. Capitalist and socialist governments alike have caused the erosion of values and principles which a society relies upon, and the role of trade unions is to revitalize them, by means of democratic rights. A government can also play an important role in the establishment and facilitation of a civil society. It remains to be seen whether and how socioeconomic integration can supplement and assist traditional pluralism.

A new form of pluralism is an opportunity for the revitalization of industrial relations. This is evident in the relevance of the early theories of pluralism, unitarism, and voluntarism to the

late developments of British workplace relations. This new form of pluralism primarily focuses on the issue of order and the dual relationship of business and community. Besides, it provides for a distinct strategy like employee involvement which, up to now, has been discarded as a temporary, opportunistic policy to enhance managerial authority (Kelly, 1998). With reference to the literature of employment relations, Fox found no conflict between the fundamental theories of Durkheim and a realistic form of pluralism (Ackers et al. 2003). From this perspective, a spirit of rational pluralism can support the coordination of business and community, and cooperative organizational operations, to lead industrial relations into a new age. Instead of anticipating, desperately, a return to old-fashioned political activism, or an ethical post-modern culture, a new form of pluralism provides an essential supporting structure which draws attention to the relationship between business and society. Most importantly, neo-pluralism emphasizes on the special importance attached to regulation by workplace relations, and in particular labour institutions. All things considered, this section provided a different explanation for the ongoing developments in employment relations.

### 2.6 A Synthesis of Trust and Mobilization

During the eighties and the nineties, like in other European countries, British trade unionists had to fight against the disintegration of collective organization, unitarist stratagems in industries with a high membership, and other disadvantageous policies about workplace relations. The authority of labour institutions declined. However, the New Labour, with its support of social partnership, provides an opportunity to form an organizational structure of industrial relations which is more favourable for trade unionists, and in which labour institutions can regain the initiative and work to rebuild their influence on British society.

"If you've had years and years of something that's horrible, and something comes along which that's not quite so horrible, you support it. Partnership's not so horrible because we use it as a code-word for recognition. It is an acknowledgement of the legitimacy of the other party. With partnership comes the rediscovery of pluralistic industrial relations." (IPA, 1997).

Bosides, some influential entrepreneurs like the President of the Confederation of British Industry, have given a comparable explanation, although from another perspective talking about a possibly damaging build up of trade union influence, hidden behind the new buzzword partnership (CBI, 1999).

Social partnership has not been clearly defined by scholars. It has, for instance, been related to single union arrangements or, more often, related to employee involvement and human resource management (Kelly, 1996). Other scholars have described social partnership as dedication to a set of values and principles which do not include the recognition of independent employee representation and participation (Guest and Peccei, 1998). Like other human resource management concepts that emerged in recent times, it has been subject to various definitions and descriptions. The research of social partnership case studies displays a large degree of modernization in the context of organizational change. As a matter of fact, its importance is variable and is also dependent on the extent of employee involvement.

This section makes an effort to present how widespread social partnership is, and its different variants. Social partnership has never been highly developed in Britain and the term is rarely used in accounts of British politics or industrial relations which tend to refer instead to corporatism, the system of social organization in which key economic, political and social decisions are made by corporate groups, essentially trade unions and employer organizations, in conjunction with the state, when describing previous efforts to engineer greater co-operation with the social partners (Boyd, 2002).

Various explanations have been offered for the relative absence of social partnership in Britain. Social partnership does not sit well with Britain's essentially liberal political culture, attachment to principles of parliamentary democracy, individual citizenship and equality before the law. Social partners themselves like business organizations have generally been suspicious of government intervention and the historical development of trade unions in Britain has been governed by a commitment to free collective bargaining and a voluntary mode of organization. Civil service has never been enthusiastic or adept at proactive intervention. No government has been prepared to invest the energy and political capital necessary to implement a system of social partnership (ibid. 2002).

In relation to what existing evidence there is of the effects of social partnership on workers' interests in particular, the notion of partnership at work has now become more widely embraced in the United Kingdom but often without any acceptance of the principle of employee involvement, integral to continental forms of social partnership. Furthermore, New Labour's advocacy of partnership in the workplace, like that of the previous Conservative Government, is one in which managements right to manage is sacrosanct (Compston, 2002).

Bilateral talks between the labour government and the unions since 1997 fall far short of European style social partnership and as much have proved somewhat disappointing to the Trade Union Congress who have repeatedly called for a new partnership between the trade unions, business community and the state in which virtually the whole range of economic, industrial and social policies are discussed and jointly determined (ibid. 2002).

British employee relations are traditionally defined by conflict or opposition rather than cooperation. Other than artificial or extravagant language British labour institutions have not regularly challenged the ownership and the privileges of employers, for example, when compared with the French trade unions' syndicalist tradition. The argument is that the priorities of British labour institutions were more relevant to industrial regulation instead of ownership and control. It is also a fact that conflict or opposition has, for the most part, been compromised. This inconsistent environment, probably originates from the small ambitions of trade unions, and the inadequacy of their efforts to improve the relations between employers and employees. As scholars have observed, labour institutions have almost always been content to seek the best available deal within the current political, economic, and social order as it is, the complex interaction of class, politics, and collective bargaining has often attracted the title labourism, an admixture of beliefs, institutions, and practices which could have provided for remarkable militancy, yet in effect proved typically defensive and hence accomodative (Allen and Haynes, 2001; Hyman, 1996).

The dispersion of social partnership in the United Kingdom is illustrated by the following examples. The case studies were selected inasmuch as they are good examples of the finance and retail industries, and owing to the fact that there is a greater focus on manufacturing case studies in the academic literature.

A Financial Times Stock Exchange 100 firm, Legal & General is one of Britain's leading companies. Approximately 8,000 employees work for the firm, 6,000 of them are based in Britain. An old company founded on tradition, has throughout the 1990s followed a new and ground breaking policy which was built upon highly competitive financial services. Between the early nineties and the late nineties, the regular profits of the firm expanded by more than one hundred and forty percent (Legal & General, 1998). A distinct characteristic of the company is the priority given to social responsibility. Legal & General, contributes yearly over 0.5 percent of British turnover to public benefits foundations and other charity institutions and its social responsibility is reflected on the company accounts (ibid. 1998).

From the manager's perspective there was an increased apprehension about the relationship with workers and that the procedure of negotiations agreed with the trade union 15 or 20 years ago may have prevented necessary decisions being taken as quickly as needed during a time of rapid change within the industry. One of the chief executives involved in union-management relations reported that, to manage change and go forward we needed to improve communication with staff and get them to understand the reasons behind organizations change (IRS, 1998). A particularly important adjustment was the substitution of the old-style adversarial system of negotiations with a cooperative culture and an emphasis on the values and principles of trust and mutual respect by each party for the other's contribution to workplace relations. From this point of view, an innovative human resource management proposition like this could not be placed into the old Procrustean bed.

Managers and workers decided by mutual consent to form a coalition in the late nineties to establish their joint interests and to realize the potential of the objectives of the most recent agreement. The Partnership Agreement was settled within a year. It included some of the usual provisions of industrial arrangements as specified below.

"Differing interests are recognized and respected and MSF's right to represent its members is recognized, as well as management's right and duty to manage, mutual legitimation, conflicts are to be avoided, cooperative processes, and there is to be full and early participation in decision making, joint decision making or consultation." (LRD, 1998).

Though one of the objectives was to work together to secure the success of the business by emphasizing on flexibility, attention was drawn to work security in an Appendix on operation of the agreement. The apprehension of chief executives that organizational change could excessively restrain their ability for making the right decisions was highlighted by the recommendation for management's right and duty to manage. Significantly for the labour institution there was a pledge by managers to facilitate MSF's recruitment process when appropriate. Apart from achieving a better position in the partnership agreement, the labour institution was interested in the provision of justice for employees and the elimination of prejudice against trade unionists on the shopfloor.

Management and trade union regarded the progress of the company as an important part of the agreement. The firm supported the representation and participation of workers and recognized that involvement in decision making and exposure to the company's

organizational operations and business pressures could provide for valuable experience that vocational training could not (Legal & General, 1998). To achieve this objective the firm employed a lead supervisor, who was personally accountable for the improvement of expertise and skillfulness of employees in order to facilitate them to work more efficiently.

Following a long period of economic growth in a booming industry, Tesco emerged in the late nineties as the largest supermarket chain in the United Kingdom. Prior to this the company had managed to discard its stack them high, sell them cheap reputation. For Tesco Stores Ltd, gross revenue in the late nineties averaged £639 million, total business amounted to £14,515 million and current assets £1,999 million (Tesco, 1998). The firm employed 158,484 workers, 70 percent were women and 65 percent on temporary agreements (ibid. 1998).

During the nineties, nevertheless, the old fashioned voice mechanisms and the obsolete organizational structure were an obstacle to employee involvement which was thought as necessary to bring about the desired results. The firm had not revised its industrial arrangement with the Union of Shop Distributive and Allied Workers for a long time. In fact, it had advised employees not only to continue their membership with the trade union, but also to play an active role (Allen and Haynes, 2001). Negotiations had been limited to the occasional discussion of the Retail Agreement, which was considered by managers and workers as a ritual, and to the revision of regulation, but only to a small extent. Managers in particular thought that the traditional organizational operations, and the yearly general meetings in specific, were unnecessary, unsatisfactory, and inappropriate to a modern workplace relations system. Discontent had come to a climax by the annual meeting about the retail agreement, and managers realized that institutional strategies on issues of great significance were decided by employees in other industries and firms. Therefore, managers felt obliged to take counsel with workers and they did not think as appropriate to provide information exclusively through the labour institution.

Megotiations developed in a manner which made it clear that both managers and workers wanted more flexible industrial relations. Although the opinions of the two sides were different, there was a general agreement about social partnership. The delegates of the Union of Shop Distributive and Allied Workers identified issues of great distress for the trade unionists at an early stage, and made a substantial effort to resolve these problems. Though Tesco recognized the important role of the labour institution in the consultation of management, particularly on issues in relation to business ethics, the trade union was still

regarded as an opposing front with a large degree of sovereignty, less likely to be found in non-union varieties of employee involvement or worker empowerment.

Subsequent to a process of quality control in four outlets in 1998, local meetings were organized by every outlet in the following year. Most of these local meetings took place in the stores during the summer months. A major National Forum was held in April 1999. The debate in the forum and the negotiations in the local meetings were about a large number of issues. Until now several of these issues have been dealt successfully by the partners. This is an example of some of the questions to answer.

"What about a good rise this year? When we open a new store do we automatically close small stores in the same team? Why are we offering more 3 for 2 offers than 2 for 1 offers? Can we put a VAT button on tills/customer service desk?" (IDS, 1998).

Both managers and workers portrayed the discussions as a success story, and they also gave an account of the passion and the determination of the partners to resolve any difficulties. Admittedly some members of the Union of Shop Distributive and Allied Workers have not bought in, but the two sides accept that that the new arrangement is an ongoing procedure. Even though all the prospects have not been realized, the two sides feel confident about cooperation and the future of the new relationship. A revision of the agreed terms was proposed, and an Annex in the Partnership Agreement makes reference to the right of cancellation, which makes it essential for the two parties to make further progress.

Most of the influence of labour institutions stems from their ability to increase worker representation and participation in decision making, and to ensure that employees can benefit from organizational change. Otherwise, the disorder which is likely to happen as a consequence of the marginalization of trade unions can also restrain the cooperative attitude. Many large retailers for instance, are greatly exposed to work strikes in the distribution of goods and services to customers that damage a sophisticated inventory management, which relies on just-in-time methods. The extensively regulated process of distribution is defined by an antagonistic relationship (Tesco, 1998). Especially in the finance and retail industries, success is dependent on the good quality of product distribution, which is imperative for the viability of the firms. Accordingly, the two case studies illustrated the willingness of the managers to select a policy that included the recognition of labour institutions whereas some earlier efforts to reinforce the representation and participation of workers had not been successful. Furthermore, partnership agreements are thought to

provide for legitimacy and respectability, both regarded as significant characteristics of a virtuous circle which results in the attachment of employees to the company. From the employers' point of view this virtuous circle is understood as a process where they, the employees, serve as we manage (Barber et al. 1999). Of great significance is the possibility of advantageous statutory legislation. The managers in the two cases have admitted that if they were not willing to dismantle the trade unions before the organizational change takes place in the late nineties, they were not prepared to do it later. This partially confirms the hypothesis that the coexistence of social partnership and collective organization, helps to increase trust between managers and workers (Deitz, 2005).

Partnership agreements are strongly related to the improvement of organizational operations, particularly as regards issues of industrial relations, as one side seeks to assist organizational change and the other to affect it (Nissen, 1997). In the two case studies both sides were willing to support the organizational transformation. Managers realized the potential for increased worker representation and participation in decision making and workers the opportunity to have an effect on the procedure and its results.

"Clearly, the expectations of the parties are critical. They limit the other party's room to manoeuvre, while disappointed expectations, particularly of the other party's behaviour, may result in withdrawal from cooperation." (Allen and Haynes, 2001)

The conflict in partnership agreements is determined by the degree to which trade unionists are involved in issues which they consider as important and are not necessarily thought as significant by managing directors, or vice versa. While there was not a general agreement on all the issues discussed, the two case studies illustrate the determination of the two sides for a cooperative workplace.

By applying the intellectual process of synthesis, I demonstrated that partnership unionism is consistent with collective organization. In fact an American style of union organizing appears to be complementary to a German style of social partnership. It is by means of simultaneously offering a good chance and bringing external pressure that trade unions can have the capacity and the authority to enjoy the advantageous circumstances of union-management cooperation. This study suggests that labour institutions must support a cooperative relationship with management on the condition that the corporate environment is favourable. The analysis in this section defies the general notion that union incorporation is essentially dormant and usually results in disintegration.

### 2.7 The Sword of Justice and Voluntary Recognition

To discuss the transition in British employment relations from the 1980s to the present day a range of evidence in relation to workforce size, union density, changes in industrial structure, and changes in employment by gender, ethnicity, and skill have to be included. The research of evidence needs to take a longitudinal approach. Despite the decline, the proportion of workers in a union remains higher than it was just before two of the great upsurges of class struggle in the 20<sup>th</sup> century, the Great Unrest and the explosion of militancy in 1919-20 (Lindsay, 2003). In fact, the only period with a sustained union density higher than today was that of the long post-war boom and the few years that followed the end of this boom. A more detailed look at the figures, industry by industry, shows that some important parts of the private sector have high concentrations of union membership (Mercer and Notley, 2008). Over 40 percent of workers in electricity, gas and water supply, and in transport, storage and communications are unionized. Some union members are present in 75 percent and 60 percent of workplaces in these industries respectively.

Three very important interrelated factors influence the likelihood of someone being in a union. The first is age (Grainger, 2006). Middle aged workers are one and a half times as likely to be in unions as those in their late 20s and early 30s, and more than three times as likely as young workers. National Statistics giving union density for people who have been working in the same place for different periods of time shows a similar pattern (Mercer and Notley, 2008). In both the private and public sectors, workers who have been in the same job for ten years are much more likely to be union members than those with only one year's service. For those who have been in private sector jobs for 25 years, that is, since before the defeat of the miners and print workers in the mid-1980s, membership rates are comparable to those during the long boom of the 1950s and 1960s. This trend is important. It means that traditions of unionization still exist within the workforce and with them the potential for unions to regain their old strength. One other important set of figures confirms this, those measuring union strength by size of workplace. In workplaces with less than 50 employees union density is about 17 percent, while in workplaces with 50 employees or more is about 36 percent (ibid. 2008).

Recent figures for union membership also dispel another widespread myth, that the unions are a male domain. Today female workers are more likely than male workers to be union members, with a union density of 29.6 percent compared to 26.4 percent for men (Grainger,

2006). Unions are also far from being organizations of a supposed white working class. Union density is at a similar level for black and white workers, and is only a few percent lower for Asian workers. The most strongly organized group are black women (Mercer and Notley, 2008).

However, union membership is unevenly distributed within Britain's working class today. That does not only apply to the gap between the public and the private sector union presence. There is also unevenness between those employed workers for whom life under capitalism is very bad and those for whom it is slightly better, with those for whom it is worse having, on average, the lowest levels of union organization (Harman, 2008).

But there has always been a danger that the more skilled also hold on to labour aristocrat attitudes that treat with disdain the mass of semi-skilled and unskilled workers. The danger today is that union activism can be concentrated in areas such as education, the health service, local government, or the civil service, cut off from the majority of the workers. Sometimes activism is even focused on those who have been drawn into playing a semi-managerial role (ibid. 2008)

The number of trade unionists increased by one hundred thousand since the turn of the century after about twenty years of continuous decrease, the lengthiest period in the history of unionism (Metcalf, 2001). The section continues by examining the decline of trade unionism and by trying to determine if the late developments point to regeneration. Then the decline in membership in the eighties and nineties is analysed, emphasizing both the failure of unions to achieve recognition in newly established workplaces and plummeting density where unions remain recognized (ibid. 2001).

The organizational structure of British unionism has also changed. The number of labour institutions used to be around 1,300 before World War II and it was about 800 afterwards (Metcalfe, 2002). Acquisitions, coalitions, and a decrease in membership in several trade unions such as the Jewish Bakers and Sheffield Wool Sheep Shearers have forced this number down to 225. In fact, 10 labour institutions in Britain make up for nearly seventy five per cent of trade unionists today. However, smaller labour institutions still exist like the Association of Somerset Inseminators and the Church and Oswaldwistle Power Loom Overlookers Society. Union structures and policies, espousing single workplace unions and Partnerships for example, affect employers' attitudes towards treating with unions, and vice versa, and will also influence individual workers' membership decisions (ibid. 2002).

In close relation to the decrease in membership is the complete transformation that has taken place in the area of collective organization. The Workplace Industrial Relations Survey provides the data. In the mid-eighties in sites with more than twenty-five workers there was a relatively small number of places with no collective organization, this was calculated at about fifteen per cent. By the late nineties, nevertheless, there was a steep decline in voice arrangements in places where trade unions were the single channel of communication and a less marked decline in places with dual channel voice arrangements (Bryson, 2000). But these developments were mostly counterbalanced by a substantial increase in collective action with friends and colleagues. In sites with more than ten workers, around fifty per cent had regular meetings between senior management and the workforce.

Table 5: Changes in Worker Voice Arrangements (%)

Type of voice arrangement	1990	1999
Union only	14	9
Union/non-union	39	33
Non-union only	28	40
No voice	19	17
Representative voice only	18	14
Representative/direct voice	43	39
Direct voice only	20	30
No voice	19	17
Weighted base	1,997	1,991
Unweighted base	2,059	1,920

Source: WIRS, 2000.

The strategy was not always clear. The balance between the support of old trade unionists and the recruitment of new ones was not very well defined. And, up to now, equal opportunities and family friendly policies were somewhat neglected. It was time-consuming for trade unionists to take new measures, especially in relation to sector-wide agreements, and it was also difficult for them to come to terms with the disintegration of collective bargaining. The emergence of social partnership implies that these difficulties may have, for the most part, been overcome.

The possibility of new workplaces gaining recognition has decreased over the years, in comparison with old worksites. Similarly, of a junior employee to become a trade unionist and to participate in collective organization has become smaller, compared to old employees. Which one of these trends is more significant as the cause and effect of the decrease in membership? An answer could be given if only we had the combined

information on new places and new workers. However, scholars suggest that the most important trend is the one related to sites, because all workers have a smaller chance to become trade unionists in places founded in the early eighties, in comparison with sites founded in the early nineties (Machin, 2000). Indeed, it is less probable for a labour institution to exist in new places, which also decreases the probability of collective action for all employees. In sites founded in the early eighties, for instance, just ten per cent of workers were under twenty-five, while in places founded in the early nineties they were about seventeen per cent.

The British Household Panel Survey is also a very useful source. For trade unionists, the salary bonus has fallen from around sixteen per cent in the early nineties to about ten per cent in the late nineties. There are no fees to enroll in a labour institution, and there are no expenses to quit. For men the argument is that it used to pay to be in a union and it used to pay to join a union, but by the end of the nineties it does not. For women the argument is that it still pays to be in a union, but not by as much as it used to, and it does not pay to join now. If labour institutions did not exist the spread in the distribution of wages would be larger by 2.6% between men and women. The effect of trade unions on the wage distribution is estimated from differences between union and non-union wages when a labour institution is present. This data is then used to calculate what wages would be when a labour institution is absent. This method of calculation was set out by experts (Charlwood et al. 2001). This is also a significant result. It can be analyzed in terms of relative importance if we compare it to the National Minimum Wage effect. The new legislation in the late nineties was particularly advantageous for females, more than half of the employees affected were women, and the spread in the distribution of wages was decreased by 1%. In comparison with the union effect, labour institutions reduce the gender differential by 2.6%, much more than the national minimum wage.

Besides, across public and private companies labour institutions can reduce the spread in the distribution of wages in unionized sites more than in non-unionized places. It was a long time ago that classical economists invented the common rule in the field of workplace relations to define the role of trade unions. The determination of a minimum wage policy was the basis of this concept. The legacy of this notion has faded away as collective bargaining has shifted from national agreements to industry and company pacts. Less than ten per cent of workers are now included in national arrangements while twenty-five per cent are included in company arrangements. Therefore the distribution of wages is

reasonably expected to to be larger today than it used to be in the past. However, in unionized places the distribution of wages will be less, ceteris paribus, than in non-unionized sites. Sectoral agreements are present in the industries of publishing, weaving, furnishing, and building. Furthermore, in sectors where national agreements were broken the policies of labour institutions promote the equality of wages between firms through research and development on collective bargaining and the participation of trade unionists in decision making.

There is another reason why the dispersion of wages is smaller between organized workers than between unorganized employees. It is because labour institutions can safeguard the wages of those on small incomes through the practice of fair values and principles, such as work status for instance, instead of other biased considerations (Belfield, 2002; Metcalfe, 2002). Trade unions can decrease the dispersion of wages between different groups, for example males or females, ethnic or other minorities, and white collar or blue collar workers. If it wasn't for labour institutions the dispersion of wages between men and women, as mentioned above, would be greater by almost three per cent. The effect of trade unions in the decrease of the dispersion of wages between men and women is also greater than that of family friendly policies. Labour institutions are strongly related to policies such as the existence of a workplace nursery, or parental leave for instance, to facilitate the work of women. Other policies such as entitlement to job share are aimed at women, racial and ethnic minorities, and those with long-term disabilities (Bewley and Fernie, 2003; Bewley, 2002). Besides, females in organized places are more privileged with reference to selection procedures, job agreements, and support for their tasks and responsibilities than females in unorganized sites.

Equal opportunities and family friendly policies are strongly related to collective organization. Organized places, for instance, are more likely to have some of these policies because labour institutions are usually recognized in large sites where the need for equal opportunities is probably greater than in small places. However, researchers who made an enquiry into this possibility found that regardless of the size of the industry, the largeness of a company, and the style of human resource management, these policies are related to union recognition (Fernie and Gray, 2000). The data displays that there is a greater likelihood of opportunities to be found in organized places. The recognition of a labour institution is strongly related to the existence of some of these policies. For example, unorganized sites are about twenty per cent less probable to have a formal written policy on

managing diversity. From another perspective, places with a trade union are more probable to have equal opportunities and family friendly policies, and in particular to collect statistics on posts held by men or women.

Recognition (%)

20
18
16
14
12
10
8
6
4
2
0

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Faterfalleave

Paterfalleave

Paterfalleave

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This is a second monitored Maeasure effects

Chart 4: Extra Likelihood of Policy Being Found in Workplace with Recognition (%)

Source: WIRS, 2000.

These results can have very significant implications. When an agreement is reached to recognize a labour institution, management is influenced by the methodology the partners intend to follow. Firstly, administration is regarded as more effective when there is a balance of control between managers and workers on the shopfloor. Too powerful or too fragile labour institutions can damage the political, economic, and social environment. Secondly, when a labour institution is recognized it is recommended for managers to provide for it, recognition combined with animosity is the worst policy. Thirdly, labour institutions are considered to be more efficient when management is successful. Trade unions which are able to act an influential mediator for employers, or a support mechanism for employees are also able to create a better corporate environment. When an agreement is reached to recognize a trade union it is advised to provide for its members and make sure they are satisfied. This indicates, for instance, that social partnership which promotes cooperative industrial relations is very likely to generate a more effective management.

Ever since classical economists talked about work accidents for the first time, it has been confirmed that the existence of a labour institution is reasonably expected to increase safety on the shopfloor. There are a number of reasons why. For instance, trade unionists can take

security measures, and from time to time, they may have to go on strike. Several labour institutions provide health services and educational facilities for their members and their families. In addition, the presence of an officially recognized labour institution will probably favour voice over exit, and trade unionists who are concerned about accidents are more probable to be advised.

In accordance with the school of pluralism, labour institutions have a significant sword of justice effect. I have demonstrated, for instance, that trade unions can decrease the distribution of wages, and can also protect the right to be employed without discrimination. An emphasis on these values and principles can encourage several non-unionists to sign up with a labour institution, and another important issue that I now have to address is the revival of syndicalism.

It is possible, that eventually, the execution of the EU Directive on Information and Consultation will have a greater effect on British industrial relations than voluntary recognitions of trade unions. It promotes new ideas and methods, and also supports new comprehensive programmes to facilitate conference, representation and participation for every company with more than fifty employees. It accounts for seventy-five percent of workers in Britain. For some managers this may be an opportunity to enfeeble collective organization, but for others it may be a chance to introduce agreements which enhance high commitment human resource management. The challenge for labour institutions is to capitalize on these plans and to increase their influence on the shopfloor. The data supports the argument that the presence of a labour institution can complement these developments.

How can British labour institutions can take advantage of the recent and current developments? There are two different possibilities. The number of jobs in organized places has to increase more than in unorganized sites or trade unions will have to increase membership density.

Membership has fallen since the early nineties where labour institutions are recognized, have workers lost their appetite for unionism? In this case it is the British Social Attitudes Survey that can provide an answer. It claims that the desire of an employee to sign up with a labour institution is dependent on the employee's understanding of the advantages and disadvantages of collective action as they are perceived by friends and colleagues (BSAS, 2002). Some scholars attribute the decline of unionism during the nineties to the emergence

of human resource management, and the disintegration of collective bargaining which enfeebled unionization (Brown et al. 1998; Charlwood, 2000). Others suggest that collective organization has decreased because of the withdrawal of influential unionists who were not happy with the new style of unionism (Fairbrother, 2000; Darlington, 1995). Other scholars contemplate that the enfeeblement of unionization in the nineties is related to the servicing model where labour institutions offer perks to unionists like credit facilities, health and insurance policies (Edwards, 2000). As they observe, this model has not fared well.

Labour institutions will have to be skeptical about enforced recognitions. Scholars define a trade union as an organization of empowered employees (Metcalf, 2001; Willman, 2001). A labour institution recognized through the legal route is, in my opinion, more likely to face a recalcitrant employer which is the case in about thirty per cent of unionized places where there is no significant collective action. What is more, labour institutions are less likely to be economically powerful which can strain the resources of trade unionists. If that is the case the main reason for the support of labour institutions for the legal route must be the indirect effect of the law which can assist voluntary recognitions.

In another study it was displayed that marriages of convenience are more usual in the construction and building industry but they are less usual in sectors such as business services and hotels and restaurants (Gall, 2000; Gall and McKay, 2000). This is probably because trade unions recruit more often from where they already have a strong membership base. This is confirmed by the Industrial Relations Services which reports the number of union recognition agreements and other employment trends between the early 1990s and the early 2000s and just before the new legislation comes into effect. More than two hundred voluntary recognition deals have been traced. Roughly half the employees affected were in the manufacturing and construction industry, electricity, gas and water services, or catering staff. More than fifty thousand workers were in the traditional building, banking and insurance, and telecommunication industries, and only about fifteen per cent of employees were in other sectors.

**Table 6: New Recognitions** 

Sector	No. of recognitions	No. of employees
Construction	78	28,699
Public Services	12	10,280
Finance	5	10,600
Transport	29	11,329
Communication	48	23,839
Ex-public sector	2	2,100

Electricity, Gas, Water	16	12,938
General	1	50,000
Total	212	149,756

Source: IRS, 2000.

The number of new jobs is improbable to increase more between trade unionists than between free riders. As a result, the revitalization of labour institutions depends on the extent of collective organization. Therefore, trade unions will have to rely on the shadow cast by the legal route, to generate a larger amount of official recognitions than recently. Moreover, even though recruitment of new members is particularly important, labour institutions have to attach special importance to membership decrease in places where they are recognized, if they can hold on to old unionists and recruit about ten per cent of new members every year their destiny will change.

#### 2.8 Institutional Policies for Employee Involvement

This section focuses in presenting what the main structures of existing workforce representation are, and what existing evidence there is on the role of works councils. In the last decade, basically all empirical studies about the role and effect of works councils refer to the theoretical work by two certain scholars (Freeman and Lazear, 1995). They argue that the specific rights endowed to works councils can enhance firm performance, but at the same time they point to the inherent danger that these rights may lead to rent-seeking behaviour, with the result that the firm is worse off. Important to observe in advance is that in the U.K., just like in Germany, works councils have far-reaching legal rights. These concern the right to receive sufficient and timely information, the right to give advice, and the right to give consent. In addition, they have the possibility to call upon external expert advise, and they have the option to go to court if they believe that their rights are somehow violated.

Influenced by Freeman and Lazear, some British scholars, point to the importance of managerial responses to any form of worker voice (Bryson et al. 2006). They argue that the functioning of this voice mechanism depends on the attitude of management toward worker participation, and that consequently the performance of the firm greatly depends on the degree in which management is inclined to give employees a say in company policies. In their empirical analysis with respect to private sector companies in the United Kingdom, they differentiate between managerial attitude towards union representatives and non-

union representatives, respectively. They find that only in non-union workplaces there is indeed a significant positive effect from a sympathetic managerial attitude towards employee representatives on labour productivity.

Voice mechanisms refer to different kinds of interchange of information between managers and workers aimed at the resolution of problems and the settlement of disputes. The academic discussion on voice mechanisms has probably concentrated on the general tendencies in unionism because of Freeman and Medoff's highly original work that influenced the development of future research and identified voice mechanisms with labour institutions (Freeman and Medoff, 1986). Generally speaking, this is quite ambiguous as it fails to take into consideration the prevailing tendencies in the United Kingdom. In the eighties trade unions in Britain were much more widespread than they are at the moment (Bryson and Gomez, 2008). For instance, in the eighties about sixty-five per cent of places had a recognized labour institution for collective bargaining which amounted to approximately fifty per cent of the private sector. This section uses nationally representative workplace data for the United Kingdom to demonstrate that during the last twenty years unionization has declined but voice mechanisms have not.

There was a substantial decline of unionization in the United Kingdom during the eighties and the nineties that, if it was to go on, would put in jeopardy the existence of labour institutions (Bryson and Gomez, 2002; Milward et al. 2000). An explanation of the enfeeblement of unionization may be that the urge for mobilization has decreased. But there is no evidence to confirm this trend in Britain. Nevertheless, some scholars suggest that there is a general tendency for economic liberalization while collective organization which was particularly important for trade unions has declined (Bacon and Storey, 1996; Phelps, 1990). These developments could have a great effect on union membership. However, the more recent developments indicate that things have changed.

When labour institutions know the reasons why workers want to recruit in a trade union, they can do what it takes to sustain membership. The most important reason for recruitment is the idea that employees get better treatment if they have a problem at work. This concept is justified as the importance of the role of labour institutions as supporters of the working class is dependent on union membership. This idea is also supported by data which illustrates that employee involvement is related to the fact that many workers believe trade unions make a difference to what it is like to work in an organized place (Bryson, 2003). This was mentioned by approximately fifty per cent of trade unionists and

demonstrates that labour institutions can play an important role. About twenty-five per cent think the more people that join a trade union the more effective it becomes. Another reason for employees to become involved with unionization is because friends and colleagues are already members.

4% 1%

28%

Increases effectiveness

Friends / colleagues

Financial services

Better treatment

None of these

Don't know

Chart 5: Reasons for Joining Among Members in Unionized Workplaces

Source: BWRPS, 2001.

One of the main advantages of unionization is the respectability workers enjoy as there is a feeling of mutual support on the shopfloor when they relate themselves to a labour institution (Booth, 1985; Bryson, 2003). Moreover, if friends and colleagues are registered with a trade union, they are able to provide information about other advantages of unionization which may not be easily recognized (Bryson and Gomez, 2003). Some employees think it is important that labour institutions offer financial services such as credit facilities and health and insurance policies. A small number of workers appear to have different objectives, and only a weak minority do not know the reason why they decided to join a trade union in the first place. Whether labour institutions can hold on to a high membership is dependent on whether they are considered as value for money. Roughly half the employees believe that unionization is reasonable value, over a quarter think it is good value, and only a small number believe that it is poor value. We also have to draw attention to other issues which are not necessarily related to the concept of value for money. They include the political, economic, and social environment, how managers and workers get on with each other, if trade unionists have difficulties on the shopfloor, and whether they are

satisfied with the process of decision making. It appears that trade unions are generally thought as good value for money when there are efficient voice mechanisms and a cooperative attitude.

Employees in organized places have not lost their appetite for unionization, they prefer to deal with problems through a union rather than by themselves. There is a strong desire for collective organization in relation to issues of sexual discrimination and harassment. To the contrary, the demand for collective action is not as strong in relation to other issues, such as vocational training and skill development. The desire for representation and participation in negotiations for better working hours and conditions is the same whether it is through a trade union or not. On the other hand, the demand for collective organization is greater when workers have to deal with issues of job security. It is significant that even though employees attach special prominence to the role of labour institutions as negotiators and protectors it is the concept of collective representation and participation which is more attractive. All these issues are particularly important and if trade unions want to increase membership they will have to deal with them.

The execution of the legislation by the European Union on advising and counseling workers, once it is implemented, will provide for mandatory works councils, for the first time in the history of the United Kingdom (Gospel and Willman, 2003). To address the issue of whether works councils are likely to decrease the demand for collective organization by employees, we have to draw attention to the fact that the existence of works councils in other countries has in reality strengthened the desire of workers for collective action. The British Worker Representation and Participation Survey provides for some data which can back up this argument. It demonstrates that when employees are asked about the style of collective voice they prefer, around ninety per cent of workers say that it is through a trade union. However, eighty per cent responded that it should be through works councils and trade unions, and another five per cent through works councils on their own (BWRPS, 2001). This ovidence is particularly important in relation to the preferences of employees as it makes it clear that works councils are not a threat for labour institutions.

The following chart displays that organizational inefficiency was the cause and effect of membership decline, about forty per cent of workers said the idea that the trade union doesn't achieve anything was the reason why they decided not to become members. Furthermore, despite the advantages of unionization thirty-five per cent of employees wanted to free-ride, and thought they would be better off if they did not have to pay any

fees. A solution for labour institutions to overcome these difficulties could be to focus on the provision of services which are exclusive to trade unionists. All these workers who are now free-riders may have to reconsider about high membership fees, so in-fill recruitment will probably rise.

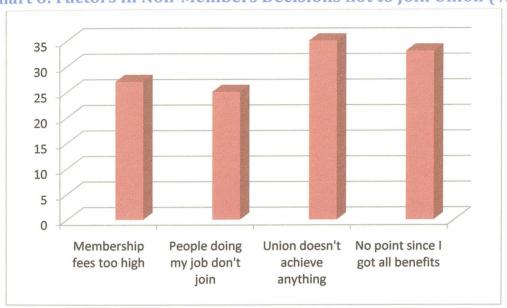


Chart 6: Factors in Non-Members Decisions not to Join Union (%)

Source: BWRPS, 2001.

The most significant reason for employees to join a labour institution is its reputation for efficiency. When workers are convinced that the workplace would be less functional without unionization, they are about forty per cent more likely to join a trade union. Another argument is that labour institutions are thought as necessary to guarantee fair treatment and fair wages which is also related to the demand for collective organization by employees. The knowledge of workers about unionization is also significant as they are reasonably expected to join a labour institution when they consider it as able to make a difference. The desire of employees for collective organization becomes stronger when they have to deal with issues such as sexual discrimination and harassment. When workers do not have to face problems like this are about twenty per cent less likely to join a trade union. When labour institutions are well organized employees are more probable to become involved. Thirty per cent of workers think it is too expensive to become members. This idea seems to be the only reason for non-members to abstain from unionization specified in the questionnaire which does not depend on something else for its validity.

The data in table 7 demonstrates a particularly important trend. It illustrates that around twenty-five per cent of employees renounce all forms of unionization in all cases, but just

two per cent of workers refuse to accept the assistance of colleagues. This shows that there is a relatively small number of employees who are not responsive to collective organization, in spite of the presence of a labour institution. From another perspective, about forty per cent of workers are favourably inclined towards unionization which displays the need for collective organization by a large number of employees.

Table 7: Number of Issues where Non-Members Desire Collective Voice

	(%) Union or on own	(%) Colleagues or on own
Sexual / racial discrimination	10	5
Negotiating salary	10	14
Negotiating working hours and conditions	17	26
Promotion issues	14	18
Bullying at the workplace	9	11
Training and skill development	16	24

Source: BWRPS, 2001.

On the one hand, the British Worker Representation and Participation Survey demonstrates evidently that works councils have no impact on the demand for collective representation, but on the other hand, the Workplace Employee Relations Survey illustrates clearly the influence of works councils. In any case, more important is the result that around twenty per cent of workers were not interested in labour institutions and works councils at all, which is possibly an indication of some of the obstacles to unionization in organized places in Britain (WERS, 2004).

Even though the difficulties for collective organization are so evident the favourable circumstances for the organizing model are not as obvious, therefore one can anticipate the need for unionization to be stronger between employees in unionized places than it is between workers in non-unionized places. Having said that, this is not in agreement with the British Worker Representation and Participation Survey. Around fifteen per cent of employees say it is very likely to join a labour institution that is recognized and about thirty per cent say it is quite likely.

30%

Very likely
Quite likely
Not very likely
Not at all likely
Don't know

Chart 7: Likelihood of Non-Members in Non-Union Workplaces
Joining a Union

Source: BWRPS, 2001.

Workers in non-unionized places can get information about the advantages of collective organization from friends and colleagues who are more experienced. Employees think that trade unions are necessary to protect working conditions and fair wages. However, former trade unionists are more probable to join a new labour institution, the probability is by five per cent greater as very likely and by seven per cent as quite likely. These results demonstrate that the lack of knowledge about unionization in an unorganized place does not considerably decrease the demand for collective organization.

The revised edition of this section makes an effort to reference adequately some of the main arguments, and to ensure that referencing is up to date by fully exploring the usefulness of WERS data for analyzing voice. Table 8 collates a database of WERS based research by using all available statistics for voice mechanisms in the United Kingdom between 1984 and 2004 for all establishments. The survey data demonstrates that in spite of the organizational change during the last twenty years, more than eighty per cent of workplaces have voice in each year.

Table 8: Incidence of Voice Types in Britain, All Workplaces (%)

Year	1984	1990	1998	2004
All Workplaces				
No Voice	16	19	18	14
Voice	84	81	82	86
Voice Places				

Union Only	24	14	9	5
Non Union	16	28	41	46
Both	42	39	32	33
Unreported	18	19	18	16
All Observations	2,019	2,059	1,920	1,647

Source: WERS, 1984-2004.

Another argument is that even though the desire for unionization may be slightly weaker between former trade unionists and new workers in unorganized places, a relatively large number of employees demand collective organization in most cases. This proposition is confirmed by the British Worker Representation and Participation Survey which illustrates that non-members desire unionization, collective action and voice. Although around forty per cent of workers have no need for collective organization, about twenty five per cent are favourably inclined towards unionization in all cases. Roughly half the employees demand a style of representation and participation with colleagues or on their own. Therefore, even though the desire for collective organization is lesser for workers in unorganized sites, the demand is high for quite a few non-unionists and may become even higher if labour institutions can realize the potential of the need for unionization.

The revised edition of this section also makes an effort to develop the narrative by observing that voice mechanisms are quite different between public and private workplaces. Union only voice mechanisms have contracted across the board but their incidence has been much higher in the public sector during the last twenty years. Multi channel voice mechanisms are predominant in public workplaces and have been on the increase so that when the most recent WERS survey was conducted in the year 2004 they accounted for about seventy-five per cent of the public sector. In the private sector, from a different perspective, multi channel voice mechanisms have been on the decrease and accounted for approximately twenty per cent of private workplaces in the year 2004. Since the nineties the predominant voice mechanisms in private workplaces have been non union. By the year 2004 they accounted for about sixty per cent of the private sector. Non union voice mechanisms have been rising in public workplaces too but in the year 2004 they accounted for only twelve per cent of the public sector.

Table 9: Incidence of Voice Types in Britain, Public vs. Private (%)

Year	1984		1990		1998		2004	
All Workplaces	Public	Private	Public	Private	Public	Private	Public	Private

No Voice	1	24	4	25	1	24	1	18
Voice	99	76	96	75	99	76	99	72
Year	19	84	1990		1998		2004	
Voice Places	Public	Private	Public	Private	Public	Private	Public	Private
Union Only	34	18	21	11	18	6	10	4
Non Union	1	25	8	36	10	51	12	57
Both	64	30	66	27	68	18	76	19
Unreported	1	27	5	26	4	25	2	20
All Observations	2,0	)19	2,059		1,920		1,647	

Source: WERS, 1984-2004.

Besides, the analysis of empirical data demonstrates that about one quarter of unorganized workers have a desire for collective organization. Therefore, the future of trade unions in Britain is rather promising, and the concept that labour institutions are necessary for collective action and voice, and also the idea that they are not outdated organizations persist as important. Many employees strongly disagree that trade unions are old-fashioned and have no future in modern Britain. From another perspective, when they are satisfied with their participation in decision-making and in relation to their tasks and responsibilities, they are not as likely to become involved in trade unionism.

When a labour institution is not present, the need for collective organization between workers in unorganized places originates from their knowledge on unionization and other political, economic, and social issues. Consequently, to increase their influence in nonunionized places labour institutions have to identify the feelings of employees, and through consultation, try to convince them of the benefits of collective organization. This study makes the following suggestions. Labour institutions should focus on unorganized workers because they have a greater need for unionization. Non-unionized employees are more responsive to collective organization when they perceive their relation to the manager as one that cannot be settled by mutual concession, and when there is a shortage of effective voice mechanisms. Trade unions have to establish what measures they can take which are not related to Human Resource Management because this is also related to a decrease in the desire for unionization. Although they are not a real threat for collective organization, works councils are more appealing than labour institutions between unorganized workers. Therefore, trade unions should also take into consideration other non traditional approaches to increase the demand for unionization. Lastly, the desire for collective organization is dependent on membership increase to secure a good position in nonunionized places.

Taking into consideration the revised material of this section a definite conclusion comes to light. The diminution of unionization in the United Kingdom since the eighties does not necessarily mean that voice mechanisms have contracted. Even though though there has been substantial change during the last twenty years in the nature of voice mechanisms, from employees through labour institutions to managers, in more than eighty per cent of public or private workplaces there was some sort of bilateral interchange of information between managers and employees. Most managers appear to be favourably disposed towards bearing the cost of voice provision and seem to be unwilling to engage with their employees with no voice mechanisms. The relation of voice mechanisms to successful corporate results indicates that the cost of voice provision may be of small value in comparison with the desired effect that voice mechanisms produce.

## 2.9 The Managerial Discourse of Empowerment

In a classic work of literature, The Changing System of Industrial Relations in Great Britain, it is argued with conviction that the study of managers in industrial relations is in a primitive state (Clegg, 1979). A large progress has been made since those days, and as other scholars have suggested more recently, our knowledge on executive trends in workplace relationships, and on the part of managers in the development of collective bargaining has become extensive (Sisson, 1987). More than anything else, during the last ten years, with the major progress of organizational studies, the research on industrial relations is reasonably expected to take into consideration, apart from the role of the government and that of the labour institutions, the role of managers (Guest, 2001).

Having said that, government interference in workplace relations not only implicates statutory legislation, but also affects the formation of the political, economic, and social environment (Godard, 2002; Poole et al. 2005). A question to be answered is to what a degree the emergence of the liberal doctrine has influenced the behaviour of executives against state control and in favour of the entrepreneurial ideology? Along with the retreat of corporatism, manager resistance to discretionary fiscal policy has increased. On the other hand, executive support for restraints on the authority of trade unions has decreased. The promotion of an entrepreneurial ideology founded upon privatizations and commerce has escalated, but it is probably moderated by the advance of stake holding and business ethics.

This radical shift in British industrial relations has brought about an academic debate on the hollow shell theory, according to which, when labour institutions are present, and collective bargaining is widespread, there is a greater executive effect on workplace relations (Hyman, 1997). Furthermore, relations of authority can significantly moderate the impact of cultural change which originates from political reforms and the practice of new organizational operations (Kelly, 2004). Another question to be answered is whether the decrease in the influence of labour institutions is related to the emergence of a new attitude by managers over the last ten years or so. The executives in Britain are extremely concerned about the decrease in the authority of trade unions. Management has been less hostile to labour institutions since the turn of the century. Given the decrease in union membership in Britain, executive participation in trade unions should also have declined.

In Britain, more often than not, the most important organizations in the field of workplace relations relate to collective bargaining. Nevertheless, in recent times, the amount of collective bargaining has gone down in Britain. According to survey data, in sites with officially recognized labour institutions, collective bargaining decreased from eighty-six per cent in the eighties to sixty-seven per cent in the nineties (WERS, 2004). Nonetheless, representation and participation through friends and colleagues has increased, like in the case of scheduled meetings between executives and employees or in the case of quality circles (Poole et al. 2005). All the same, sharing in profits, following a substantial growth for the workers during the eighties, it persisted as unchanged in the nineties (Millward et al. 2000). These facts draw attention to another issue that has to be discussed. To what a degree are trends in industrial relations continuous? The emergence of new organizational operations has influenced the attitude of executives in relation to workplace relations and this also becomes evident in the trends of collective bargaining and the developments in worker representation and participation.

A postal questionnaire of Britain's chief executives is sampled every ten years by the Chartered Management Institute, to report on the opinions of managers on industrial relations. We can observe supporting evidence of the connection between macroeconomic and social trajectories in the eighties and the nineties and their influence on executive organizational behaviour, the effect of human resource management on employee empowerment and the lag effect of trade unions. The most important developments appear to be the increase in manager unionization since the turn of the century and the

replacement of collective bargaining by company level agreements and the late increase in worker shareholding.

An issue of particular importance for industrial relations during the seventies was the use of discretionary fiscal policy by the government in an effort to control inflation. According to the survey data, managers have resisted this strategy. Nevertheless, since the eighties and the nineties the executives in Britain have become more favourably inclined to this policy. This is despite the fact that a general increase in prices was not as significant for the economy due to the fact that the purchasing value of money was now regulated by the Monetary Policy Committee. Therefore our earlier proposition is partially confirmed. There was a substantial amount of resistance to discretionary fiscal policy in the eighties, along with an increased flexibility in workplace relations, but this did not accelerate in the nineties.

Table 10: Attitudes to Government Intervention in Industrial Relations and in Industry (%)

Government should	Strongly agree	Agree	Indifferent	Disagree	Strongly disagree
Control wages	1.2	12.6	9.7	40.1	36.0
Control prices	3.1	14.3	11.4	40.1	31.1
Legislate about strikes	12.9	45.0	15.3	16.9	9.9
Have arbitration	12.0	48.0	21.9	12.8	5.2
Establish tribunals	10.1	46.2	24.3	12.7	6.6
Encourage entrepreneurship	48.1	45.3	3.8	1.8	1.1
Reduce powers over industry	22.7	40.3	17.3	16.2	3.6
Encourage share ownership	28.5	50.8	17.1	2.6	1.0
Reduce monopolies	30.0	52.2	12.5	4.3	1.0
Have enterprise culture	42.9	47.4	7.5	1.7	0.5

Source: CMI, 2000.

During the last twenty years, chief executives have been uncertain about the role of labour institutions. They have naturally supported a singular system of industrial relations instead of a plural and heterogeneous structure in which labour institutions could also participate in

decision making (Poole and Mansfield, 1993). However, several executives have actually joined trade unions or personnel organizations since the eighties. One of the reasons why, is that labour institutions have probably become the principal agents for bargaining working conditions and working hours, at least in state owned enterprises. In fact, in the questionnaire by the Chartered Management Institute, chief executives were asked if a labour institution or personnel organization was present and most of them were favourably disposed to join one of them.

Table 11: Trade Unions, Managers' Attitudes (%)

Trade unions should	Strongly agree	Agree	Indifferent	Disagree	Strongly disagree
Have more power	0.9	10.5	19.8	59.2	10.3
Have too much power	2.7	14.3	30.3	47.1	5.1
Have profits	4.9	31.0	30.4	29.3	4.4
Be voluntary	34.8	54.2	6.6	3.5	1.0
Be involved only with pay	4.1	24.3	13.3	51.4	6.4
Be prepared to use action	2.2	15.5	12.3	48.1	21.9

Source: CMI, 2000.

Our proposition draws attention to the extent of the participation of managers in trade unions. On the one hand, since the eighties, there seems to have been a shift from collective bargaining to alternative ways of representation and participation through friends and colleagues (Millward et al. 2000). One the other hand, to a certain extent, trends in human resource management may have shifted from collective voice to individual voice but other tendencies have not changed significantly. Nevertheless, in agreement with our sources, even though it is evident that collective bargaining has decreased, it is uncertain that there has been a comparable rise in other styles of employee involvement. It must be stated that our data is not the most appropriate for the analysis of these developments. Nonetheless, in the postal questionnaire by CMI, executives were asked to what a degree they were involved in scheduled meetings for managers and workers and they were favourably inclined to the representation and participation of employees in executive committees.

Labour institutions are enfeebled at the moment but management appears to be more supportive. Besides, according to our data, it seems that it was in the eighties and not in the nineties, that the decrease in the authority of trade unions took place. It was also during the eighties that executive participation in labour institutions declined significantly. However, the most important developments in the industrial relations of Britain happened in the nineties. This can be explained by the lag effect of trade unions, in other words, due to the path dependency of organizational structures, it takes a while for workplace relations to adjust to macroeconomic policies or to national trajectories of employee involvement. Nevertheless, even though I argued that the political, economic, and social environment of the eighties had managed to restrain the decrease of collective bargaining, this was not continued to be the case during the nineties. Our data is in agreement with the hollow shell theory of a significant decrease in collective bargaining which was also confirmed by a recent survey (WERS, 2004). The argument is that labour institutions can postpone, but can not eliminate, the effect of corporate governance, at least for a prolonged period, which confirms the theory that organizational change can originate from a gradual evolution as well as a radical shift. The complementarity of business administration and industrial relations will be extensively discussed in the following sections.

#### 2.10 Welfare Capitalism in Mutual Gains Enterprises

The dispersion of short-term corporate governance in America and Britain is one of the reasons why the two countries are defined as neo-liberal economies, however, there are also significant differences between the two sides of the Atlantic (Hall and Soskice, 2001). For instance, although in both cases, economic policies of competition like the use of stocks are necessary for the generation and sustenance of new jobs, in the American Business System versatile modes of operation are assimilated into a centralized organizational structure. On the other hand, in Britain competition and versatility are understood in a different way, and relate more to the liberalization of the economy and the deregulation of industrial relations. The concept of parallel tendencies describes the likeness of the two models of corporate governance but also confirms the discrepancies and irregularities. Following on from this, business which are founded on the continental stake-holding tradition where versatile modes of operation include not only short-term economic objectives but long-term corporate governance as well, they have to deal with these differences. Nevertheless, when there is state intervention instead of state abstention, the

effect of short-term corporate governance can be regulated by the social partners more effectively than in America or Britain (Barnard et al. 2003). I will analyze this issue in more detail in the next chapter when I make an analogy of the theories and arguments I describe here with the recent and current developments in France.

The importance of foreign direct investment and of the expansion of US multinational corporations becomes a research priority for many reasons. The effect of foreign direct investment on industrial relations and trade unions was demonstrated for the first time in Servain-Schreiber's work, in which American multinational corporations were found to exercise influence on the values and principles of other countries (Edwards and Ferner, 2002). When this book was written, it drew the attention of several scholars in the field of workplace relations and labour institutions who were concerned about the ability of US multinational corporations to exert influence on the traditions and practices of other countries. Shearer, for instance, argued that American multinational corporations were not willing to officially recognize organized employees, they had a more independent style of corporate governance, and were less hesitant to dismiss employees than national companies (ibid. 2002). The idea that foreign direct investment exercises influence on industrial relations and trade unions has now become more widely accepted.

The centralized structure of US multinational corporations which is sustained by industrial agreements and company pacts, has traditionally been supported by a liberal environment which promotes a powerful non-union culture. Nevertheless, the American Business System is defined by variable modes of operation with New Deal directors or uncompromising chief executives, and companies which vary from welfare capitalist organizations that provide employees with human resource management or firms which pursue low-road strategies. Mutual gains enterprises correspond to a highly developed and complex variant of nonunion companies that promote fairness and equality and are defined by rational policies which promote the idea that the enterprise, instead of the government, is the one to make provisions for the welfare of workers (Almond and Clarke, 2004). As a result, to substitute for labour institutions, these companies have launched human resource management schemes in the field of social security, health services, and job protection. Besides, they have also started programmes of productivity bonuses, fringe benefits, and other perks (Jacoby, 1997). They have increased employee representation and participation through the promotion of a cooperative attitude, the research of industrial relations, and the support of voice mechanisms for the consultation of workers. However, when appropriate they can

play it tough to suppress a rebellion. In comparison, New Deal directors allow for the official recognition of trade unions and negotiate in good faith with employees on statutory legislation and industrial agreements, in other words, job control unionism which provides for quality circles and other organizational operations. In any case, the success of the two variants is dependent on political, economic, and social stability. In late years, the prosperity of mutual gains enterprises has been moderated by the advance of technology, while New Deal companies have encountered a highly competitive global environment that has impaired sector-level agreements and made less clear the differentiation of the two models of corporate governance. According to some scholars the recent and current developments may force management to resist unionization so as to survive in a globalized economy which can possibly lead to the disintegration of workplace relations (Darbishire and Katz, 2000). Nevertheless, the legacy of mutual gains and the New Deal persists in company-level industrial relations. There is a large degree of coordination between managers and workers that may coincide with the general environment to support firm-level arrangements and workplace relations. It is for this reason that the effect of economic globalization that casts doubt on mutual gains and the New Deal may be restrained.

The extent to which it is possible for multinational corporations to spread their culture is not determined only by these restraints, nevertheless, but also by the receptiveness of the host country environment. Some policies are dependent on employees obtaining a wide range of qualifications, and on a stable industrial relations system, or else, the corporate culture will not spread in the same manner it does in the country of origin. Therefore, when social partners are not able to promote innovative strategies, or the workplace relations structure can not support them, the home country environment is not receptive. For example, scholars have suggested that the British model, with its inherent characteristics of relatively limited specific skills, formal performance of tasks and responsibilities, and reliance on a small number of key experts, is not as responsive to ideas for incremental adjustment as, for example, is the German variety which is based more on diversified quality production, work redistribution pacts, and a wide range of potential receptors (Edwards and Ferner, 2002; Lam, 1997). For this reason, liberal economies, like Britain, are not usually as receptive to organizational change as the more coordinated economies.

Most of the mutual gains enterprises have traditionally opposed unionism in Britain though one or two of them eventually recognized trade unions after a long period of dispute during the sixties and the seventies. In some partly unionized firms, a similar pattern of resistance

to labour institutions, at least to some extent, is also evident. On the other hand, the New Deal companies in Britain have always conformed to the Oxford school of pluralism in industrial relations. It is perhaps too early to talk about some of the newly founded British subsidiaries. When workplace relations are organized to a limited extent or are totally unorganized, this is something that demonstrates the business ethics transferred from the mother company, which may be related to a methodology that has the objective to decrease the possibility of mobilization. The case of IT Services is a very useful example. Throughout the decades of the seventies and the eighties, labour institutions were pressing for recognition and were successful in the conclusion of a shotgun marriage through the legal route. The management opposed union recognition, and emphasized the firm's paternalistic methods, one of the managers involved in negotiations for an agreement said that he convinced workers that you are joining IT Services, it will look after you from cradle to grave (Almond and Clarke, 2004). This approach succeeded, inasmuch as most of the directors were not affected by the recognition. An executive who was involved in negotiations for an arrangement spoke of the halo effect they experienced for a while after this wonderful achievement for the company (ibid. 2004).

Possibly the most important finding of a literature review on US multinational corporations is that they are greatly centralized which makes them different from other firms (Edwards and Ferner, 2002). This remains constant over the years and does not relate to a particular period of time. In a questionnaire about buy-outs of companies in Britain by multinational corporations it was found that the American style of post-acquisition management appears to be hands-on, forceful, oriented to quick results, and different (Child et al. 2000). The data on British subsidiaries, which draws from fairly recent publications, indicates that this highly centralized structure is also evident in the field of human resource and industrial relations (Beaumont and Martin, 1999). Other evidence from France, Germany, Belgium, Holland, and other European countries implies that this greatly centralized organizational structure is inherent in US multinational corporations and is not particularly related to firms in Britain (Gunnigle, 1995). This highly centralized organizational structure is based on leadership, for instance the extensive use of expatriates in managerial posts, and rules and regulations which facilitate their tasks and responsibilities. American multinational corporations are defined by strict financial control procedures, for example a fairly recent project on companies in Europe demonstrated their emphasis on regular economic audits (Wever, 1995). This greatly centralized organizational structure illustrates the country of origin influence in US multinational corporations.

Some scholars have emphasized on the late policies about dividend yields and the effect they have on how US multinational corporations make decisions with the objective to sustain high competition, even though this trend is not something new in Britain (O'Sullivan, 2000). Other scholars have suggested that the argument about the emphasis on short term corporate governance has been overrated because this was an inherent characteristic of British firms anyway (Almond and Clarke, 2004; Thompson, 2003). The organizational structure of American multinational corporations demonstrate a general tendency for creativity which is stimulated by a wide range of human resource management policies. Most importantly for our enquiry into the attributes of the American Business System, one of our major arguments in this section, the Americanness of British subsidiaries of US multinational corporations, is that British subsidiaries in most cases appear to be creative in human resource management which probably has a great effect on the industrial relations of Britain. Although this hypothesis seems to be appropriately substantiated in relation to the policies about dividend yields, and the emergence of a new style of business administration, it leaves a margin of doubt. What is implied, is that company level agreements also include the legacy of mutual gains enterprises and the New Deal, as well as the legacy of the school of pluralism in workplace relations which is evident in the companies of Britain.

Another important point is how American multinational corporations adjust to different industrial relations systems across Europe, and how employees in these countries respond to their policies, in other words, how the country of origin influence is affected by the home country environment. The section has argued that US multinational corporations have not fully complied with the traditions of trade unions in Britain, but this is probably mitigated by the need to adapt to the local system of workplace relations. There are only a small number of projects, nevertheless, that have analyzed the same company, for example McDonalds, in various European countries (Royle, 2000). There is virtually no knowledge on how an individual firm strategy is carried out and how it becomes functional in coordinated economies like France or Germany on the one hand or liberal economies like Britain on the other. A suggestion for future research, is how the union-free attitude of several American multinational corporations is received by a country with statutory legislation for unionization? A possible answer to this question is that in more coordinated economies US multinational corporations with a union-free philosophy are reasonably expected to use functional equivalents of unionization like employee involvement (Royle, 2008).

Some of the most important inherent characteristics of the American Business System are the centralized organizational operations, a creative style of corporate governance, and inventive policies of human resource management which can be found, at least to some extent in the British subsidiaries. US multinational corporations usually try to disperse the workplace relations of the mother company to the daughterly firms, and as a consequence, some of the British companies often become pioneers for the local firms. Nevertheless, the recent and current developments indicate that the situation is far more complex than this for the British subsidiaries (Edwards and Ferner, 2004). Several firms in Britain, even though they demonstrate American qualities, are defined by a style of human resource management that also includes domestic qualities which are not to be found in traditionally non union companies. With regard to the American Business System, company level agreements are sustained partly by the legacy of mutual gains enterprises and partly by the New Deal. This gives rise to our main argument that the home country environment together with the policies of mutual gains enterprises and the practices of New Deal companies can act as restraints on the industrial relations conveyed from the American Business System to Britain.

The influence of US multinational corporations has recently increased. Under the circumstances of an economic environment which has been more advantageous since the eighties, American companies were reinforced in the world stock exchanges following a period of time during which firms from Europe and Japan were thought to be more efficient than US companies (Almond and Clarke, 2003). Taking into consideration the globalization of the economy, which is led by the United States, and the internationalization of labour markets, the effect of American multinational corporations on British workplace relations and labour institutions is reasonably expected to grow.

### 2.11 A European Perspective of Worker Participation

After discussing the American influence on British industrial relations and trade unions it becomes appropriate to discuss the European influence too. It can be argued that the European effect on British workplace relations and labour institutions is probably much greater because it also involves statutory legislation. Firstly, in this final section of the chapter, I will try to review the evolution of trade unions in Britain by examining the historical background, and the main argument is that there have been several missed

opportunities in the past. Secondly, like in the first chapter, I will analyze from a European perspective the current situation in relation to representation, participation, information, and consultation at work. Finally, I will try to answer the question what do British workers want, by making international comparisons between the United Kingdom and the United States, Germany, and France.

By taking a historical approach we can have a number of arguments. Firstly, the inconsistency of the voluntary practice of collective bargaining was that it was based on an essential supporting structure of statutory legislation and government intervention. It could provide neither a ceiling on the ambitions of trade unions, in advantageous circumstances, nor a floor in disadvantageous circumstances. Secondly, according to scholars, collective bargaining on the one hand, and informing and consulting on the other, developed simultaneously in an interdependent and complicated double helix relation (Wedderburn, 1997). Sometimes they supplemented one another, but sometimes they were against each other. Retrospectively, managers and trade unions missed quite a few opportunities to build an organizational structure of employee representation and participation which is founded upon collective bargaining that complements advising and counseling. As far as British labour institutions are concerned, they did not take a good chance in the mid seventies to secure their legitimacy. Since the mid seventies, the organizational structure which supported the voluntary practice of collective bargaining disintegrated, and the level of organized negotiations decreased.

When the Labour Party came to power in the late nineties the legislation on union recognition was reintroduced and the laws which originate from the European Constitution on informing and consulting also had to be reformed. In the area of advising and counseling, the selection of delegates is based on a hierarchical order with shop stewards coming before the representatives of informing and consulting commissions and the employees selected ad hoc for a particular task. As far as multinational corporations are concerned, the government accepted early the European Works Council Directive. This had the following implications. Firstly, it formed legally based representation and participation agreements in Britain, though for a relatively small number of workers, only those employed by multinational corporations. Secondly, consultation was now thought as inclusive instead of exclusive, and the selection of employee delegates was institutionalized for both organized workers and unorganized workers. Finally, since the turn of the century, the British State has also implemented the EU Directive on Information and Consultation Rights. Therefore, in relation

to the legislation, Britain has followed a multiple channels path, but has been left with a disintegrated organizational structure of advising and counseling (Gospel et al. 2003).

The presence of informing and consulting commissions and union recognition are strongly related. Accordingly, about forty percent of places with an officially recognized labour institution had an advising and counseling commission, in comparison with less than twenty percent without one (Cully et al. 1999). Based on this evidence scholars suggest that union representation and indirect employee representation go hand in hand rather than being substitutes (ibid. 1999). Nevertheless, it appears that in unorganized sites with a labour institution, informing and consulting commissions do not seem to be a platform for official union recognition.

One good question to try to answer is: what changes have taken place since the introduction of the Information and Consultation directive? At present, subject to certain industry specific requirements, formal collective information and consultation processes only apply in three circumstances: on collective redundancies, on business sales, and in relation to health and safety matters. The next few paragraphs explain in some detail the revisions made in national legislation to accommodate the European Law.

In relation to collective redundancies, Section 188 of the Trade Union and Labour Relations (Revised) Act 1992 requires an employer who is proposing to dismiss as redundant 20 or more employees at one establishment within a period of 90 days or less to consult appropriate representatives of affected employees about the dismissals. Where the affected employees are of a description in respect of which an independent trade union is recognized by their employer, consultation takes place with representatives of the trade union. Otherwise, consultation is required to take place with employee representatives elected by the affected employees for the purposes of consultation, or elected or appointed by the affected employees for other purposes but who have authority to receive information and be consulted about the proposed dismisals on behalf of the affected employees.

An information and, depending on the circumstances, a consultation obligation will also arise in relation to business sales under the Transfer of Undertakings (Revised) Regulations 1981. Regulation 10 imposes an obligation on an employer of employees affected by a relevant transfer to provide appropriate representatives of such employees with specified information and to consult about measures the employer envisages taking in relation to

such employees in connection with the relevant transfer. Appropriate representative for these purposes has the same meaning as in the collective redundancy legislation.

Information and consultation obligations also arise in relation to health and safety matters. The Health and Safety at Work (Revised) Act 1974 imposes an obligation on employers to consult safety representatives regarding arrangements for the safety and health of employees at work. There are also a number of specific information and consultation obligations in relation to health and safety legislation set out in the Safety Representatives and Safety Committees (Revised) Regulations 1977 and the Health and Safety (Revised) Regulations 1996.

If we now compare the United States with the United Kingdom we observe a common heritage of a strong dependence on collective bargaining. In retrospect, American labour institutions have always tried to reach agreement with managers through collective bargaining. From another perspective, some big companies have been responsible for the formation of employer dominated trade unions and consequently a number of non union agreements (Gospel and Willman, 2003; Jakoby 1985). With the New Deal, the Wagner Act prohibited these arrangements, and up to know, advising and counseling with no labour institutions remains illegal. As a consequence, managers are restrained in representation and participation agreements with no trade unions. Labour institutions have always tried to negotiate and have not pressed for voluntaristic informing and consulting arrangements. The result is that the level of organized negotiations has decreased, employee involvement has not increased, but advising and counseling commissions have become more popular.

Germany has been compared several times with the United Kingdom by researchers of industrial relations. As opposed to Britain, Germany has traditionally followed a multiple channels path, with collective bargaining at the central level, legally based informing and consulting on the shopfloor, and worker representation and participation in the executive committees. The academic literature on advising and counseling in Germany demonstrates that the relations between German works councils and labour institutions have been successful (Gospel and Willman, 2002). Trade unionists are often works councilors themselves, the labour institutions support their advisory role, and this is beneficial for all workers. In relation to the legislation German employees are better informed and consulted through the works councils than British workers are. Nevertheless, more recently, works councils have in several occasions substituted for trade unions, and the result is a higher level of informing and consulting and a lower level of collective bargaining. For labour

institutions this is both a challenge and an opportunity for further development of coordination (Frick and Lehmann, 2001; Thelen 1991; Turner, 1991).

In practice, nevertheless, German labour institutions still play an important role in the procession of corporate information. Firstly, they play a significant role through the informing and consulting commission, and about eighty percent of works councilors are also trade unionists (Jakobi et al. 1992). Furthermore, at the request of trade unionists, the labour institution is eligible to become involved in economic committee and work council conferences and the trade unions also provide advising and counseling to Bertriebsrat members. Secondly, German labour institutions play an important role through the executive committee, because of the presence of many works councilors (Gospel and Willman, 2004). Furthermore, trade unionists themselves can participate in the supervisory board to represent the workers, which makes accessible to them corporate information and useful databases.

In comparison, the French case is considered as less positive for labour institutions. France has also followed the path of multiple channels, with legally based advising and counseling on the one hand, and collective bargaining on the other. Occasionally, the French state has interfered in workplace relations to support agreements. In the postwar years, statutory legislation has made compulsory the presence of a comité d'entreprise. The introduction of the Auroux Law in the early eighties, has facilitated the role of the comité d'entreprise to secure the rights of representation and participation and to guarantee the rights of information and consultation. French managers are constitutionally obliged to advise and counsel employees on a large number of issues (Gospel and Willman, 2003).

Apart from the legislation in relation to management, the French State has intervened several times to protect the workers from redundancies. Between the mid-seventies and the mid-eighties a number of adjustments were made to the Code du Travail to protect the employees from redundancies (Howell, 1992; Jenkins, 2000). Between the late eighties and the late nineties the law made it compulsory for all companies to have a Plan Social. This document has to report the number of workers to be made redundant, the amount of compensation, the level of vocational training, and other information. If the comité d'entreprise decides that the evidence in the Plan Social is not adequate, it can request a tribunal to cancel the dismissals and require another plan. In several occasions, in big companies like Crédit du Nord, IBM France, La Samaritaine, and Michelin, the law has been

interpreted in favour of the employees and the redundancies were cancelled (Gospel and Willman, 2004; Bledniak, 1999).

Industrial relations systems are dependent on national trajectories and are not easy to emulate. The appearance of workers councils during the first quarter of the 20<sup>th</sup> century was the most advanced expression of the old proletarian movement, but it was unnoticed or forgotten, except in travestied forms, because it was repressed and destroyed along with all the rest of the movement. Now, from the vantage point of the new stage of proletarian critique, the councils can be seen in their true light as the only undefeated aspect of a defeated movement (Debord, 2006). The historical consciousness that recognizes that the councils are the only terrain in which it can thrive can now see that they are no longer at the periphery of a movement that is subsiding, but at the centre of a movement that is rising. However, the argument is that there are probably lessons to be learned for British labour institutions from the European countries. If British trade unions conform to the American model, they will be isolated in the shrinking area of collective bargaining. From a different perspective, there is a possibility that they can benefit from works council style agreements, like in Germany. Nevertheless, the French case indicates that there is not an easy way to success unless they are able to benefit from these agreements. Speaking of Germany and France, the point is whether continental style representation and participation can be successfully conveyed to Britain. The section has already demonstrated that there has been change in British legislation towards multi-channel employee involvement, and as a consequence the process of informing and consulting should be of special interest for both employers and employees. A problem for discussion is: would British workers be interested in a move towards joint consultative arrangement and mixed systems of representation on European lines? I will try to address this in the next paragraph.

A mixed system with a works council and a labour institution can be beneficial for worker representation and participation. There is evidence to suggest that many employees are satisfied with the level of advising and counseling, but they are not as happy with other forms of employee involvement (Freeman and Rogers, 1999). There are not any differences between organized and unorganized workers, apart from the fact that trade unionists are probably in a better position to have a greater knowledge about the wage systems in an industry. When there is only an informing and consulting commission employees are more content with the level of employee involvement. As the chapter has analyzed in one of the previous sections this is also the case in places with both a works council and a labour

institution. Workers are not as satisfied when neither becomes available, but this is also true when there is a trade union without a works council. There are two explanations why trade unionists are less happy with the level of advising and counseling, perhaps they have greater ambitions which can not easily be met, or managers may feel restrained to provide with informing and consulting. Nevertheless, what is more important is that in sites where there is both a works council and a labour institution employees become satisfied with the level of advising and counseling.

So is it possible for informing and consulting to be complementary with collective bargaining? Here, the execution of the EU Directive Establishing a General Framework for Informing and Consulting Employees is going to have a much greater effect. Britain has now for the first time in history a multi-channel network of employee involvement, where collective bargaining persists to some extent, advising and counseling through a works council has been delayed, and the role of labour institutions has been diminished. As far as the legislation is concerned, the United Kingdom has decisively followed the path of multiple channels representation and participation and is reasonably expected to follow this path even further. British employees aim at a higher level of employee involvement and appear to have a strong desire for informing and consulting (Bewley et al. 2008). The recent and current developments provide for a number of challenges and opportunities for both employers and employees. As a result of the EU Directive, there is a good chance for the state to establish a stable and efficient organizational structure of worker representation and participation in the United Kingdom. For some managers this may be an opportunity to enfeeble collective organization, but for other managers this may be a chance to reach agreements that emerge as beneficial for both sides. To revisit the key research question of the chapter, which is whether social partnership and collective organization are compatible, a mixed system of continental style employee involvement with works councils and trade unions can most definitely assist in the formation of this complementarity.

A set of propositions can be set forth as an explanation for the occurrence of the specified group of phenomena analyzed above which can be accepted as highly probable in the light of established facts. Managers have found themselves for many years in a position of superiority because they have always been able to control workplace relationships and in several instances have also been able to introduce more complex or intricate human resource management procedures. From a different perspective, apart from national and European legislation, there are other restraints. Workers appear to want more voice

mechanisms in today's changing workplace, and managers are now confronted with more determined labour institutions than ever before (Bewley et al. 2005). Beyond any doubt, some managers will try to keep away from new agreements, either arguing the case that there is enough representative voice at work at the moment or that workers do not need agreements on these lines. This policy is probably dangerous because it might be opposed by labour institutions, in all or in parts of a company. For other managers, there is a chance to reach agreements, either totally or partly new, either with or without labour institutions.

# 2.12 Conclusions: Neoliberalism vs. Europeanization

The language and vocabulary used to explain partnership unionism and collective action are different, and are also defined by the diversity of opinions in relation to the revitalization of industrial relations (Kelly, 1996). However, it is clear, that elements of the two approaches are often combined in institutional policies. The Trade Unions Congress, for example, has made an effort to revive collective organization in the United Kingdom, and for this purpose, founded an Organizing Academy to train a number of employees in the practice of new forms of representation and participation. At the same time, it has provided for union-management cooperation, and for that purpose, founded a Partnership Institute to propose several rules and regulations which allow for the development of cooperative workplace relations. Section 2.1 introduced an enquiry into social partnership and collective organization in an effort to study the degree to which they are real substitutes, or whether they can emerge complementary.

The emergence of social partnership has a great effect on the determination of union strategies and the current developments in industrial relations. The success of partnership unionism is dependent upon the support of both managers and workers. When the Tories were still in power and the European Union was not present, trade unions had no other option but to focus on the shopfloor. However, the possibility of extended jurisdiction for the European Union, supported by the Socialists, suggests that we can look forward to constitutional acts, to arrive, like a redeemer, and restore to favour the enfeebled labour institutions. At this point, the concept of social partnership as a different form of corporate governance or a different style of employee involvement has already proved its status with European Works Councils. As a result, we can also expect the language of politicians, economists, chief executives, and trade unionists to reflect new ideas and original concepts.

Nonetheless, if social partnership is based on a fragmented organizational structure of workplace relations, the authority and sovereignty of labour institutions are both at stake. Despite the fact that the academic literature of industrial relations and trade unions provides for different interpretations, social partnership is better understood as an alternative to pluralism or unitarism. Section 2.2 focused on the impact of social partnership and stakeholding upon the role of trade unions as regards the relations between employers and employees.

The decade of the nineties was particularly important for the political, economic, and social developments which had an effect on the role of labour institutions. The return of socialist governments in Europe and South America during the last ten years or so has culminated in the retreat of New Right economics. As another option, a different system of corporate governance and industrial relations, based on the Third Way has come into the picture, which calls into question the predominance of neo-liberalism. As a result, the implications for trade unions are significant, although they have not been very well defined. The concept of social partnership provides for state intervention in the field of workplace relations, with the clear objective to ensure that worker representation and participation are also present for underprivileged employees. In Britain, for example, this is evident in the introduction of policies like the National Minimum Wage and Statutory Trade Union Recognition. Partnership agreements are very important for the establishment of social dialogue between employers and employees. Of special prominence is the need for both managers and workers to emphasize less on issues of employee empowerment and emphasize more on issues like information and consultation or vocational training (Lucio and Stuart, 2002). Section 2.3 enquired into the evolution of social partnership, stakeholding, and business ethics by exploring the attitudes of workers in Britain.

The dispersion of the American model of collective organization to the United Kingdom is another important issue for research. The Academy of the Trade Unions Congress has greatly affected the diffusion of union organizing, and collective action has been practiced with enthusiasm by a small number of trade unions (Heery et al. 2000). However, in relation to the majority of labour institutions, union organizing is defined by the practice of diverse strategies, and the more progressive policies such as an effort to place counselors in a wide range of business, have not faired very well. The characteristics of the organizational structure which have a greater effect are those that stress the significance of worker representation and participation as the determining factor of union membership, which is

also in agreement with the traditional values and principles in Britain and the dependence of labour institutions on methods that exercise influence on management. Section 2.4 researched the dispersion of the organizing model and collective organization in the United Kingdom.

It has now become more widely accepted, at least to some extent, that employees are owners and customers, and that these multidimensional characteristics have brought about a different configuration of organizational operations (Heery, 1993). In this way, the concept of social partnership can assist in the formation of a neo-pluralist system of workplace relations to include managers, workers, and other stakeholders. The research into stakeholding, indicates that a modern style of industrial relations which recognizes more than one principle, will also have an effect on the reconcilement of tasks and responsibilities (Ackers, 2001). The system of workplace relations has been explained, up to the present time, as simply the need for employers and employees to maximize productivity (Ackers, 2002). From a different perspective, this is not a procedure, that can be imposed by force. The system of industrial relations may as well include an element of coercion, nevertheless, it is imperative that a cooperative relationship is based on joint interests and mutual gains. High commitment human resource management champions the idea that a company pact is not good enough, but it entails specific external codes of conduct. To sum up the argument, the system of workplace relations should not be perceived only as an economic relationship but also as a human relationship. Section 2.5 described a form of neo-pluralism which provides for an essential supporting structure for the revitalization of industrial relations.

By combining separate ideas into a new theory, I demonstrated that partnership is compatible with organization. As a matter of fact, an American variant of collective organization appears to be complementary to a German style of social partnership. It is by way of providing an opportunity and exercising influence at the same time that trade unions can benefit from a a cooperative industrial relations system. This work suggests that labour institutions have to stand by union-management cooperation on the understanding that the political, economic, and social environment can support such a relationship. The conclusion reached in this chapter challenges the idea that social partnership is quiescent and culminates in the fragmentation of trade unions. Section 2.6 proposed that labour institutions must support a cooperative relationship on the condition that the corporate environment is favourable.

In relation to union tactics, the balance between providing for old workers and recruiting new employees was not always the right one. Until very recently, the collection of statistics and the monitor of promotions had not been given proper attention. It was taking far too long for labour institutions to deal with the administration of these tasks and responsibilities and in particular to cope with the breakdown of centralized agreements. The emphasis, more recently, on business ethics indicates that these problems may have been resolved. Section 2.7 examined the decline of unionism and tried to determine if the late developments point to regeneration.

When a trade union is absent the desire for collective action between employees in unorganized places originates from their knowledge about the political, economic, and social environment, their understanding of industrial relations and the potential for collective organization in the presence of a recognized labour institution. Therefore, to increase their influence in unorganized sites trade unions have to identify what workers think about these issues, and with conference, try to persuade them of the advantages of unionization. This study recommends a number of new institutional policies. Labour institutions have to focus on non-unionized employees, inasmuch as they appear to be more receptive to collective action. Unorganized workers seem to be more sensitive to unionization when they consider the relationship with the managers as one that is not founded on general agreement, and when there is a lack of communication. Trade unions must decide on the course of action to be taken which should not be based on Human Resource Management because this is related to the decline in the desire for collective organization. Although they are not likely to harm unionization, works councils are more popular than labour institutions between unorganized employees. Trade unions have to take into consideration alternative ways to perform tasks and responsibilities so as to reinforce the desire for collective action. Finally, the desire for collective organization will also be dependent on a high membership. Section 2.8 argued that trade unions are necessary for collective action and they are not outdated organizations.

In Britain, generally speaking, the most important institutions of industrial relations are related to collective bargaining. However, in late years, collective bargaining has declined in the United Kingdom. According to the most recent survey data, in places with a recognized trade union, collective bargaining decreased from 86 per cent in the eighties to 67 per cent in the nineties (WERS, 2004). Nonetheless, company level agreements appear to have increased, for example through regular meetings for managers and workers and other

channels of communication (Poole et al. 2005). However, the distribution of profits, after an increase in the eighties did not change in the nineties, and there was a decrease in employee shareholding until the turn of the century (Millward et al. 2000). This situation drew our attention to another important issue that also had to be discussed in some detail. To what an extent is the gradual evolution of workplace relations resistant to change? Section 2.9 tried to address this question and supported the theory that organizational change can originate from a gradual evolution as well as a radical shift.

One more perspective is how American multinational corporations adjust to the workplace relations systems in Europe and how labour institutions respond to this, in other words, how the country of origin effect is mediated by the host country environment. I have explained why US multinationals have not conformed to the values and principles of British trade unions, although this is mitigated by the need to adapt to the national system of industrial relations. There are not many other studies, however, which examine in detail the organizational structure of a multinational corporation (Royle, 2000). There are practically no sources of information on how a single company policy is implemented in coordinated economies like Germany and France in comparison with liberal economies like Britain. A proposition for future research, is how the non-union culture of many American multinational corporations is adjusted to a host country environment that provides for unionization? An answer to this question is that in more coordinated economies US multinationals with a non-union culture are reasonably expected to seek alternatives to unionization such as mutual gains enterprises. Section 2.10 discussed the influence of American corporate governance on British workplace relations and labour institutions.

Finally, section 2.11 demonstrated the effect of European statutory legislation on British industrial relations and trade unions. Workplace relations systems are path dependent and difficult to replicate. The appearance of workers councils during the first quarter of the 20<sup>th</sup> century was the most advanced expression of the old proletarian movement, but it was unnoticed or forgotten, except in travestied forms, because it was repressed and destroyed along with all the rest of the movement. Now, from the vantage point of the new stage of proletarian critique, the councils can be seen in their true light as the only undefeated aspect of a defeated movement (Debord, 2006). The historical consciousness that recognizes that the councils are the only terrain in which it can thrive can now see that they are no longer at the periphery of a movement that is subsiding, but at the centre of a movement that is rising. There are probably lessons to be learned from the continental countries. If

British labour institutions follow the American way they will become isolated in the shrinking field of collective bargaining. On the other hand, it is very likely that they can benefit from works council type agreements like in Germany. However, the French example indicates there is not one best way to succeed, unless they are able to really benefit from these agreements. With reference to Germany and France the argument is that European style representation and participation can be transferred to Britain. The section demonstrated that there have been reforms in British Law towards multiple channels of advising and counseling and this is particularly important for both employers and employees. Furthermore, the execution of the EU Directive Establishing a General Framework for Informing and Consulting Employees is expected to have a much greater effect. To conclude, this reinforces the central argument of the chapter that social partnership and collective organization can be complementary because a multi-channel network of worker representation and participation with works councils and trade unions can support this organizational compatibility.

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# Chapter 3

## The Reform of Corporate Governance in France

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#### 3.1 A Dirigiste State in Transition?

In an effort to integrate the three cases and provide a comparative aspect, the chapter starts by locating this case study clearly in relation to arguments about different varieties of capitalism. Albert, head of France's largest insurance company and a former official of the Commissariat au Plan, describes in his book Capitalism vs. Capitalism the form of capitalism he would like to see, although he is uncertain about the likely outcome (Albert, 1993). He celebrates the fact that capitalism has triumphed as a system for organizing and mobilizing society's resources. But he emphasizes that capitalism has several distinct branches, and he strongly prefers what he calls the Rhine model, which dominates in Germany, Switzerland, the Netherlands, Sweden and in some respects in Japan, although it is being challenged in all these locations, to what he calls the neo-American model, which dominates in the United States and, in some but not all respects, Britain. The Rhine model, in Albert's view, is characterized by a long-term view of the future that affects both saving and investment, especially in people, and above all by a feeling of community solidarity that is reflected not only in co-operative labour-management relations but also in a willingness by the rich to be taxed to pay for a generous system of social security. The neo-American model, in contrast, creates the possibility of rapid increases in wealth by individuals, extols the results and adopts a devil-take-the-hindmost attitude towards less fortunate or less successful members of society (Cooper, 1994). France is suspended between the two models, tugged by the sirencall of the neo-American version with its strong emphasis on individualism, but unwilling to accept the full social consequences.

The chapter suggests that although typically liberal market economies like the United Kingdom have shifted to more individualistic and contractual relations, and typically coordinated market economies like Germany have shifted to less mutually reinforcing relations, dirigiste economies like France, as the title suggests, have transitioned from state-mediated to state-enhanced. Due to the fact that the academic literature is comprehensive about the differences between liberalism and corporatism, and that's why the different focus on the previous two chapters, here I make mention of Britain and Germany simply to direct attention to a debate on France as another alternative. I focus on France because it is representative of economic dirigisme in Europe, but also speak of other centralized governments as necessary to demonstrate that the case of France is not unparalleled. I start with a description of France's interventionist administration in comparison with the two other varieties of corporate governance and in relation to the current trends for economic

globalization and European integration. I subsequently make an effort, in a genuinely interdisciplinary way, to describe the transformation over the last twenty years in the political economy of France and the role of the government, in French public enterprises and money management, as well as in industrial relations and organizational operations. I also draw some useful conclusions on the capital structures of modern Europe.

Economic strategies were variable in Europe after the war. The Anglo-Saxon financial capitalism was defined by the spectator government of Britain which was not deeply involved in corporate governance (Grant, 1995). It tried to diminish its responsibility to deciding by arbitration, it delegated the fulfilment of rules and regulations to sovereign groups, although this did not prevent it from occasionally providing for businesses or from coming in as an external factor with the help of state sponsored organizations to provide for a particular purpose (Hall, 1986). The Rhenish network oriented capitalism was defined by the enabling government of Germany which was focused on providing for companies by way of economic support to keep down the price of commodities, encouragement for work directed towards the innovation and improvement of products and services, and passed the implementation of rules and regulations to social partners (Katzenstein, 1989). The state led capitalism of France, in comparison, was defined by a dirigiste government which made an effort to manage the economy by means of nationalized firms and employment programmes, for example, youth employment schemes for out-of-employment and lowskilled young adults, on-the-job training schemes, payroll tax subsidies for minimum wage workers, as well as all the methods the other two countries used to provide for enterprises, and the application of rules and regulations was the responsibility of government officials (Fougère et al. 2000; Hayward, 1973).

Table 1: Characteristics of the Post-War Varieties of Capitalism by the end of the Eighties

	Market Capitalism	Managed Capitalism	State Capitalism
	(Britain)	(Germany	(France)
Policies toward	Liberal	Enabling	Interventionist
Business	Arbitrator	Facilitator	Director
Policies toward Labour	Bystander	Bystander	Organizer
Inter-firm Relations	Competitive	Co-operative	State led
	Contractual	Mutually reinforcing	State mediated
Investment Sources	Capital markets	Banks	State
Time Horizons	Short-term view	Long-term view	Medium-term view

Goals	Profits	Firm value	National priorities
Management-labour Relations	Adversarial	Co-operative	Adversarial
Wage Bargaining	Fragmented	Co-ordinated	State controlled

Source: Schmidt, 2003.

The management-labour relations in Europe were also variable. In neo-liberal Britain, the relations between managers and workers were defined by conflict or opposition and collective bargaining was, for the most part, disintegrated. There was a lot of controversy on remuneration. Even though the spectator government perceived its role as unitarist or voluntarist in the arbitration of disputes, this did not prevent it from occasionally interfering in wage bargaining when the national currency was devalued or from reaching economic agreements in an unsuccessful effort to harmonize remuneration (Edwards, 1995). In neocorporatist Germany, on the contrary, the relations between employers and employees were cooperative and collective bargaining was mostly integrated. This minimized controversy and encouraged collaboration. What is more, the enabling government continued to be a facilitator as it was not necessary to interfere, considering wage bargaining, but also for the reason that its common law was quite different, not just from Britain, but also from other coordinated market economies, like Holland or Belgium, where government officials negotiate with chief executives and trade unionists as equals (Thelen, 2001). In state led France, in comparison, the relations between managers and workers were as oppositional as in Britain, but managers' organizations and labour institutions were well organized. Furthermore, the dirigiste government provided for collective bargaining and enforced agreements on remuneration when employers and employees were not able to strike a deal, therefore it directed wage bargaining and handled controversy more effectively than Britain but not as readily as Germany (Howell, 1992).

The differences in the three varieties of corporate governance are attributed not only to inherent organizational characteristics which stem from inconsistencies in the industrialized economies since World War II but also to national trajectories. They include the extent of responsiveness to global and European financial trends, the government's ability to recommend amendments in coordinated market economies, with institutions based on general agreement, like Germany, or to enforce them in unitarist societies, with organizations based on collective opinion, like Britain or France, and the government's

ability to introduce amendments by convincing the people not just of the need for adjustment but also of its relevance with regard to national standards (Scharpf and Schmidt, 2000). Table 2 illustrates the organizational change that took place in the three countries as a result of national trajectories.

Table 2: Changes in Varieties of Capitalism by the end of the Nineties

	Market Capitalism Managed Capitalism		State Capitalism
	(Britain)	(Germany)	(France)
Policies toward	More liberal	Still enabling	Newly enhancing
business	More arbitrator	Still facilitator	More liberal
Policies toward	More of a bystander	Still bystander	Newly bystander,
labour			moralizing
Inter-firm Relations	More Competitive	Still co-operative,	Competitive, end of
1 193	Contractual	but loose networks	state mediation
Investment Sources	Capital markets	Firm, capital markets	Firm, capital markets
		`	-
Time Horizons	Shorter-term	Less longer-term	Less medium-term
Transcore	view	view	view
Goals	Shareholder values	Stakeholder values	Firm autonomy
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Management-labour	Neutral	Still co-operative	Neutral
Relations		and the state of	
Wage Bargaining	Radically	Still co-ordinated	Radically
	decentralized		decentralized

Source: Schmidt, 2003.

Early in the eighties, the François Mitterrand Regime tried to increase competition by reinforcing the administrational centralism through a comprehensive programme of takeovers and reforms, prior to the partial withdrawal of the state from money management, by the late eighties. Governments following one after the other continued this strategy through liberalization, industrial reorganization, relations economic denationalization and the relaxation of corporate restraints. The good results were based on their ability to enforce amendments in the absence of strong opposition, and they were assisted by policies to win over the most afflicted sectors and to convince people of the need for adjustment and its relevance with regard to national standards (Schmidt, 2002). This incremental adjustment, eventually, transformed the state, which shifted from a mediating role to an enhancing role. In this manner, although the government aimed at the protection of financial organizations and the increase in the authority of firms, just like Britain, it also sustained its interventionist policies in an effort to protect the workers from the risk of the Stock Exchange, and tried to move closer to the German model of managed capitalism.

Deregulation, denationalization, and workplace relations reformation, at least partially transformed the character of the French state, by diminishing its responsibility which coincided with the liberalization of financial institutions and increased the authority of companies by providing for extra money resources. Of course the previous statement should not be taken out of context, globalization and the growth of the European Union have weakened the power of nations and the extent to which nation states can play solo in the world economy. Nonetheless, France continues to live a very French paradox; her schoolchildren are taught to despise capitalism, yet she remains the second largest trading nation in Western Europe. France boasts some of the world's leading utilities and transport and construction companies, and yet maintains a large public sector, employing 4 per cent of her labour force, that is to say 864,000 people in the country's 1,100 state-owned companies (Poirier, 2008). European Union directives which placed under control governmental subsidies to enterprises have restrained the national state. But in spite of the transformation, the government has not completely stopped to exercise power on employers and employees, when it is deemed necessary.

There are three areas in particular where the government has played a very important role, France spends 9.5% of Gross Domestic Product for the National Health Service, and spends another 7.1 % of GDP for education and government (INSEE, 2001). There are also three factors which can provide for an interpretation of the continuity of its effect, the large national revenue, its role in the appointment of managers in most of the state owned enterprises in which it still remains a major shareholder, and the more than five million workers either employed by the government or whose salaries are paid by the state. Even though it depends on the way we measure it the government was the employer of between twenty per cent and twenty-five per cent of more than twenty-five million working people in France at the turn of the century (Jefferys, 2003). These large figures demonstrate clearly that it persists as an influential power which makes it hard to disregard.

Regardless of the discrepancies and irregularities between the three largest European economies, the argument is that like in other parts of Europe an explicit organizational structure emerged during the postwar years which was a hybrid of democratic liberalism and developed capitalism that combined with state mediation in political, economic, and social affairs. It was a more restrained variety of capitalism, in comparison with the United States of America, and there was an environment where strategies and objectives varied from simply non-intervention to relative liberalization, and from government interference to

absolute dirigisme (Whiteside and Salais, 1998). This political, economic, and social environment of the postwar era was to become known as the Western European variety of capitalism by a large number of scholars who have been strongly influenced by Weberian political sociology which considered market exchange, rather than production, as the defining feature of capitalism (Bendix, 1978; Camic et al, 2005; Ho Kim, 2004; Kalberg, 2005; Mommsen, 1992; Swedberg, 2005; Turner, 2008).

Of particular importance are the differences in shareholding. In Britain, shareholders are scattered, and are predominantly small buyers and families, at fifty percent and thirty percent of all shareholdings in the Stock Exchange at the turn of the century (Vitols, 2001). In Germany, in contrast, are more concentrated with most of the shareholdings controlled by large blocks instead of small buyers and families, fifty-seven percent to thirty-five percent at the beginning of this decade, the typical definition of large shareholding or block holding, is that at least five percent of the outstanding shares of the company are held by the same owner (Vitols, 2003). France has almost identical rates, and a slightly larger concentration than Germany, not to mention Britain, fifty-eight percent and forty-two percent at the turn of the century (Jurgens et al. 2000). Even though this trend has subsided in both countries, it still persists as significant.

The main reason for mergers and acquisitions in recent years has not naturally been to satisfy the shareholders, that becomes clear by evidence which demonstrates that several successful enterprises are still owned and controlled by the government, for instance, France Télécom, or by institutional investors, such as, Axa, Cap Gemini, and Moet Hennessy Luis Vuitton (O'Sullivan, 2001). On the other hand, one of the main reasons for mergers and acquisitions has been competition strains for higher productivity, which is often included in the strategic objectives of enterprises and is usually given priority over shareholder value (Hancké, 2001).

That is not to say, nevertheless, that the discussion on shareholder value is simply cheap talk. Shareholder value is definitely a goal and a strategic objective of company policies, but not always the most important one. For example, companies often have to rely on direct investment. Firms which are quoted on the Paris Bourse are actually more exposed to the ups and downs in stock prices, which is confirmed by the difficulties of Alcatel and Vivendi recently. These companies are also susceptible to hostile takeovers as French shareholders are probably not as dependable as German shareholders, a hypothesis that is partially confirmed by the effort of BNP to acquire Paribas and Société Générale, which eventually

captured only Paribas. This justifies not only the debate on shareholder value but also the need to build up reliability.

The differences in production systems can be explained by the differences in industrial relations. Germany has the largest number of jobs in manufacturing and the smallest in the services sector between the three countries in comparison, Britain the opposite, with France nearer to Britain than to Germany (OECD, 2000). What is more, Germany always ranks high, France at a halfway point and Britain low in relation to job security, duration of agreements, and occupational standards (IMD, 2000). It is only in numbers of jobs that Britain does better than Germany or France. During the eighties and the nineties Britain halted the decline in GDP per capita and labour productivity, and partially closed the gap in income per capita with Germany and France, these gains were mainly because of a relative rise in employment, unlike its EU partners, Britain was able to achieve relatively high employment-population rates and rising real wages for workers (Card and Freeman, 2002).

In France, in particular, the large degree of job security is mainly because of long term contracts and funds invested in research and development, which support a capital structure of adjusted productivity, or flexible Fordism, based on high skillfulness, and high efficiency. French workplace relations, as a result, are distinct from the ones of British financial capitalism or those of German managed capitalism in relation to the character of managers, the versatility of workers, or the role of the government to provide for regulation (Schmidt, 2003).

Productivity, nevertheless, increased not just as a consequence of retraining but also as a result of downscaling, with several big companies making use of state sponsored voluntary redundancy schemes to regenerate their personnel. Some enterprises reduced the size of their workforce and expanded secondary contracts through the export of manufactured commodities. Furthermore, several large firms took advantage of the legislation on collective bargaining during the eighties to promote the participation of trade unions in decision making with regard to organizational operations by means of an improvement in communication mechanisms, where France is first in Europe, and used the thirty-five hours work time to support versatility (Scharpf and Schmidt, 2000).

France has faired very well in traditionally state controlled industries like energy sources, phone companies, airlines, and railways, where the modernization of organizational structures has come as a result of state sponsored, grand projects in which the relationship

between the government and the management is highly coordinated and the objectives are focused on technological innovation (Amable and Hancké, 2001). In other sectors, nevertheless, such as medicines, organizational change has come from abroad, in particular from American multinational corporations (Cantwell and Kotecha, 1997). The available data on the allocation of US franchises speaks for itself. While American franchises related to technological development in the United States have become three times as many since the nineties, from about 9% to around 33%, in Germany have expanded only to a small extent, from about 14% to around 20%, which is far less than in France. The United Kingdom compared to the other two countries, was at about 47% in the nineties, and has gone up to around 55% (Schmidt, 2003). But no matter how much French companies may have advanced against the British and the Germans, according to the evidence above, they cannot be a match for the Americans who are the leaders of this technological revolution (Amable et al. 1997).

French enterprises, are nowadays more independent than either the market-oriented British companies or the network-oriented German companies, let alone the French state-mediated enterprises of the recent past, but the French wave of privatizations did not cause a sharp departure from the old organizational structure as it generated a cross-shareholding system in which the state still exercises influence on the management of the economy (Bancel, 1999; Schmidt, 2003). On the one hand, French enterprises are more integrated than British companies because of the existence of hard cores of shareholders, and on the other hand are more open to the Stock Exchange than German companies due to the large number of shareholders from overseas. In spite of the partial withdrawal of the government, France continues to have a more powerful administration than Britain where the government basically works to protect the financial institutions, or Germany where the state simply tries to defend non-profit organizations. In France, the government persists in interference, although to a lesser extent, by way of low taxation policies, rules and regulations designed to make the market more competitive, and also wants to moralize industrial relations, however, sometimes its mediation has actually helped to to liberalize the political, economic, and social environment. What is more, France in comparison with Britain and Germany is defined by organizational operations which are based on relatively high expertise and range of services, a larger productivity and higher efficiency than the Germans, better skillfulness than the British, a greater ability than Germany for technological development, and a greater capacity than Britain in the modernization of organizational structures.

## 3.2 A Changing Role for the Paris Bourse

Academic discussion on business administration often emphasizes on the importance of large firms for the success of the economy and the prosperity of the society. In many countries big companies play a significant role in the political developments because they decide on issues like investment, commerce, and industrial relations. In other words, the allocation of resources by large firms has a great effect on the political, economic, and social environment. Corporate governance relates to the allocation of resources by big companies. In particular, the national network of business administration determines the amount to be invested by large firms, and how these resources are allocated (O'Sullivan, 2000).

Although the current debate has led into the development of several powerful theories on the determining factors of organizational structures of corporate governance, the connection between these theories and the recent and current developments is very unclear. It turns out that, some of these theoretical arguments are supported without any proof other than what skeptics define as bald assertion (Branson, 2001). In some cases only the most imprecise points are made to back up these theories. For example, the argument of the supremacy of shareholder value is simply based upon large scale economic factors like production per unit in the late part of the nineties. To the extent that comprehensive statistical data becomes available, it is usually to clarify well defined national trajectories of organizational change in networks of corporate management like the trend for companies in Europe to be quoted on stock exchanges in the United States.

The substantial participation of the French state in the ownership and administration of firms is commonly thought as one of the major characteristics of the economy of France. The state's involvement in the management of companies which were most important for the French economy started after the war when several firms were made national. A number of companies were selected for this purpose. Firms that were considered as essential for the restoration and progress of the French economy were nationalized. Companies owned by groups actively opposing the new order, or previously owned by the Vichy administration, also had to pass to the management of new employers.

The Second World War played a significant role in the formation of the French variety of capitalism which was defined by government intervention. The Vichy Administration during the war had directed the levels of wages, and recommended that all workers actively take

part in the corporatist organizational structure. The Work Charter that was enacted during that period of time required that in all places with more than one hundred employees a

Works Social Committee should be founded by delegates of managers and workers with a manager as the chairperson. (Frémy and Frémy, 2000; Jefferys, 2003).

It is possible that the main incentive for the government's role in the management of the economy of France was to a certain extent the conviction that the families in control of the French economy in the past were an obstacle to its progress. Nevertheless, the French upper classes were also convinced that a change in business ownership would not be enough for political, economic, and social recovery. Additional measures had to be taken, such as to improve the mechanical arts and applied sciences of France. In an effort to accomplish this, the government proposed a wide range of policies for the refurbishment of the French research and development institutes, and revised what is defined as the national system of innovation (Amable et al. 1997).

An important outcome of this interference in economic affairs was not only the secure management of the distribution of resources but also a strong reliance of by French corporations on loans for the subsidization of their activities. Scholars gave an account of the circumstances in a review of the interrelationship of the public money, the transactions of banks, and the organizational assets in France.

"Until the mid-1980s, the capital structure of French firms, compared to other countries, was heavily biased towards bank financing. Moreover, the banking system was at the core of the financial economy, operating, taken as a whole, as the agent of monetary, credit, and industrial policies and forming a cohesive unit under the direction of the Banque de France." (Bertero, 1994)

The most important characteristic of the involvement of the government in France with money management after the war was the extent to which it was achieved with the collaboration of powerful and influential persons. As scholars observed, one of the most effective instruments of this near symbiosis between a state apparatus receptive to the arguments of oligopolistic industry and large firms marked by the reflex of turning to the state for support has been the system of elite production through the grandes écoles (Chesnais, 1993). As a consequence, French big companies which were made national, and other large firms have been administered by managers with comparable expertise. In the nineties, fifty per cent of the Présidents Directeurs Généreaux of the one hundred biggest

corporations in France had obtained their qualifications from distinguished French Universities, the École Polytechnique and the École National d'Administration, in comparison with thirty-five per cent in the eighties. Most of the chief executives in France reached the top of private companies after work placements in public firms. Because of denationalizations, the significance of the State as the origin of Présidents Directeurs Généreaux increased and, in the mid-nineties about forty five per cent, as opposed to forty per cent in the mid-eighties, of the two hundred biggest organizations in the private sector were former government officials (Bauer and Bertin-Mourot, 1995).

When the Socialists came to power, worried about the absence of works councils from decision making, they made an effort to reform the French system of industrial relations, with the enactment of the Auroux Laws. This legislation applied to every firm with more than two hundred workers, it reinforced the authority of comités d'entreprise, and required that managing directors and trade unionists bargain in a certain way. The Auroux Laws were the cause and effect of the transfer of power from the central to the company level on the basis of greater local autonomy. With regard to collective bargaining, nevertheless, as trade unions experienced a decrease in membership, they did not succeed in the formation of an effective strategy for employee involvement. The average annual trade union membership between the seventies and the eighties decreased from about four and a half million to around three million.

In the nineties, it became evident that the infrastructure of business administration was transformed to the extent that the consistency of the French variety of capitalism was in dispute. What was going to substitute this infrastructure, nevertheless, was unclear. However, the existence of a solid organizational structure of cross-shareholdings which interconnected the French firms to one another appeared to be a large obstacle to a convergence to the Anglo-Saxon model.

For some scholars, the relaxation of the French cross-holding relations was the most important reason that eventually made the French model to shift towards the Anglo-Saxon variety of corporate governance (O'Sullivan, 2003). It made less difficult the invasion of speculators from abroad in the French financial markets. By the end of the nineties, international ownership amounted to thirty-five per cent in comparison with ten per cent during the eighties. In big French companies financiers from overseas accounted for even more. At the beginning of this decade, foreigners controlled the ownership of about fifty per

cent of Elf, forty-five per cent of Société Générale, and around forty per cent of AGF, Alcatel, and Générale des Eaux. (Morin, 2000).

An important mechanism in the interrelationship of the Stock Exchange and the French network of business administration was the increased use of dividends in the determination of wage levels. The significance of dividend yields in France, has increased since the early eighties and, in particular during the late nineties. Indeed, data selected for the years 1999 and 2000 by the French corporate journal L'Expansion, on enterprises which are quoted on the CAC40 display that the biggest corporations of France were number one in Europe and, at the worldwide level, second only to enterprises in the United States, in terms of dividends paid by corporations to shareholders. At the European level, big companies in Germany were a distant second to the French firms and the gap between the two countries was huge with French shareholders' dividend yields of much greater value than German stocks (O'Sullivan, 2001).

Another method to interrelate corporate governance with wage levels is shares held by employees. It was found by the Institut National de la Statistique et des Études Économiques, that worker shareholdings accounted for about seven hundred thousand, even though other sources claim that this figure is underrated. In agreement with an estimation by L'Expansion on the CAC40 enterprises, one million workers held shares valued at 30 billion Euros in the financial year 1999-2000. Although it would be more historically accurate to use the currency of French Francs when we refer to a period of time prior to the year 2001 all figures in this chapter have been converted to Euros simply for the convenience of the reader. Between the CAC40 enterprises, the amount of employee ownership in Société Générale was the largest, something that deserves special reference given the significant role that shares held by employees played in the resistance to a leveraged buyout by BNP (O'Sullivan, 2003).

This enquiry makes clear that the character of the Stock Exchange in France has transformed to a large extent. In fact, for many people its improvement is the most important characteristic of the nouveau capitalisme français. Despite that the Stock Exchange has recently come to be more influential in the French economy, it is still not as powerful as the financial markets of the United States or the United Kingdom. For instance, France had about eight hundred indigenous companies registered in the Bourse at the turn of the century, which is a large improvement on the sum of around six hundred during the eighties, but this is way below America or Britain. What is more, shareholding is very concentrated in

France as opposed to the United States or the United Kingdom where the small investors continue to exercise at least some influence on several big firms (Bloch and Kremp, 2001).

It is widely accepted that the Stock Exchange adds to the effectiveness of company assets distribution by way of making funds easily accessible to large firms. Although this is a standard opinion, as an argument it is probably weak. In a research article in the Journal of Financial Economics about financial markets and the allocation of capital scholars talked about our false impression of these issues not only in relation to the Stock exchange but the economy on the whole.

"A fundamental job of the economy is to allocate capital efficiently. To achieve this, capital is supposed to be invested in the sectors that are expected to have high returns and be withdrawn from sectors with poor prospects. For a long time and for many reasons, economists have suspected that formal financial markets and associated institutions improve the capital allocation process and thus contribute to economic growth. Despite this body of theory, there is little direct evidence on whether and how financial markets improve the allocation of capital." (Wurgler, 2000)

The hypothesis that the Stock Exchange supports an efficient allocation of resources in the economy has come to be unsustainable, at least as an argument that is subject to proof, and considering trends in shares bought and sold. To the extent that the value of shares in the Stock Exchange is exposed to volatility, the influence that small investors are expected to exercise on company assets distribution is essentially minimal. On the other hand, large investors often have the capacity to profit from favourable circumstances by readily obtaining large amounts of money.

Besides, there is a lack of evidence that the recent increase in the number of mergers and acquisitions in European countries, has happened because of investor control of the financial markets. To start with, only a small number of offers in France or Germany were hostile, something that is generally thought to be related to management discipline. What is more, it is unclear that these hostile offers were prompted by mismanagement in any of the firms involved. In fact, financial analysts have for a long while strived to prove the argument that shareholder power has an effect on the quality of management.

In some sectors, a period of prosperity in commerce during the nineties, was the reason for the emergence of several high tech businesses, the new owners were fascinated by the idea of merging with highly valued companies like Alcatel, Cisco, Lucent, and Nortel. However,

the effort made by Lucent to pass from an old economy to a new economy has caused it to be, as a result of the financial markets failure, in a declining position. What is of special prominence, despite the ups and downs of the Stock Exchange, is the emphasis by high tech companies on the maximization of shareholder value, that has also inspired them to spend more on highly qualified staff, and by means of exporting most of their mass production operations, to stop making arrangements for jobs or vocational training, for employees of low education and skills.

An explanation why the reformation was possible in France is that trade unions were not able to stop it taking into consideration the decreased membership and the small role played by works councils in decision making. Most significantly, nevertheless, in spite of opposition from some sections there was a majority view in circles of French politicians and executives that big companies had to go through a radical change if they wanted to survive in an international economy (O'Sullivan, 2003; Smith, 1998). That is to say, politics were very much determined by financial affairs.

In this section I have made an effort to demonstrate, for the case of France, that a long established network of business administration has gone through many changes. Possibly, the most important of these adjustments that recently took place in French corporate governance, particularly since the turn of the century, is the enlargement of the scale of commercial activities by the Stock Exchange. Although the French variety of capitalism persists as different from the one in the United States or the United Kingdom in relation to the importance of the stock market, the increase of its influence in recent years is substantial, at least from a historical point of view.

## 3.3 Flexible Fordism in a Symmetrical Relationship

This section is an effort to analyze the organizational change that has taken place in France. There is a view that the country is trapped in a complex network because it has not been able to remodel its organizational structure. The current and recent publications, nevertheless, indicate that the concept of trust, has caused the emergence of harmonious relations between big companies and their distributors, which can become the foundation stones of a successful network (Hancké, 2003). Note that the term distributors is preferred and used over the term suppliers to emphasize that after the organizational transformation

that recently took place in France these suppliers are defined as wholesalers who have exclusive rights to market, within a given territory, the goods of a manufacturer or company.

In their quest for versatility, the big companies in France pursued their way along a track that goes further than the old network of corporate governance and the incremental adjustment in industrial relations. The word versatility is used as a synonym of the word flexibility. Versatility and flexibility are valuable qualities in management. Beneath the versatility and flexibility is an ability to be both non-reactive and not attached to how things have to be. Versatility and flexibility are a pathway to speedy responsiveness. But the term versatility in particular also implies an openness, this openness allows the leadership to quickly change on a dime when necessary (Gordon, 2002). Nonetheless, it was not only the rationality of the chief executives that paved the way for these enterprises, it was the support of the distributors that led to an alternative relationship between them, which was also very important for such a radical change.

As French business had improved on the manufacture of goods which were no longer as competitive in a global economy, the barriers to regulation should have increased, and that would probably have resulted in many difficulties for the French model. Indicators on macroeconomic factors, nevertheless, are favourable, not including the amount of new jobs, which has been less than the OECD standards, the French capitalist economy since the beginning of this decade has been comparable to, and in several occasions better than its competitors. The data below, are percentages of large scale factors at the turn of the century, and display a fairly advantageous position for the French variety of capitalism.

Table 3: Economic Performance Averages (1999-2000)

**	GDP growth	Inflation	Unemployment	Productivity growth	Investment % of GDP	Exports % of GDP
France	2.4	1.3	10.4	1.5	2.0	24.7
Germany	1.7	1.4	7.3	2.5	1.2	27.1
Italy	1.9	2.9	9.8	1.5	1.9	26.3
UK	2.8	2.8	9.5	1.7	5.6	27.6
USA	4.1	2.5	6.3	1.6	9.9	9.1
Canada	3.6	1.8	9.6	0.8	7.2	40.5
Japan	1.3	0.2	2.5	0.6	-0.4	10.4

Source: OECD, 2000.

As a result of this growth and development in the economy of France during the postwar years, the distributors started to rely more and more on big companies. The delegation strategy of France during the sixties and the seventies culminated in developed and selfsufficient regions, and between the eighties and the nineties, many large firms came to be the focal points of indigenous work cultures, where the distributors were considered to be an integral part of the business (Veltz, 1996). At about the same time that the big companies were restructured, by the turn of the century, they were also advantageously positioned in regional industries, which helped them to decide on the level of adjustment. Besides, the relationship between the large firms and their distributors appeared to be based on consistency. Instead of manufacturing commodities in a way that depends on the competence of their distributors to provide for services, or adjusting themselves to the needs and requirements of local production systems, the large firms regarded their commodities as accumulations of a coordinated systematic range of services (Casper, 1997). This improvement in the distribution of commodities, was particularly important in the formation of an orderly organizational structure of local distribution networks. A local distribution network is defined as a local system of economic governance. Some scholars argue persuasively that there are different local systems in France (Culpepper, 2001). However, they also seem to agree that these local successes have little to do with the regionalization policies, but are exceptions that prove the rule that reforms fail if there are no strong local actors to carry them through. The regions, in fact, are relatively unimportant administrative actors in economic development.

As a consequence of these regional strategies, the big companies founded new zones of employment in remote French areas. Although this was partly related to the expensive workers in Paris and the nearby regions, some enterprises had settled well before the nineties in remote areas for their own reasons, for example Peugeot placed its most significant plants in the eastern parts of the country, Michelin was located in the interior part of the country close to Clermont-Ferrand, the aviation technology was based in the western parts of the country near Toulouse and Bordeaux after a political resolution was reached to place this sector a long way off the German frontier (Aniello, and Le Galés, 2001). Therefore, manufacturing and organizational operations became more decentralized, even though the new organizational structure was basically a strategy by the large firms to

succeed in avoiding aggressive employees, the disintegration of workplace relations, and their own capacity limitations.

What is different than in Germany or the United Kingdom is not that a handful of wholesale or retail distributors now control production processes in nearly every manufacturing industry. But as it was demonstrated by the workshop on Mutations Industrielles et Dynamiques Territoriales, aggregate industrial statistics suggest that in almost half of the twenty-two regions of France the three largest employers accounted for over ten per cent of all industrial employment and, with one exception, the top three firms for over five per cent of regional industrial employment (Hancké, 2000). In very few countries employment in an area of that size is concentrated in one firm.

The data by the Service des Études et Statistiques Industrielles in table 4 makes evident that the influence of the big companies is not an exceptional case that applies only to a small number of regions, but on the contrary it is a comprehensive network, which serves as an explanation for how the large firms were able to exercise influence all over the country. Note that the statistical definition of zone of employment is independent of the presence or absence of large firms. Due to the fact that the big companies were so influential in most of the regions, and inasmuch as the small suppliers were more or less unimportant, the local strategies of the large firms met with success. In many sectors they turned out to be the foundation stones of the reorganization of several big companies. Organizational change in France continued along a big company route to versatility, which combined old organizational frameworks of distribution systems, with modern organizational structures of corporate governance.

Table 4: Distribution of Large Firms per Travel-to-Work Area

Number of large firms	Total zones of employment	Percent
1	82	39
2	46	22
3	42	20
4	21	10
>4	19	9
Total	210	100

Source: SESSI, 2003.

Under the circumstances, the previously stagnant local distribution systems started to become more efficient. In comparison with years gone by, when the distributors were considered basically as agents for the resolution of regional problems, they now play a major

role in the quest for versatility by big companies, which first started in the eighties. The introduction of total quality management was instrumental in the recent and current developments. Renault was the first big company in France to use KanBan schedules, and other large firms had to follow soon (Labbé, 1992). During the nineties, all sectors where some kind of just in time delivery was used, like automobiles, computers, and machinery, started to have a different relationship with their distributors (Gorgeu, and Mathieu, 1993). Due to the fact that lean manufacturing brought about the restructure of local production systems, if the big companies wanted to avoid the extra costs of goods in stock, it was clear that their success was dependent on the ability of the distributors to deal with the new demands and requirements.

The background of the French political economy is defined by state intervention and public subsidies, and as recently as the nineties, the government was the most important player in French financial affairs. There was an increased apprehension, as a result, that big companies would not be able to make a successful comeback. Taking into consideration the historical developments, in reality, it was beyond any doubt that the restructure of the economy should be reasonably expected to happen through the government (Cohen, 1989). With the purpose of moving out of the unreliable and obsolete network in which they were stuck, ever since the French style of Fordism ceased to be the dominant model, the large firms needed more than incremental adjustment (Hancké, 2003; Howell, 1992).

In addition to an expansion of the standard economic assistance to big companies, a local distribution network was founded, which was visualized as the pendant of national corporate governance, that was able to realize far-reaching objectives in several regions. The policies tried to combine the diffusion of consultation and the advance of mechanical arts. Institutes of applied sciences were renovated, and the Ministry of Industry delegated some of its tasks and responsibilities to administrative departments such as the ADEPA, ANVAR, and DRIRE (Levy, 1999). Moreover, the decentralization of administration facilitated the exports of large firms, the Ministry of Foreign Trade and the Direction de l'Industrie, de la Recherche et de l'Environment played a particularly important role in this effort (Greffe, 1992). Besides, vocational training was also decentralized, allowing the big companies to adjust the central network to regional standards. Moreover, subsequent to the economic reorganization of large firms during the eighties, another effort was made during the nineties to further improve the allocation of resources and bring institutional investors closer to underfunded small and medium enterprises (Chanel-Reynaud and Cieply, 1996).

Finally, the connection of the regions to the central network was authorized by means of written or spoken agreements, which combined regional and national aspirations.

The case study of Renault, illustrates that the firm managed to increase its assets by improving its relations with the distributors. Although Renault arranged this on its own, the refurbishment of the local distribution systems would have been more difficult with no powerful subcontractors (Freyssenet, 1998). Government organizations like the Délégation á l'aménagement du Territoire et de l'action Régionale and other organizations such as the MIRE, were requested by Renault to provide technical support for the distributors. Apart from this, Renault devised a control mechanism, which carefully monitored how the most significant distributors were doing and enforced strict rules and regulations upon them (Hancké, 2003). This fusion of internal and external strategies allowed Renault to achieve its objectives, most importantly to improve its productivity in the regions.

An enquiry into the public sector and business such as the Electricité de France indicates that they were mostly dependent on local revenues provided by the government for their organizational modernization. In relation to its business partners, EDF exercised its monopolistic influence to support them, and was able to rely on its increased authority conferred to it by the state. Special requirements were made by the firm through AFNOR, the industry regulator, and through AFAQ, another government organization (Hancké, 1998). In this way, the company improved the technological infrastructure of its business partners, so that they were able to meet the special requirements enforced on them by the firm. What is more, because of the reorganization of the company, some of its plants had developed into self-sufficient units in several agricultural regions, which made the government to take into consideration the increased importance of the firm and its great effect on the economy (Duclos and Mauchamp, 1994). The company also used its own resources, and focused on areas of special expertise, always in close cooperation with the state. As a result, the firm was able to enforce stringent rules and regulations on its partners such as the RTE, which acts as an independent administrator, and on its distributors such as GDF Services, a subsidiary of Gaz de France, and also assisted them to comply with them.

Some particularly important arguments flow from this analysis. Our suggestions apply to the essence of economic management. It wasn't a long time ago that any interpretation of organizational change in France was based on the concept of a state that was in control of the financial affairs, for example Steve Jefferys in his book liberté, egalité, and fraternité argues that in spite of the increased significance of foreign direct investment, the French

government remains at the centre of capital management. Although it is debatable now that this argument may have been an overstatement, its lasting legacy provides for an analytical tool for the explanation of the recent and current developments. To understand the role of the state in organizational change in France we have to differentiate between dynamic and flexible strategies. I can personally accept that the government still plays a significant role in France because of its health and pension systems, voluntary redundancy schemes, reduction of working hours, adjustment of wage levels, technological innovation, and the state is also responsible for corporate regulation (Trumbull, 2001). Nevertheless, the dynamic policy, the steering of financial affairs, that has traditionally been related to the French variety, is not any longer the responsibility of the government. By contrast a flexible policy was selected, the state retreated and the leadership passed on to the big companies which are now the main actors (Hancké, 2002).

The large firms, in spite of the shortage of organizational resources, and the deficiencies of the organizational structure, succeeded in the construction of an effective system, which has also been the reason for the success of the west of Germany and the south of England in recent years. By combining the transfer of power from the central to the local level, and through intimate relations with distributors, the determinants of prosperity in Germany and Britain, with the orderly variety of capitalism in France, the big companies found another way to versatility. To conclude, countries which are not necessarily equipped with a solid regional infrastructure may also be capable of organizational efficiency.

#### 3.4 Radical Taylorism by the Regulation Theory

The usage of scientific management has been the basis for many later management philosophies, including management by objectives, operations research, critical success factors, key performance indicators, balanced scorecard, just-in-time, lean manufacturing, total quality management, six sigma and business process reengineering (Champy and Hammer, 2003; Deming, 2000; Drucker, 2006; Kaplan and Norton, 1996). The applications of scientific management were a contrast to modern business or management methods. They were also a contrast to old-fashioned, inefficient industrial environments. Taylor was pragmatic and he was a strong advocate of learning-by-doing. Contrary to today's theorizing, hypothesis formation and testing, the one best way came from the workers, not from the managers or owners (Kijne and Spender, 1996). Some scholars saw Taylor as the creator of

knowledge management, because the aim of scientific management is to produce knowledge about how to improve work progress (Drucker, 2008).

The process of scientific management was to replace rule of thumb work methods with methods based on a scientific study of the tasks. The steps in scientific management were to select, train, teach and develop the most suitable person for each job, again scientifically, rather than passively leaving them to train themselves. Taylor's scientific management consisted of four principles. Managers must provide detailed instructions and supervision to each worker to ensure the job is done in a scientific way. Divide work between managers and workers. The managers apply scientific management principles to planning and supervising the work, and the workers carry out the tasks.

The strengths and benefits of scientific management can be defined as follows. Taylorism was one of the first formal divisions between workers and managers. It contributed to efficient production methods, leading to a major global increase of living standards. It focused on the individual task and worker level in a manner comparable to business process reengineering (Champy and Hammer, 2001). It directed reward mechanisms for workers rather than pointless end-of-year profit sharing schemes. It was systematic and an early proponent of working standards. It suggested schemes for workers, who should be rewarded by cash premiums. There was an emphasis on measuring, as a means to enable improvement. It was pragmatic and useful in times and circumstances related to shop management (Taylor, 2007).

The disadvantages and limitations of scientific management can be described as follows. Taylorism can easily be used to exploit human beings. It conflicts with labour unions. It is not useful to deal with groups or teams. It leaves no room for individual preferences or initiative. There is an overemphasis on measuring and there is no attention for soft factors. It is mechanistic and treating people as machines. There is a separation of planning function and doing. There is a loss of skill level and autonomy at worker level. It is not very useful in current knowledge worker environments, except as an antithesis.

This section is another effort to further analyze, from a different perspective, the organizational change that has taken place in France. Taylorist modes of operation have transformed the character of industrial relations and the participation of workers in decision making. Instead of the rejection by employees, Taylorism, has come to be one of the keywords for scientific management. It tends to the opposite of an autocratic and low

expertise organizational structure, and it is meant to provide for partnership and security (Taylor, 2006). It focuses on the mitigation of controversy through the use of educated administrators, the Taylorist managers. However, the tasks and responsibilities of these administrators are now disregarded in the latest version of Taylorism. It is, nevertheless, as a result of their efforts that its political, economic, and social success can be explained. Unless it becomes clear what is important about the principles of scientific management, those who hope to get away from it are in danger of recreating it, or reconstructing its undesirable effect that they need to avoid (Appelbaum, and Batt, 1994). This is what I personally describe as theoretical rigidity. A possible solution for the problem of the recent disintegration in workplace relations can be found in a postmodern Taylorization.

We have to understand the complexity of such an enquiry. For scholars it is difficult to combine the separate theories into a coherent whole which recognizes the concept of the diversified nature of financial interests in the economy. Our theoretical knowledge originates from the predominant ideology on politics, the economy, and the society (Gephart, 1996). Political science is particularly conscientious in several Anglo-American writings, and this also applies to some of the French academic literature, for example the école de la régulation. The research on published and unpublished material provides for a different interpretation of the recent and current developments which is based on an effort to restructure a universal grand design. Some writers influenced by the regulation school have been trying to substitute the neoliberal doctrine with an employee grand design of industrial relations, and accordingly, of international cooperation (Besson, 2000; Schwamberger and Yami, 2000).

The école de la régulation is a group of authors on politics, economics, and sociology whose origins can be traced in the decade of the seventies when inflation and economic stagnation occurred simultaneously and remained unchecked for a period of time in France. The term regulation was coined by Frenchman Destanne de Bernis who aimed to use the approach as a system theory to bring Marxist economic analysis up to date (Boyer, 1990). They are influenced by structural Marxism, the Annales School, and institutionalism among others and sought to present the emergence of new economic forms in terms of tensions existing within old arrangements. Since they are interested in how a historically specific system of capital accumulation is regularized, their approach is called regulation approach or regulation theory. A Theory of Capitalist Regulation: The US Experience is the book that

originated this approach which was later popularized as a theory by many other writers around the world (Aglietta, 2001).

The philosophical, and even radical, origins of the dissertations of some of those authors demonstrate clearly an economic determinism at the second level (Bernoux et al. 1987). As Gramsci is cited several times by them, a good knowledge of his writings, in which, directly from the original source, the concept of Fordism is analyzed, is very helpful. We can find in Gramsci an interpretation of Taylorism which is based upon the idea of hegemony and appears to be, to some extent, a way out of the theoretical rigidity of worker disempowerment propositions (Gramsci, 2000).

A more detailed analysis of these theses and dissertations helps us to understand those aspects of management which were not covered by the classical version of Taylorism. We find out organizational operations which are frequently informal and distant from the official organizational structure. These findings indicate that Taylorism has probably not been extensively researched, at least in France, in the absence of methods currently used in sociology and ergonomy (Chouraqui, 1994).

A standard description of the character of French business administration emphasizes on its ability to adjust to diversity. The organizational operations have traditionally been defined by a Taylorist approach. The potential for continuous progress, innovation and versatility has been remarkable

"That which we call no consensus cooperation, with many different, more precise, forms, seems to have been the main characteristic of the relationship between organizers, workers, and lower, and middle management. It is to be emphasized that Taylorian organizers had no hierarchical responsibilities. In this sense, they were not managers." (Besson, 1996)

Another finding of our enquiry is that this cooperation was not limited to occasional meetings or unofficial relations. The Taylorist managers respected the education and expertice of the employees. They included qualified and inexperienced workers alike in the process of decision making and both had a role to play at the workplace.

"Through concrete processes of local and informal transactions, for an example into informal labour practices, see Finley and others, processes we term micro-negotiations, an actual Taylorian rule is constituted, which is not possible to simply interpret as mechanical productive order." (Pavé, 1993).

The Taylorist theory of management is a concept which primarily focuses on ideas of disempowerment. These ideas draw attention to the issue of controversy at the workplace (Boje and Rosile, 1999). The Taylorist theory also focuses on dealing with industrial dispute. It must be taken into consideration that the attitude of the organizers is not determined just by the economic-corporate environment in relation to regulation. The new style of corporate governance is built upon a regulationist concept of economic control which is based on the diversity of financial interests, especially between big companies. This idea is founded upon the idea of leadership. The argument of the emergence of a new variety of corporate governance implies that theories can be provided through interpretations which are not necessarily based on empirical data. Basically, reality is beyond the scope of political science. The political, economic, and social factors are examined by analytical instruments which are incarnated theories (Besson, 2000). This information subsequently becomes constructive explanations of our relation to reality.

The revival of the Taylorist design is partially confirmed by the recent and current developments in labour institutions. Trade unions in France have traditionally been defined by the objection to the Taylorist organizational structure. I argue that there may have been a connection between the decline of Taylorism and the enfeeblement of labour institutions, although some scholars, on the other hand, suggest that Taylorist and Neo-Taylorist principles of management persist (Hofstede, 1984). It makes sense that Hofstede's book is used to reference the nature of French management's connection to Taylorism because Hofstede's work on culture is the most widely cited in existence by contemporary academics all over the world (Bond, 2002; Jones, 2007). However, this connection has now become evident in the indifference of trade unions and, in my opinion, is a turning point for the progress of workplace relations and the reformation of Taylorism.

In fact, the legislation has introduced a process of work-time arrangements which helped the implementation of the thirty-five hour week. This was supported by the preservation of the organizational structure of the eighties which facilitated the revision of collective bargaining, and it was further supported by the Robien Act in the nineties. Though this was not against the statutory legislation on industrial relations, it emphasized that settlements are reached at the company level. In this way, it helped the formation of an organizational framework of decentralized bargaining without necessarily collective representation and participation. Therefore, we can observe the reconsideration of the exclusive control of

negotiations by the large labour institutions. At this stage, the Aubry Act makes the decentralization of workplace relations much easier to achieve.

The case-study of Protex is very useful, the low quality of manufacturing had started to become an obstacle to the organizational operations of the firm. As a consequence, the chief executives made an effort to reform the raison d'être of the company, they basically tried to decrease working hours, and to meet with any requirements in relation to versatility and independence, in accordance with the law and modern human resource management.

"The negotiation permitted the reinforcement of work organization in relation to management strategic targets posed in terms of employees' responsibility and autonomy. In this way, the new production system shaping appears to be more rational and more efficient. Moreover, this adjustment has led to a decrease in hours worked per week and to an improvement in working conditions. On the whole, those concerned came out satisfied with the organizational change after having tried it." (Schwamberger, 1999).

The case-study of Typhoon is also useful, the board of directors were favourably disposed towards the construction of a winner-winner arrangement in the negotiations on working hours and wage levels. For this purpose, works councilors and trade unionists were given tutorials on organizational operations and team work. A large number of issues such as collective bargaining, social security, welfare schemes, and health services were also discussed in these seminars. As a result, a coalition comprised of three parties, was founded. The parties arranged regular meetings, which lasted for about a couple of months, and eventually they were able to reach a settlement.

"This complex mechanism allowed workflow to vary according to flexibility needs, in particular to the production launching. Thus the firm has succeeded in developing an ideal organizational structure for this new job which has led, in particular, to a significant decrease in storage costs. Moreover, as far as human resources are concerned, the agreement created employment and reduced the need for casual labour. Typhoon succeeded in stabilizing its internal staff in order to better employees' competence and polyvalence. In this respect they are satisfied with the agreement". (Yami, 1999)

Apart from these particularly important developments we have to draw attention to the significance of the decentralization of collective bargaining. The chief executives also express unreservedly the importance of working hours. The government is sometimes close to the board of directors or sometimes near the works councils and labour institutions on those

issues. As a result, the process of collective bargaining is not determined just by the managing directors or the employee delegates, in several cases there is state intervention. This discussion contributes to the emergence of a new attitude in industrial relations.

The reformation appears to have been an immediate shift from the traditional organizational structure of the work scientific organization (Schwamberger and Yami, 2000). Therefore, in my opinion, there is not one best way, to organize workplace relations. Besides, the reorganization also includes work redistribution pacts where every company can pick the most suitable organizational structure according to its particular circumstances. These developments are of particular importance for collective bargaining, and we note that workers are becoming more involved in decision making especially, in relation to working hours. As a result, the organizational operations are not likely to become disintegrated. Last but not least, the successful resolution of industrial disputes indicates the deficiencies of the old design.

My argument is that a French style of Taylorism, with its complicated and antagonistic character, seems to be developing into a contractual model, which emphasizes on coordination and consensus. The case studies analyzed above support this argument. Labour institutions, historically, have been instrumental to the decrease of working hours and the increase of wage levels (Guedj and Vindt, 1997). The Aubry Law that was enacted in the late nineties, offered a good chance to trade unions for the improvement of collective bargaining and the emergence of innovative institutional policies. These organizational policies try to reconcile Taylorian values with the growing demand for versatility.

#### 3.5 The Emergence of Entrepreneurial Culture

The academic literature which tries to interpret the emergence of the New Public Management or new entrepreneurialism can be defined as business-centric (Saint-Martin, 2000). The rise of the New public Management in business administration is commonly thought as the result of a gradual evolution that does not relate to the government but originates from the efforts of some of the most creative and energetic organizational entrepreneurs. Due to the fact that the New Public Management stems from merchants and industrialists, and because this concept has been transferred to public administration on the shoulders of managers coming from companies of the public sector, the emergence of an entrepreneurial culture is attributed to a wave of privatizations. According to this

explanation, politicians are in a greater or less degree a sleeping partner who usually fall behind the current developments in the private sector on which they exercise no great influence.

"We believe TQM is the best, and perhaps the only, method government can use to meet new challenges. We hope this book will help promote TQM in government, because we see it as the best way to improve public services, and get more output for the dollar." (Coopers and Lybrand, 1991)

Based upon the propositions of historical institutionalism, the interpretation provided in this section offers a state-centric description of the emergence of an entrepreneurial culture since the late eighties and the early nineties (Steinmo and Thelen, 1992). Accordingly, it draws attention to the deficiencies of strategies, in an effort to explain the preceding circumstances to organizational change in relation to Total Quality Management by analyzing theories traditionally found in production systems (Weir, 1992). The managers in the areas of corporate governance and production systems appear to have more or less identical views on institutional reforms. In relation to organizational change in France, this issue has gained a lot of importance, especially after the appointment of New Right politicians during the nineties, who think that nationalized firms are inferior to privatized companies and have tried to refurbish these firms by using standard organizational operations of the private sector. As the political, economic, and social environment encourages the state to become business-like, and as this philosophy minimizes the discrepancies and irregularities between nationalized companies and privatized firms, the distinction, both theoretical and practical, that is made between corporate governance and production systems has also become less evident. And as I will demonstrate, this allows for common policies to be made across the two disciplines and for professional advisers to assist the transfer of concepts of Total Quality Management from the privatized companies to the nationalized firms.

During the last twenty years, Total Quality Management has been a success story in business administration (Legge, 2001; Saint-Martin, 2001). The rise of Total Quality Management in Europe came as a result of American enthusiasm for Japanese production systems which proved themselves to be very efficient in the international economy of the seventies and the eighties. More recently, industrial policy came to be regarded as the main reason for Japan's increasing productivity and, it stands to reason that the Japanese variety of manufacturing started to disseminate into western countries (Pastor et al. 1998). The pioneers of Total

Quality Management were experts in engineering, they are widely recognized as the ones who drove the process of modernization in Japanese manufacturing (Deming, 1982). The most fundamental principle of Total Quality Management is the support of a system that keeps in check the standards of manufactured products by testing a sample of the output against the specification, and by facilitating every worker to take the initiative.

"A broad scale approach to changing an organization's entire culture to focus on establishing and maintaining high standards of quality, especially with respect to meeting customer expectations. The key to TQM is to serve the customer, whether the customer is internal to the organization or someone outside." (Denhardt, 1991)

The public servants in France, by means of formal announcements and communications to third parties, helped the promotion of Total Quality Management and were major advocates of its dispersion all over the country. The French government also recommended Total Quality Management as the way forward to a global economy.

Following an election based on a typically centralist or dirigiste ideology, the Socialist Party shifted its economic policy from Keynesian interventionism to a more stringent management of public money, as France also had to implement the rules and regulations decreed by the European Union in relation to the free movement of goods and services, the abolition of trade tarrifs, and the integration of capital markets (Hall, 1990). Subsequent to the resignation of Prime Minister Mauroy and a number of communist members of parliament, the French state embarked on a great U-turn in the public administration of financial affairs and proposed a strategy of competitive disinflation to minimize the shortage of public funds, which had escalated as a result of the number of nationalized companies in the recent past. This change in politics heralded the dawn of a new era from a state led economy to a more liberal one (Schmidt, 1996).

In the eighties, the Ministére de l'Industrie made an effort to promote the concept of Total Quality Management. For example, the ministry established the Fonds régionaux d'aide aux conseils, or the Regional Funds for Aid to Firms Calling on Consultancy Services, so as to subsidize the work of smaller businesses and facilitate them to use professional advisers so that they can improve their organizational operations. As soon as it was founded, The FRAC started to assist small and medium enterprises by using experts in the area of Total Quality Management. On the whole, forty per cent of the funds subsidized by the FRAC were meant for programmes in relation to Total Quality Management. During the nineties, about 3,000

claims for FRAC subsidies were sanctioned and more than 25 million Euros became available for consultancy services and other FRAC related programmes.

The Fonds régionaux d'aide conseils are managed regionally. They are responsible for the tasks and responsibilities delegated to the regions as a result of the devolution strategy, which conveyed from Paris to the provinces political authority in a number of areas such as budgetary control, technological innovation, and civic institutions (Schmidt, 1991). The eighties delegation policy provided public administration with extra revenue by means of more subsidies and allowances. As a consequence, the economic power of the regions has become far more significant than it used to be. Public administration spending increased from about 45 million Euros in the eighties to more than 90 million Euros in the nineties. Because of this devolution strategy, small regional business extensively used the assistance of professional advisers to modernize their organizational operations.

Whether the practice of consultation creates greater wealth, as its advocates claim, or results in chaos, as its opponents suggest, is something that has to be debated. What this demonstrates, nevertheless, is that the practice of consultation is a greatly challenged area of expertise. By taking into consideration some well known publications like the Witchdoctors, Con Tricks, or So-Called Experts we can understand that professional advisers are often not worthy of belief. Even though there is such a diversity of opinions about the practice of consultation, the government in France has taken a side in this controversy by including professional advisers in its plans for the improvement of corporate governance and production systems. In this way, the French government played an important role in what political science defines as social legitimation vis-á-vis professional advisers (Alvarez, 1996). We have to emphasize on the legitimacy in the practice of consultation since it is not officially acknowledged as an occupation. In contrast with other areas of expertise such as law and accountancy, the role of professional advisers is not recognized by an institution or organization which authorizes as proficient the ones with the appropriate skills. The prejudice against them is deep-rooted. Professional advisers are usually considered to be unreliable. The expertise or knowledge they claim is often questioned which makes it difficult for customers to rely on them. Because of the absence of occupational recognition which can help the practice of consultation to overcome this common difficulty, the role of the government in the legitimation of professional advisers is particularly important. This process of legitimation should be based on two different methods, the support of the

government in the area of production systems, and the use of professional advisers in a way that facilitates the transfer of Total Quality Management to corporate governance.

After the delegation of tasks and responsibilities, as a result of the decentralization, the regional councils started to use the services of professional advisers in an effort to realize the potential of the new organizational structure and take advantage of the increased authority from Paris. Some of the most significant professional advisers in public administration are companies such as Bossard, CEGOS, Ernst & Young, and Price Waterhouse. CEGOS was the largest firm of the sector until daughterly companies of parent corporations from the United States like Kearney and McKinsey were established in Paris during the sixties (Cailluet, 2000). In agreement with the directors of Price Waterhouse in Paris, most of the local authorities have started to use the services of auditing and consulting firms to advise them on certain areas (Paquier and Townhill, 1991). French companies such as Bossard and CEGOS were among the founders of Local Collectivities Division in an effort to expand all over the country (Saint-Martin, 2001). The practice of consultation came to be so important during the seventies that professional advisers started to arrange meetings every year known as Collectivité locales, du bon usage des consultants, with the purpose of exchanging ideas and emotions in relation to public administration (Chirot, 1993). In the eighties and the nineties, a number of academic journals, which are popular between public servants, published several articles on how to form a good relationship with professional advisers.

Following a debate in parliament, the Minister in Charge of Administrative Reform pledged that the government will promote Total Quality Management in the public sector (Chevallier, 1988). Later on, the Association français des cercles de qualité founded a Civil Service Group in an effort to research the diffusion of TQM from the private to the public sector. The implementation of these policies was made even easier after the victory of the conservative party of Jacques Chirac when the state authorized the practice of auditing and consulting so as to help the AFCERQ to rebuild public administration.

With the assistance of professional advisers the policies of the government were focused on the empowerment of local officials, the decentralization of managerial tasks and responsibilities, the cross-departmental transmission of information, and the modernization of civic institutions (Barouch and Chavas, 1993). The strategy and objectives of the French government were greatly affected by Total Quality Management. The focus was on the use of administrative statements to specify standard organizational operations, the practice of

quality control to monitor the provision of products and services, the presence of voice mechanisms to make communication less difficult in public administration, and the interrelation of personal achievement and bonus schemes by means of performance contracts (Rouban, 1989).

In this section I have tried to display an interdisciplinary perspective which emphasizes on the complementarity of production systems with corporate governance in the process of innovation in management. To understand the emergence of Total Quality Management in corporate governance, it is of particular importance to analyze the evolution of production systems. The research in one discipline usually tries to explain organizational change by enquiring into the recent and current developments in relation to that same discipline. The research in public administration, for example, will enquire into the institutions that exercise influence on decision making and into what policy makers have done in these organizations in the past, while other research, for instance, will study how incremental adjustment in the privatized companies was influenced by the preceding circumstances in the private sector (Goedegeburre, 1993). Business strategy is often determined by path-dependency but this can also turn to path-departure when clear objectives are defined, and they are not based on the same field of knowledge but on various disciplines.

Therefore, in an effort to reorganize the nationalized firms according to the principles of Total Quality Management, the government did not only emulate the private sector, because in relation to TQM, the privatized firms were, to an extent, managed by the state. The rise of Total Quality Management is not simply an account of the recent and current developments in business administration. This is not just a narrative of prosperous business(wo)men who rely on their ingenuity, talent, and inspiration to increase the profitability of their enterprise. It is an account of important events which are business related but emphasizes on governmental mediation and statutory legislation.

### 3.6 Expansion of the Multinational Corporations

The emergence of entrepreneurial culture that was discussed in the previous section is arguably related to the internationalization of the economy. Scholars suggest that the globalization of the economy is also responsible for the decline of the domestic government, an escape from the categories of the national state (Beck, 2000). They indicate that although the domestic government was a pillar of strength for the home economy, the

internationalization of the economy has impaired the national state because different social circles, communication networks, market relations and lifestyles, none of them of any particular loyalty, are responsible for the decrease in the influence of the domestic government (MacLean et al. 2001). The diminution of the national state, too unimportant for the difficult matters, though too important for the simple questions, can facilitate the emergence of a complex system of international agreements and global business (Bell, 1987).

Table 5: Mergers and Acquisitions, Total (1990-1998)

Global (\$ billion)	Europe (\$ billion)	France (€ billion)
M&A	M&A	M&A
2,400	325	128
Increase	Increase	Increase
+50%	+49%	+32%

Source: L'Expansion, 1999.

Nevertheless, other scholars call these arguments into question, and they think of internationalization as an approach to flexibility (Hay et al. 1999). According to them, globalization materializes through the national state, it is encoded and authorized by the domestic government (Panitch, 1996). Indeed, the internationalization of the French economy appears to have been directed by the national state. It increased rapidly as imports and exports totaled between forty-three percent, and forty-five percent of GDP in the early nineties, and forty-seven percent and fifty percent in the late nineties. Nonetheless, these figures are still below the ones of Britain or Germany, what is more, the difference in comparison with Britain has become even larger (Milner, 2001). Something else that also suggests an increase in the influence of globalization, money invested from abroad, appears to be more favourable and is probably related to the reorganization of the big companies. Between the eighties and the nineties, money invested from abroad increased to a large extent and France was near the top, just below the United States of America, in relation to profits from buying and selling shares of multinational corporations (Houdebine and Topiol-Bensaid, 1997). In this way, the internationalization of the economy thoroughly transformed the character of the large firms in France, whose attachment to the domestic government had already started to become less tight since the eighties.

Table 6: Mergers and Acquisitions, Cross-border (1990-2000)

Global (\$ billion)	Europe (\$ billion)	France (€ billion)
2100d1 (\$ DIIII011)	Europe (3 billion)	
M&A	M&A	M&A

n/a	100	44
Increase	Increase	Increase
+69%	+67%	+85%

Source: L'Expansion, 2001.

The French upper classes are renowned for their influence and their ability to retain their political, economic, and social authority regardless of regulation or deregulation (Windolf, 1999). In Marxist political economics, the upper classes refer to that segment or class of society that has the most economic and, only in second line, political power. Under capitalism, the upper classes, also known as bourgeoisie, consist of those who own and control the means of production and thus are able to dominate and exploit the working class, getting them to labour enough to produce surplus-value, the basis for profits, interest, and rent. Denationalizations supported the unity of the upper classes because of the emergence of noyaux durs, who are defined as hard cores of well-organized financiers to reinforce the protection from speculators, especially from overseas, and to concentrate the ownership and control of enterprises by an exclusive society usually related to important politicians (Bauer, 1988). But more recently, some of these noyaux durs have broken up, apparently not able to hold out against the forces of globalization, which draws our attention to the controversy on the stock exchange, that is the need to trade shares which are not highly competitive in international money markets becomes stronger when chief executives are not only French but also Europeans or Americans (MacLean, 1997). What is more, the number of directorates a single entrepreneur can hold, has been reduced to five which has restrained even further the interlocking shareholdings that have always been thought as an inherent characteristic of the French model (Marini, 1996). In brief, how are the French upper classes and big companies dealing with the adjustment to a political, economic, and social environment of globalization?

The academic debate during the eighties was responsible for the main argument during the nineties, the internationalization of the economy and the integration of Europe are something that we all have to live with. Nevertheless, this general agreement was not founded on collective opinion, which became evident in the general vote on the Maastricht Treaty. Jacques Chirac's renunciation of la pensée unique, had caused a dilemma between two alternatives, flexibility and protection, that defined French corporate governance and industrial relations until recently, and also shaped Lionel Jospin's policies which were comparable to Tony Blair's Third Way. Although it is possible that the two politicians would

disagree with this statement, this is a point of view that is shared by some British scholars who are equipped with the advantage of a comparative approach through several publications on modern and contemporary France. (MacLean et al. 2001; Milner, 2001).

The reorganization of the big companies, as a result of the globalization of the economy, rises a number of questions, for instance, have the enterprises founded an accounts commission and works council, as proposed by the Viénot Report? What is the organizational structure of these commissions, does this indicate a shift to more flexibility, to include less restrained outsiders, or are these commissions exclusive to executives from inside the corporation? Does the organizational structure of these commissions support the practice of mutual relations within the company, and are these relations similar to the ones that can be found between directors? Besides, do French enterprises have a dual system, typical of the German variety, or a uniform system, with a Président Directeur Générale, in whom the roles of chairperson and manager are fused? The first emphasizes on accountability and responsibility, whereas the second indicates that strong leadership is more significant than monitor and control.

The process of the selection of managers is related to the grand corps, that is the peak of French corporate governance, succession to which is conditional on qualifications obtained at a top grande école. Scholars define the grandes corps as placement bureau, and they argue that nobody was ever admitted in the Inspection des Finances to manage resources, or the Corps des Mines for a job in coalmining (Suleiman, 1978). After about ten years of holding a post in government, usually in public administration, members of the aristocracy in France are parachuted into the board of directors of a big company, a procedure defined as parachutage or pantouflage. A definition of aristocracy is that like almost every other term in politics is directly borrowed from the Greek language, aristokratia meaning the rule of the best. However, the ancient Greeks believed that democracy which is derived from demokratia, meaning the rule of the people was the best political system and the term aristocracy was only given in Athens to young citizens who led armies from the front line, it was assumed that the armies were being led by the best. The term passed on to the European Middle Ages for a hereditary class often referred to as the nobility, this was a class of privileged men who were allowed to present themselves as the most noble or best. The French Revolution attacked aristocrats as people who had achieved their status by birth rather than by merit, and this was considered unjust, and the term has now become synonymous with people who claim privileges as a birthright. Hereditary titles are still

recognized in a small number of countries like the United Kingdom and strangely enough birthright privileges still apply to a large number of managers in France. The ones who descend from old dynasties in particular, often try to gain expertise so that they can justify their social standing, which serves as an explanation for the preservation of the aristocracy in French corporate governance.

Another thing that is particularly important about the French economy is the relationship between big and small capitals because the difference between the big companies, the Cotation assistée en continu 40, and the small and medium enterprises, the Société des bourses François 125, is quite large. The gap between the French large firms and the small and medium enterprises has to do with the globalization of the economy. As a matter of fact, these companies which are not among the first 100 usually have a less international capital structure, and have to rely mostly upon the home environment. This is very significant, because apart from France's 2,000 large firms in the stock market, France's 2,000,000 small and medium enterprises are also very important for the national economy.

It would be wrong to argue for the decline of the French model of business administration. A research project in the late nineties by Korn Ferry International, demonstrated that about sixty-six percent of the directors of CAC-40 firms, the very best of the upper classes, had graduated from the grandes écoles, ENA and Polytechnique, in spite of the fact that there is an increasing amount of Présidents Directeurs Généraux, who graduate from universities like HEC or ESSEC, or colleges which offer courses in American corporate governance, like INSEAD, or the Harvard Business School (Basini, 1998). Nonetheless, for the most part, graduation from a grande école and participation in a grand corps is still the most usual way to the crowning point of French business managent.

The Arthuis report demonstrates that, although the policies of French corporations related to globalization were about economic expansion, the investment of French money abroad during the nineties was basically stimulated by an opportunity for low wages, in parts of Africa, in the Far East, and in eastern Europe, which put at risk a number of occupations in several industries at home. Nevertheless, an official announcement by the Senate tried to moderate the talk of unemployment by drawing attention to the advantages of a long period of economic growth for these industries. Eventually, it turned out that the apprehension of the investment of money in low cost countries was not justified, the developing countries amounted to just 1.5% of France's money invested overseas during the nineties. At the same time, France's money invested domestically, raised employment by 15% during the same

period of time, in agreement with the Délégation à l'aménagement du territoire et à l'action régionale (Oudin, 1998).

Outsourcing of manufacturing has not been as extensive in France as in other countries, due to the fact that its economy has been more regulated, even though the ownership and control has changed hands (MacLean et al. 2001). In the early nineties the liquidity of French corporations was going down, but by the late nineties had increased (Milner, 2001; Schmidt, 2000). However, forty-five percent of the liquid assets of French enterprises were owned by insurance companies in the United States (MacLean et al. 2001; Strauss-Kahn, 1999). In the long run, fluctuations like this can make the French economy dependent on low cost industries and make it to shift employment to low wage countries, but this is mostly counterbalanced by continued general tendencies. In comparison with Britain and Germany, the argument that the globalization of the economy is an obstacle to money invested in vocational training cannot be confirmed in France. Most of the French subsidiaries of multinational corporations are defined by relatively high wages and highly trained employees (Milner, 2001). As a result, the ability of France to attract international business can be attributed, at least partially, to the existence of high technical expertise.

The renunciation of dirigisme by the French government was also a response to the increasing internationalization of the economy and the integration of Europe. The welfare system was particularly important in the mitigation of the consequences of unemployment which could possibly undermine the process of organizational change. This is confirmed by the increase of public expenditure from 24% of Gross Domestic Product in the eighties to 30% in the nineties, as France becomes the most charitable government in the European Union, in short, de-dirigisation and welfare state expansion were two sides of the same coin (Levy, 2000). Expressing the same thing differently, this was both an outcome and a mechanism of organizational change.

The dynamic industrial programmes of France have often been inspired by the principles and values of the European Union. Accordingly, the Martine Aubry Law to provide for the underprivileged has been given the definition of Nouveau Départe which emphasizes on the aspirations of Europe for younger employees to be able to find a job within a semester, and older employees within a calendar year. According to the Nouveau Départe, those up to twenty-five years old are entitled to public utility work, during the first year of unemployment. A relatively large number of young people join this programme every year, and around five hundred thousand are helped to find a job after about six months. The

state's anti-exclusion policy, costs about 7,5 billion Euros every two years, with approximately 30 million Euros contributed every year by the European Social Fund (Passeron, 2000).

The neo-liberal tendencies which are based on the need to adjust to globalization and European integration have been responsible for the strategies of the Left and Right as well as the policies implemented by the government during the nineties. In the meantime, the two main objectives of labour market strategies, to moderate the impact of financial liberalization, and to assist the reorganization of the big companies, have put the state under pressure to drive towards opposite directions. The policies proposed by the Left are similar to the third way followed by other European countries, but persist with state interference in economic strategies, in spite of the restraints of the Maastrich Treaty and the reform of corporate governance. The organizational change helped the budget deficit in France to go down from three percent of Gross Domestic Product in 1998, to two percent in 1999, and one percent at the turn of the century. Regardless of this major improvement, France is often criticized in the European Union for its public expenditure and government intervention. The European Monetary Union becomes a platform for adjustment, and makes available the much needed space for flexibility in relation to economic growth. Occasionally, this particularity sets France in opposition to its European partners, as scholars suggest, state interference is not merely a social need, but a measurement of the capacity of the country to preserve its identity and sovereignty in an increasingly integrated Europe and interdependent world (Levy, 2000).

The inherent characteristics which define the corporate governance of France are persistent, and should not be underestimated. It is improbable that the French upper classes will give up the organizational structure of interlocking directorates, supported by the grandes écoles and the grandes corpes, which have been so successful in the past. It can be argued that mutual relations are now more essential than they used to be so as to counterbalance the effect of the internationalization of the economy and the impact of European integration. Another argument is that the current organizational structure is probably in favour of the French upper classes within the context of a globalized economy and an integrated Europe. What can be more reasonably expected instead of the dismantlement of cross-shareholdings in France is the adjustment to international markets, supported by the private sector, of the domestic government, through strategies such as an

increase in research and development, product diversification, sub-contracting, and enhanced specialization.

# 3.7 The Architecture of Portfolio Management

Even though the academic literature is talking about the powerful nature of business administration, it identifies a French model in transition, these narratives are purely historical, without providing a theoretical interpretation (Berglof, 1997). In this section I will make an effort to fill this gap in the literature. For the most part, what is discussed, is a series of events, in relation to the varieties of corporate governance. An approach like this is followed by scholars who research the inherent characteristics of the Japanese and the Western organizational structures (Aoki, 1994). They propose different scenarios which can be thought ex ante. These propositions vary between a convergence of financial strategies, a potential destabilization in conflicting economies by the interdependence of certain characteristics, and the supremacy of a particular organizational structure, to the evolution to a hybrid form of higher order. However, more recently, some progress has been made towards a better understanding of all these factors that can determine organizational change (Dore et al. 1999, Lazonick and O'Sullivan, 1997).

It is particularly important to stress at this point that the inherent characteristics of different networks of business administration are compatible with a pluralistic concept of multiple stakeholders. In this case, why does the French model in particular depend so much on the state, instead of institutional investors or other interest groups? An answer to this question may be the presence of many different political, economic, and social actors in France. In addition, French labour institutions are historically defined by a class-fight ideology (Albert, 1993). Consequently, there is a general tendency for a diversity of opinions. In agreement with some scholars, a no consensus cooperative relationship can have contradictory implications (Peyrelevade, 1998; Wirtz, 2004). As a result, it becomes clear why the government has to play the role of the arbitrator. In reality, because a general agreement between organizational entrepreneurs is difficult to achieve, the formation of mutual relations requires the existence of a superior organization. This is the role of the state. Contrary to what happens in most European countries, the French government is not a simple instrument of administration at the disposal of the citizens. It transcends the

individuals and receives of the latter a sort of divine blessing, comparable to the one the monarchs received in the past (Lesourne, 1998).

In accordance with the philosophy described above, the organizational structure of the most prominent French enterprises, over a long period of time, was determined by the state. In the past, the influence of the government was exercised through a certain strategy. Occasionally, workplace relations allowed the state to intervene in corporate governance. Its interference with money management was an important instrument to exercise authority. The national network of business administration, that incorporated the champions of the home economy, was closely related to the government. And, finally, quite a few members of the entrepreneurial aristocracy still owe their technical expertise to the civil service.

To this point, I have basically discussed the inherent characteristics of the French organizational structure of business administration. More recently, nevertheless, the national network of corporate governance, has gone through organizational change, which is illustrated by the BNP-Société Générale-Paribas hostile takeover. Subsequent to the decentralization that started about twenty years ago, the evolution of French business administration was determined by the decreased importance of the state. In these circumstances, the developments during the eighties triggered a substantial transformation of corporate governance in the nineties. It may have come as a surprise that the initiative was taken by a left-wing government. I will discuss the significance of this comment later on, when I go back to the case of France after I demonstrate a theoretical proposition. The organizational change made French enterprises to turn to the stock exchange so as to secure the money resources needed for reorganization. Therefore, state intervention in money management was further diminished. Initially, several large businesses continued to be, nevertheless, managed by the government. The shift in politics during the eighties was responsible for a large number of denationalizations in the nineties . This made the state's withdrawal from business administration more evident. The effect of a wave of denationalizations on the corporate governance of France is quite remarkable. Some scholars who studied the recent and current publications on French denationalizations in relation to the total amount of privatized enterprises gave an account of one of the world's most ambitious privatization programmes (Alexandre and Charreaux, 2004). The transfer of control and ownership was briefly postponed in the late eighties because of one more shift in politics, but it was resumed in the early nineties with another wave of denationalizations. It must be said, nevertheless, that the government's withdrawal was not entire. In reality,

through the noyaux durs, the state exercised influence, at least to some extent, on the reformation of business administration in most of the recently privatized firms. Noyaux dur, is French for hard core, and is a technical term which defines a coalition of principal stockholders who are appointed to membership by invitation. As a consequence, at the beginning, state intervention was substituted with entrepreneurial interference through coalitions of major shareholders. The government in this way continued to exercise authority by participating in these principal stockholder coalitions. It is also worth mentioning that the number of people invited to form the noyaux durs was relatively limited. As a result of this, the organizational structure of corporate governance, was now defined by a comprehensive network of crossed holdings. These interlocking shareholdings were based on personal relationships and resulted in the emergence of interlocking directorates. Since the nineties, this structure has started to disintegrate, and financial market oriented companies are replacing the old model of business administration (Wirtz, 2000). As a consequence of this, most of the big companies in France have, since the turn of the century, a long term capital structure which makes them more susceptible than either the market oriented British enterprizes or the network oriented German companies, not to mention the state mediated French enterprizes of the recent past, to a leveraged buy-out. The European Central Bank surveyed big French banks active in lending the cash that has been driving a surge in leveraged buyouts in the last two years and found that they were generally well-placed to weather a downturn in the market, though it urged them to closely monitor their risks. The muted systemic risk potential identified in this report does not appear to warrant a large and coordinated regulatory involvement in leveraged buy-out activities at the EU level (Reuters, 18/04/07). The French banks surveyed by the ECB expect the leveraged buy-out market to continue growing, fuelled by abundant liquidity after years of low interest rates.

The principal agency theory and the relationship of the actor with his organizational headquarters are well known, so how organizational change or incremental adjustment can be explained? To be sure, to make this interpretation possible, a theoretical explanation of the human intellect is required. Some scholars have provided for theoretical interpretations about the path dependent nature of the human mind (North, 1990). They indicate that repeated and variable efforts or experiments are continued until successful (Simon, 1983; Wirtz, 2000). This theory is supported by the fact that a political, economic, or social actor neither can have total awareness of all circumstances, nor can entirely comprehend all the factors that determine the results of performance. All actors come to conclusions in relation

to their future actions either through suppositions or through systems of ideas that explain the environment in which they act. In the field of historical institutionalism this concept is defined by the terms mental patterns or mental models. In fact, this is the point from where the theory of organizational change begins. According to some scholars, the key to the choices that individuals make is their perceptions, which are a function of the way the mind interprets the information it receives (North, 1993). The domain of intellect forms the explanations which can affect someone's intuitive recognition of the possibilities implied by the organizational environment. This is the incarnation of a supreme philosophy, in other words, an intellectual background which is shared with other people. Therefore, a certain organizational structure can be thought as the translation of the collective intellect in institutions and organizations. This is also compatible with the perception of institutions as an independent system of shared ideologies (Aoki, 2001). To understand how organizational change takes place over the years, it is of particular importance to comprehend the influence of a shared ideology. As other scholars have argued, organizations are clearly a reflection of the evolution of mental models (Denzau and North, 1994).

This analysis draws attention to the business(wo)man as the motive power of organizational change. The average executive can be described by certain characteristics. One of them has already been discussed, that is the existence of an intellectual background which is able to challenge the predominant philosophy. However, an innovative idea about organizational change or reformation is not enough by itself to translate someone's ideology in political, economic, or social power. This is likely to happen, only if somebody is prepared to devote his/her energy for this purpose. It is clear why, in principle, it is not the executive who interacts with the organizational environment. What drives the process of reformation or organizational change is, generally, considered to be the continuous interaction between institutions and organizations (North, 1993). Therefore, an institution can be thought as a mechanism that facilitates the dispersion of an ideology. It must be said, nevertheless, that the organizations which help entrepreneurs in their efforts to affect the organizational environment are not confined to the financial industry. Public administration, works councils, labour institutions, as well as private enterprises, they can all resort to their own assets to bring innovation in management.

By restraining the interaction between different economic actors, the objectives of large firms can become compatible with the objectives of the social partners (Schleifer and Vishny, 1997). This is very significant in our effort to analyze the concept of the collective

intellect and to identify the factors that determine organizational change. The existent organizational structure of business administration can be defined as the organizational incarnation of the collective intellect during a certain period of time. We are indebted to scientific study in the field of investment management and to the principal agency approach for our comprehension of the dynamics of corporate governance (Daily et al. 2003). Accordingly, the concept of appreciation is of particular importance in our effort to understand the effect of the disagreement between organizational entrepreneurs about profits on the selection of the appropriate organizational structure of business administration (Jensen, 2001). Although appreciation is sometimes confused with shareholder value, this is not clearly the case (Castanias and Helfat, 1992; Garvey and Swan, 1994). What is more, to confuse appreciation with stockholder value is based on the wrong assumption that shareholders are the exclusive owners of the enterprise. However, this preconception is related to a certain ideology, specifically the one which scholars define as the monistic concept of the firm (Yoshimori, 1995). Because this philosophy does not apply to all cases, an interpretation of organizational change built entirely upon this ideology, does not make clear, what is the motive power of reformation. Therefore it is more appropriate to describe appreciation as an increase in total assets (Charreaux and Desbriéres, 2001). The controversy on profits between organizational entrepreneurs can be explained in a wider sense as a contest for the generation of capital and its distribution. In this context, the well known theory of value is very important in the methods used by a particular organization in relation to the allocation of resources. This is also in agreement with the suggestion by some scholars that the reasons for disagreement are dependent on the organizational environment (Aguillera and Jackson, 2003). According to other scholars, a shared ideology is a representation of the role of different stakeholders in the value creation process as well as of the appropriate remuneration of their services (Wirtz, 2000). This is, by all means, a standard description of the predominant philosophy, and it is quite possible that an effort to define a broader ideology would result in more complicated explanations. As a consequence, our method is a parsimonious model to interpret the evolution of corporate governance. It is not actually designed to provide a complete list of theoretical views.

I have already mentioned that the existent network of French business administration was not as receptive to international trends for the increase of shareholder value. In agreement with this mental pattern was the state's dominant role in corporate governance. Furthermore, this organizational structure was complemented by mutually reinforcing relationships such as cross-shareholdings and interlocking directorates. A predominant

philosophy like this was not necessarily embraced by everybody, nevertheless, which means that the entrepreneurial culture, analyzed in our previous section, also had to be taken into consideration. This argument is partially confirmed by the circumstances in relation to the first significant hostile takeover in the history of French business administration.

This analysis is not in contradiction with our theoretical proposal. In agreement with this, the predominant ideology plays a particularly important role in the resistance to organizational change in national networks of business administration. For example, B.S.N.'s takeover bid was rejected because of the predominant philosophy. This also played a very significant role in the resistance to radical change in French corporate governance. As a result, shareholder activism was virtually unknown in the organizational structure of French business administration until the nineties. The late hostile takeovers that involved large firms demonstrate the progress corporate governance in France has made over the last ten years. The next paragraph examines in detail the events which transformed the character of business administration in France.

It is of special importance to say that this time it was the state behind the organizational change. The institutional investors who started the process of reformation were companies of the public sector. It is also significant to emphasize on the argument that an entrepreneur will have to take some initiative. Primarily, one must be able to perceive of alternatives which can challenge the predominant philosophy. Subsequently, one will have to find a way to fulfil such an ambition. In these circumstances, it is possible that the liberal transformation was successful because the state officials who used to be advocates of the predominant ideology were the pioneers of organizational change. This makes clear, why in this case, and unlike other efforts before, the predominant philosophy was not a stumbling block for the reformation. Indeed, our theoretical proposition can explain the difference between the predominant ideology and the collective intellect of the institutional investors. It is also reasonable to suggest that the dissatisfaction in the public opinion was not important this time, inasmuch as it was the state behind the organizational change. This is in agreement with an argument made by scholars about the role of the government, a colbertistic state which has not ceased to dominate the economy, protectionistic and dirigistic on the one hand, but investor, creator, on the other (Albert, 1991). A definition of colbertism is a variation of mercantilism which was applied in France under the rule of King Louis XIV by the superintendent of Finances Jean-Baptiste Colbert. A variety of policies can be used to achieve colbertistic or protectionist goals, these include tarrifs, import quotas,

administrative barriers, anti-dumping legislation, direct subsidies, export subsidies, and exchange rate manipulation. For the reason that this time reformation originated from the advocates of the predominant philosophy, the effort did not only meet with success, it was also complemented with legitimacy. We must note that transformation was supported by the noyaux durs as well. In this way, the state managed to proceed with organizational change without an abrupt disengagement from the old institutional structure.

North American organizational entrepreneurs were not in favour of the non-transparent organizational structure of crossed holdings that was common in French corporate governance until as recently as the nineties. As a consequence, the increasing influence of organizational entrepreneurs from abroad on the large firms of France was another reason for the disintegration of interlocking shareholdings which started between the late eighties and the early nineties. Scholars who analyzed the data of the nineties, noted a historical decline of cross shareholdings (Wirtz, 2004). This trend seems to have been escalated more recently. As a result, the big companies have a more dispersed portfolio than in the past, which makes them more susceptible to events virtually unknown in French business administration such as hostile takeovers. The data released in the press indicates that some of the large firms listed on the CAC 40 have arrived at a ratio of less than 15% in relation to large shareholders (ibid. 2004). Having said that, in comparison with the Anglo-Saxon model, the ownership and control of the big companies in France persists as fairly concentrated (La Porta et al. 2002). Nevertheless, this chapter is about the evolution of a national network of business administration, and France has gone through radical change with regard to the decline in the number of crossed holdings, despite the differences with other countries (ibid. 1999). Then, what the persistent concentration of shareholders displays is not that French corporate governance is inert but that its development is path dependent. In some cases the pressure exercised by foreign shareholders on family controlled enterprises was very powerful. This is illustrated by the hostile takeover of Group André, which happened earlier this decade, it was triggered by the French businessman Guy Wyser-Pratte, and it was supported by the American trust company NR Atticus (Albouy and Schatt, 2004). Once they obtained a relatively large percentage of Group André's portfolio through the Stock Exchange, twenty-five percent for a start, the American entrepreneurs eventually managed to overpower the French owners and asked for critical modifications in the organization of the firm's executive committee. This case can be taken as a guide for subsequent cases. The fact that the hostile takeover of Group André was unprecedented in the French context When it happened a few years ago makes it a good example for the extent of organizational

change. It is also worth mentioning that the businessman who triggered this event, Guy Wyser-Pratte has expressed unreservedly his opinion to drive the French mode of capitalism towards American values and principles (ibid. 2004).

Our research makes evident that the state was, for quite a while, the manager of the economy in France. The private sector had a much less important role to play. It is of special importance that in the reform of corporate governance in France the state was at the centre of its own partial withdrawal. Therefore, once the usually powerful organizational effect that government officials had on business administration subsided, the way was wide open for organizational entrepreneurs of the private sector. In recent years, the entrepreneurial culture has emerged as very influential in the support of a style of corporate governance which promotes the creation of shareholder value.

### 3.8 Bringing Innovation to the Privatized Firms

The French wave of denationalizations, which started in the late seventies, is one of the most important privatization programmes in the world, in relation to the volume of the transactions, the significance of the denationalized companies, and the amount of the privatized firms (Bortolotti et al. 1998; Jones et al. 1999; Megginson, 2000). With regard to the denationalizations that took place during the eighties, the French programme, in terms of volume, was just below Britain and Japan, while in the nineties, it accounts for about eight per cent of all privatizations and around eleven per cent of those of the OECD countries (Huang and Levich, 1998). Even though the cause and effect of French denationalizations are, to a degree, explicit, they are also part of a global trend, in relation to the highly industrialized countries. As scholars have indicated, the contribution of the State Owned Enterprises in the Gross National Product of these economies during the last decade has decreased from about nine per cent to around five per cent, while the diminution of the role of the government appears to have been even more significant in the less industrialized countries (Megginson and Netter, 2001).

Most of the research is based on the ratios used to evaluate the efficiency of the privatized companies, and is often focused on the generation of shareholder value. The implication is that the neo-liberal doctrine, the basis of shareholder value, is the only way forward. The current political, economic, and social environment raises some doubts about this theory. The way to avoid this controversy is to assume, in accordance with the theories of new

institutional economics, that the policy of the creation of shareholder value contributes in fine to the highest possible decrease of inefficiency and, also, to increase to the utmost the prosperity of the different stakeholders.

The academic literature basically compares two factors which determine the effect of the restraining mechanisms on the efficiency of privatizations (Alexandre and Charreaux, 2004). They are both cross-functional, inasmuch as one compares the efficiency of the denationalized corporations with that of state owned enterprises, and the other the potential effectiveness if the privatized companies had stayed in the public sector. In agreement with the results of most of this research, the efficiency significantly improves with denationalizations. However, the research relates only to a small number of sectors which are also subject to regulation. Therefore, this approach has its disadvantages and limitations. The reason is that an analysis which is based on the potential effectiveness depends on controversial assumptions. And the method which compares the privatized firms with the state owned enterprises also has to deal with the problem of setting benchmarks.

An alternative approach to compare the efficiency, prior and subsequent to privatizations, assumes that the effect of denationalizations appears immediately, and that there is a break, or a disengagement, which implicates the improvement of the effectiveness. In reality, from one point of view, there is a reorganization before the privatizations, and from another point of view, the influence of denationalizations may appear later. The increase in the efficiency may also come as a consequence of the evolution of business administration networks, the reform of institutional structures, and the implementation of different policies which can sometimes be time-consuming because of the rigidity of state owned enterprises (Kole and Lehn, 1999). The approach taken by some scholars which is to examine whether there is a large difference in the effectiveness between the years before the privatizations and the years after the denationalizations, despite its own limitations, can help us to understand better the effect of privatizations, in other words the improvement of the efficiency (Megginson et al. 1994).

The macroeconomic environment is in a greater or less degree advantageous at the time of denationalizations. The flexibility and versatility that privatizations can bring about is strongly dependent on the external economic conditions, therefore, a corporation rarely issues shares in a bear market and French denationalizations were briefly postponed waiting for the next bull market. From another perspective, the restraining mechanisms of the

financial markets are considered to be an outcome of the macroeconomic environment, and the regulation always appear to increase in times of recessions. Furthermore, the reorganization of enterprises is normally less difficult when external political, economic, and social conditions are advantageous, in these circumstances the influence of privatizations is much greater.

The extent of the regulation in relation to the financial markets is determined by whether a corporation is listed on the French cotation assistée continu 40. This is because of the bulk of the proceedings and the presence of organizational entrepreneurs from abroad. Under the circumstances, the more extensive regulation is thought as advantageous for the performance of the corporations. The reorganization that takes place during a period of denationalizations often results in a more diversified portfolio. The state usually participates, at least to some extent, in the ownership and control of the privatized enterprises. When denationalizations improve the efficiency, the larger the part of ownership and control by the government, the smaller appears to be the effect of privatizations. The regulation is dependent, in any case, on the character of the corporation, and the net value of the enterprise. Different indicators can be used to measure the value of the stocks in the individual portfolios owned by the state, the entrepreneurs, and the other stakeholders. The possibility for the increase in the efficiency is higher when there is a large shareholder, a ratio which calculates the equity owned by a large investor is used for this purpose. Denationalizations are related, in most cases, to a new management. As a result, only a small part of directors remain in their positions after privatizations. Similarly, the executive committees are also restructured. Some scholars have studied the organizational change in relation to executive committees after denationalizations (D'Souza et al. 2000). In many cases, the participation of the state and the works councils in the executive committees of large enterprises in France after privatizations was more than 50%, in fact, a ratio which calculates the reorganization would be very helpful in order to extend the debate further in relation to workplace or organizational changes that flowed from privatization having an impact. Regardless of the limitations in the evaluation of restraining mechanisms which originate from the executive committees, with the only available data, for instance, the numbers of managers and works councilors, we can nevertheless experiment with other factors and compare our results with those of the analysts. After denationalizations, for example, we observe a rise in the dividends paid to shareholders, which is usually considered to be a result of extensive regulation to protect the investors. Even though the hypothesis related to this policy is not based on data, the connection between privatizations

and the protection of shareholders can be measured by the ratio Dividend/Net Income in absolute variation.

Table 7: List of Privatized Companies and of their Principal Characteristics

	Privatization	Issue Size	State Holdings	State Holdings
	Date	(€ mn)	Before (%)	After (%)
AGF	1996	1,524	100	0
Banque Nationale	1993	750	100	40
Companie Générale	1987	1,762	100	0
Crédit Commercial	1987	671	100	0
Crédit Local de France	1993	311	51	20
Elf	1994	6,174	51	13
Havas	1987	2,410	100	0
Paribas	1987	367	100	0
Pechiney	1995	1,220	100	44
Renault	1994	2,134	80	50
Rhône-Poulenc	1993	86	43	0
Saint-Gobain	1986	2,058	100	0
Seita	1995	991	100	13
Société Générale	1987	3,278	100	0
Sogenal	1987	229	100	0
Suez	1987	2,384	100	0
TF1	1987	189	100	0
Total Sa	1992	823	34	15

Source: Company annual reports and company websites, various years.

A review of the academic literature demonstrates that denationalizations can improve the efficiency by providing for additional flexibility and versatility (Alexandre and Charreaux,

2001). This improvement of effectiveness is better understood if we enquire into the diversification of investment, or the increase in the value of the shares issued. These improvements in efficiency are calculated by a ratio which measures the diversification of the investment after privatizations as a percentage, and by the indicator Financial Fixed Assets/Total Fixed Assets.

Another method that makes it possible to measure the efficiency is to examine the influence of denationalizations through the indicators of productivity company by company and, in three years intervals, prior and subsequent to privatizations. The test of Wilcoxon carried out on the ratios before and after denationalizations, allows for the evaluation of the dynamic effect of privatizations. Even though it is ratios like the Return on Equity which calculate the productivity, in order to be able to compare our findings with the results of empirical research, other ratios will also be calculated, to provide for a more comprehensive analysis of the dynamic effect of denationalizations. Nevertheless, the other indicators are taken into consideration only as a supplement that makes it possible to better understand the improvement of effectiveness as a result of an increase in productivity, for instance the calculation of indicators in relation to margin and profitability.

When we take into consideration all these ratios together, denationalizations appear to have a greater effect on the efficiency of the privatized corporations. The indicators of sales as well as the ratios of equity increase either for the mean or for the median. This improvement of effectiveness also has to do with the diversification of portfolios, nevertheless, the investment on external development in particular does not appear to be as substantial because the variable Financial Fixed Assets/Total Fixed Assets goes down, which probably means that the reorganization of the privatized enterprises includes more sales than purchases. However, the amount of foreign direct investment is on the increase. With regard to the number of employees, when the median drops by 10% the mean does not change at all, this result is therefore rather obscure. Nevertheless, the organizational change appears to have a greater effect on the process of funding. On the one hand, the part of capitalization goes up, and on the other hand, the part of indebtedness goes down in the composition of the portfolios. The indicator Dividend/Net Income is also on the increase.

Table 8: Test of the Effect of Privatizations on the Various Indicators

Indicators	Median Before	Mean Before	Median After	Mean After
	-3 years	-3 years	+3 years	+3 years
et Income/Sales	1.4%	1.3%	3.1%	3.4%

Equity + Financial Debts	7.6%	8.6%	8.5%	11.3%
Net Income/Equity	13.7%	13%	15.3%	17.4%
Return on Equity	6.8%	5.4%	9.1%	10.9%
Sales/Employees	1.6	3.7	1.8	3.0
Net Income/Employees	20.9	99.7	62.3	162.5
Total Assets/Employees	1.6	31.2	2.8	43.0
Investment/Total Assets	3.6%	4.8%	4.8%	5.1%
Investment/Sales	4.8%	8%	7.7%	9.6%
Financial Assets/Total Assets	23%	36.9%	18.6%	37.1%
Financial Debts/Equity	1.7	15.4	1.2	9.9
Financial Debts/Total Assets	36.9%	48.0%	31.7%	46.1%
Cash Flow/Investment	91.4%	324.3%	109.2%	164.4%
Dividends/Sales	0.3%	0.5%	0.9%	1.2%
Dividends/Net Income	20.5%	31.7%	34.8%	44.3%
Number of Directors	18	17	15	15
Percentage of Outside Directors	60%	59.5%	71%	68.1%
Percentage of Sales Abroad	38%	40.6%	52.0%	44.9%

Source: Company annual reports and websites, various years.

The dynamic effect of denationalizations on employment is of special importance for the reason that privatizations are usually related to the loss of jobs. Taking into consideration these findings, for the most part, the adjustment happened before denationalizations, which confirms that the government was strong enough in negotiations. Nevertheless, there is not an important general tendency that can be used as an argument for or against the denationalizations.

The financial strategy seems to be adjusted in relation to the indicator Dividends/Sales but the most important development happens before denationalizations. This ratio is not quite

as relevant nevertheless, it is preferable to look at the indicator Dividends/Net Income where the development appears to be more important before privatizations than after denationalizations. If we assume that this indicator calculates the discipline exercised by stockholders, this discipline increased substantially after privatizations. It must be said, nevertheless, that this particular ratio always increases when the concentration of shareholders increases.

The Wilcoxon tests on the ratios of corporate governance, in relation to the number of directors, and the percentage of outside directors, confirms the effect of legislation on the evolution of business administration. The important development occurs before denationalizations and a more detailed analysis of company annual reports and websites indicates that in most cases it happened shortly before privatizations. Therefore, it comes a priori from the need to conform to the new statutory legislation. After denationalizations, there is no significant organizational change.

The Wilcoxon tests on the ratios of the privatized firms, provide nevertheless for a relatively rough vision of the dynamic effect of denationalizations. Furthermore, applied to a hypothetical median enterprise, it does not help us to get individual results, company by company. This is the reason why the empirical analysis is also supplemented with some theoretical arguments.

While the ratios of margin and profitability produce better results, we observe that a ratio which is usually expected to increase after privatizations, that is the Return on Sales, does not change as much when we calculate either the mean or the median. Denationalizations almost certainly resulted in the reconstruction of portfolios held by companies which caused a marginal increase in profits. This progress does not become as evident, nevertheless, in relation to productivity indicators, at least in the chosen period, which shows that the increase in profitability may have been the result of a financial policy of over-investment, which is partly confirmed by the increase of the indicator Investment/Sales. The selected period is most likely too brief for the improvement of effectiveness, traditionally related to privatizations, to materialize. This explanation, that it takes some time before the benefits of denationalizations can appear, is also supported by other studies (Villalonga, 2000). These results are quite possible, even though they challenge most of the theories on the subject of privatizations in the academic literature. However, in agreement with the theories of organizational studies, the evolution of business administration is path-dependent, it is time-consuming for innovative policies to be successfully implemented, the large firms are

inflexible organizations, they are resistant to change, and the influence of denationalizations often appears later.

The increase in profits, after privatizations, is dependent, to some extent, on the amount of shares held by large shareholders or by investors from abroad. If, in accordance with the theories of business management, this statement appears to be ordinary, because it is a priori based on the beneficial effect of the restraints related to concentrated shareholders or investors from overseas, the fact that the largest shareholder is usually the state, while there is still an improvement of effectiveness after denationalizations, defies the argument of the usually detrimental effect of the state, as an entrepreneur, on the efficiency of privatizations (Elrich et al. 1994; Verbrugge et al. 1999). Denationalizations which go together with the gradual detachment of the state will probably have a better chance of recuperation. The corporate restraints related to investors from abroad are because of the regulation of business administration which applies to international businesses.

One of the limits of the carried out studies on the efficiency of the privatizations within an international framework is that they implicitly suppose the assumption that public management is equally inefficient in the various nations. However, the characteristics of the government services or of the public managers, in terms of competences, honesty, independence on the political power, are very different from one country to another, which can explain that the efficiency of privatizations seems to vary appreciably, for example, according to whether privatizations occur in a country member of OECD or not, some scholars show that the improvement of the performance is appreciably more significant in the countries not members of OECD (Alexandre and Charreaux, 2004; D'Souza et al. 2000).

Let us recall that the first wave of privatizations took place in France from 1986 to 1988. It was followed by the ni-ni, neither nationalization, nor privatization, period from 1988 to 1992. The second program of privatizations began in 1993. In spite of the comeback of the Socialist Party to the government in 1997, it still currently continues. Some scholars find that, whatever the context, privatization leads to a gain of performance but that this gain is more significant in the strongly competitive sectors (Alexandre and Charreaux, 2001; D'Souza et al. 2000).

To conclude, can we really argue that the wave of denationalizations contributed to the improvement of the efficiency in French corporations? To start with, most of the variables, whether we calculate the mean or the median, are definitely improved. The privatized

enterprises increased their revenue, and to a lesser extent their Return on Sales. Besides, there was also an improvement in the financial structure of corporations with a decrease in high indebtedness. If the quantity of labour is taken as fixed, the part of global commercial operations was on the increase. Finally, the amount of dividends that was paid to shareholders was much greater. A more careful analysis of these findings indicates, nevertheless, that most of this progress is not significant, especially in relation to productivity and cost-effectiveness, and the counterargument is that efficiency was increasing in the sector anyway and some of these developments took place prior to denationalizations.

### 3.9 The Way Forward to Shareholder Value

The last twenty years have been a period of financial markets growth in France as a result of economic globalization, European integration, the privatization of public services, the expansion of life insurance companies, and the rise of retirement accounts. One of the main reasons for these developments is the liberalization of the economy at the international level, and some of the most important outcomes are the growing number of shareholders and the emergence of new products such as the Plan Epargne Populaire. The shareholders in France were only seven per cent in the mid-eighties in comparison with about seventeen per cent at the turn of the century, and new products such as life insurance, have substantially increased, from only thirty per cent to about forty-seven per cent during the last twenty years or so, and they are reasonably expected to continue increasing (Arrondel and Mason, 2002; Dumontier et al. 2001).

Another development that is particularly important is the decline of cross-shareholdings, the hard cores of stockholders, in general, amounted to no more than twenty percent of the equity of the firms in the late nineties, in comparison with the usual rate which was about thirty percent in the early nineties (Les Echos, 12/10/98). To this amount we can add the shares held by workers, around three percent, which are invested in a mutual fund that is managed, to a large extent, by the executives. When we take this into account, the ownership and control of the companies included in the crossed holdings network amounts to no more than twenty-three percent of stocks. Furthermore, this amount goes down as one moves away from the nucleus of the cross-shareholdings companies. For instance, the coalition of shareholders in Elf accounts for around seventeen percent and in Alcatel the

coalition of stockholders amounts to no more than fifteen percent. This style of corporate ownership and control is even less concentrated if we take into consideration the increased significance of investors from abroad.

Chart 1: Foreign Shareholdings in French Companies within the Cross-Shareholding System

Source: LEREPS, 2000.

To understand the consequences of the recent and current developments, it is imperative to analyze the relationship between two different styles of financial administration. Unit trusts were originally founded in the United States, were subsequently introduced in other countries, and are defined by direct management where the savings are invested on a Defined Benefit basis. In the old style of British mutual funds, for instance, traditionally managed by big companies, regular payments are guaranteed by the company, and are proportional to earnings. Welfare schemes include manager and worker contributions into the fund with extra payments provided by the management in proportion to the surplus of the excess value over the face value. This naturally results in the careful management of a portfolio which is based on the diversification of investment over several sectors and companies in a way that minimizes the risk of loss. Moreover, firms are requested by investors to abide by the rules and regulations of corporate governance on the understanding that professional negligence can result in the cancellation of investment or culminate in the claim for compensation. This particular style of financial administration, nevertheless, has a fairly large turnover, and is represented in France by unit trusts such as Calpers which also has a fairly large percentage of the ownership and control in most of the

CAC 40 companies. Inspired by economic liberalization in the United States, new partners, the third-party account managers, have played a leading role in the financial markets since the late eighties, and especially since the early nineties. The new partners are in charge of the management of mutual funds on a Defined Contribution basis. The savings are invested by the third-party account managers and the investors end up with the exact amount and no less than they have deposited into the fund plus any profits. The exceptionally dynamic contest between institutional investors and organizational entrepreneurs becomes evident in the quest for dividend yields as this style of financial administration is more aggressive and focuses on shareholder value. The advance of defined contribution schemes had a great effect on the reform of corporate governance in France. It made companies like Fidelity or Templeton, to select strategies and set objectives which emphasize on the generation of profits. When we take into consideration their active policies, it comes as no surprise that the firms in which they are involved maximize shareholder value.

In spite of the discrepancies and irregularities between the business strategies of companies, most of the firms have common objectives such as to maximize shareholder value. The share price of a company, is of special importance, and has to be maximized in every opportunity. It was in these circumstances that the rules and regulations of modern corporate governance emerged, first in the United States during the early nineties, which probably remains to this day the most developed financial market in the world, at least in terms of the diversity of financial instruments, and later on in the United Kingdom and continental European countries.

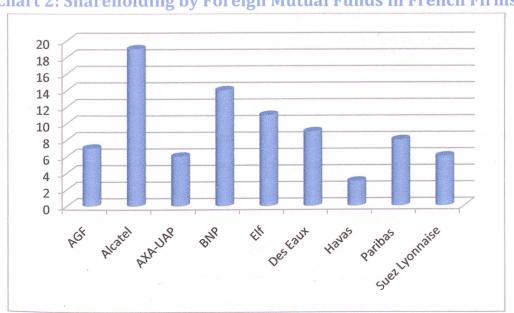


Chart 2: Shareholding by Foreign Mutual Funds in French Firms

Source: LEREPS, 2000.

The investors should be able to understand that it is not very easy to define what determines the decisions made by a portfolio manager. Without doubt, there are national and sectoral issues to take into consideration (Morin, 1996). For example, in the Morgan Stanley Index, France accounts for only five or six percent of international capital. However, the rise of the euro can change this. As a consequence, there may be an increase in the contest between companies to benefit from global transactions. Nevertheless, it is still difficult to comprehend the values and principles that determine portfolio management. Some general ideas are frequently mentioned. The transparency of financial transactions, the quest for hidden value, and the rules and regulations of corporate governance.

The portfolio managers always try to attract investment from the international financial markets. But, it is imperative that, once they are found, large shareholders should not depart from a company after a short period of time. Although it is not as easy to determine how long this period of time should be, nevertheless, it appears that in several cases unit trusts remain with French companies for three or four years. It may be for a shorter time, for instance, one and a half years is usually the case with Fidelity, or for a longer time which is up to five years in some cases. This style of financial administration is neither long-termism nor short-termism.

French managers speak of shared pedagogy. French firms are now becoming more familiar with experienced and knowledgeable financial administrators. But in their opinion, a firm has a good reputation only if its managers are able to say yes and no, for example, they should be able to draw a distinction between making claims which can sustain the long-term equity and requests that could eliminate the short-term funding (Morin, 1998).

The bottom line is the ability to determine company policy. Organizational entrepreneurs persist on centralization, just one single business, for instance. If the firm is comprised of several smaller companies, it is necessary that the accumulated wealth of the group is at least equal to the money invested on each business, because in most cases, entrepreneurs do not like heterogeneous firms. The main reason is they correspond to commercial activities which demand extra effort. Some managing directors recognize that the organizational entrepreneurs are probably right. And this is one of the reasons why several entrepreneurs are in favour of focused governance. From another perspective, in the opinion of American and British organizational entrepreneurs, the interlocking shareholdings

appeared to be unreasonable defensive mechanisms. There is one more argument, why invest on companies which are not under control? Neither the Americans nor the British, as indicated, have ever been in favour of cross holdings. They tend to think that interlocking shareholdings can be damaging, because sometimes the firms may have to be involved in commercial deals which are not viable. The suitability of this organizational structure is therefore quite limited and it is acceptable only temporarily until the companies are ready to disintegrate it.

Mainly because of general tendencies in the United States of America, the shareholders in France are now obliged to play a more important role in business administration than ever before. They cannot be inactive like they used to be in the past. As a consequence, they also have to make clear their own company policy. This is usually outlined by at least some of the following goals and objectives, to support the concentration of ownership and control in every quarter, to protect the core business, to disintegrate heterogeneous firms, to externalize organizational operations which are not useful or important, and to repurchase stocks when resources are not allocated to cost effective companies (Morin, 2000). Some managers in France recognize that it is impossible to get away from the requests made by American investors.

The discussion about the American and British shareholders basically focuses on the level of dividend yields which the stockholders expect to receive from a company. This amount is calculated by taking into consideration two determinants, the market value added, and a venture capital bonus related to the sector or the firm. A relatively new ratio that is used by financial analysts is the Economic Value Added. When the EVA is calculated the shareholder can estimate ex ante the company's liquidity and profitability. This becomes possible by calculating the variation between the profits and the costs, as well as the cash flow needed for the payment of dividend yields.

Eventually, the attitude of managing directors has changed considerably in relation to the dispersion of ownership equity. Most of them believe it is not something to be opposed as it contributes to the modernization of the French variety of capitalism. The managers will have to take into consideration the interests of the stockholders and make an effort to satisfy the demand for the generation of shareholder value. Some of them argue for the concept of vulnerability and are concerned about the spread of ownership equity. Others are even less favourably disposed to the dispersion of this organizational culture, which they nevertheless

have to adjust to (ibid. 2000). But most of them now recognize that it is impossible to escape from the rules and regulations of modern corporate governance.

To conclude in this section, the British shareholders appear to be generally inactive. Like their American counterparts, they exercise a latent control (Chaganti and Damanpour, 1991). They usually vote in favour of the manager and the large stockholders, and there are not too many rules and regulations to restrain them. The American shareholders normally abstain from voting in the conferences of foreign companies. Therfore, it seems that by not exercising their right to vote they permit the national stockholders to control de facto the local firms (Girard, 2000; L'Hélias, 1997). However, unlike their British counterparts who are genuinely discreet, they use other methods, one has to do with unofficial pressure to affect decision making, which is often targeted at the redistribution of rents and quasirents, and can take the form of misrepresentation or sometimes distortion of information, and another has to do with official pressure, for example, a proxy contest in which outside dissident shareholders can mount active solicitations targeted at the board of directors, shareholder resolution is a measure that requests or instructs the executives and the managers to follow certain policies (Gordon and Pound, 1993; Milgrom and Roberts, 1992). In comparison, French shareholders appear to be either individualistic or institutionalized and they exercise a latent control directly to the company.

## 3.10 A New Age of Equity Ownership

The increasing importance of the financial markets from a political, economic, and social point of view, is another important issue that has to be analyzed and discussed. What is the main reason for the increased significance of the money markets in most of the developed countries? To explain this organizational change, it is of particular importance to take into consideration the recent and current developments in the financial markets. Is the growth of the money markets an unrealistic policy or is it proof of a period of prosperity that will continue as a general tendency? What are the consequences of the increasing importance of the financial markets for macroeconomic stability?

Most of the research in the past was simply concerned with the effect of the stock exchange on the national economy. More recently, there have been a few studies which try to distinguish between individual stock markets and the influence they exercise on the management of public money. The dissimilarities between them have made some scholars

to examine the inherent characteristics of an economy which is based on the stock exchange, such as the important role of organizational entrepreneurs, and the less important role of banking corporations, and try to find out what difference does it make to the allocation of resources (Allen and Gale, 2001; Allen and Gayle, 2000; Carlin and Mayer, 2000; O'Sullivan, 2003). In other words, they are more concerned with the organizational structure of the stock markets and the effect they have on economic growth.

Indeed, the financial markets can exercise a large influence on the economy as a whole. However, a particularly important question to address is whether the firms use their net profits simply to maintain their own properties and possessions, if this is true the issue of new shares is not very likely to have a great effect on the political, economic, and social environment. This is not to say that the issue of new stocks exercises no influence on the firm but that the allocation of resources does not affect the national economy. For instance, if the issue of new shares is used to finance a merger or leveraged buyout, the effect of this policy, to the extent that it occurs, will be on the improvement of the productivity of the firms purchased or merged, and their competitiveness in a particular sector.

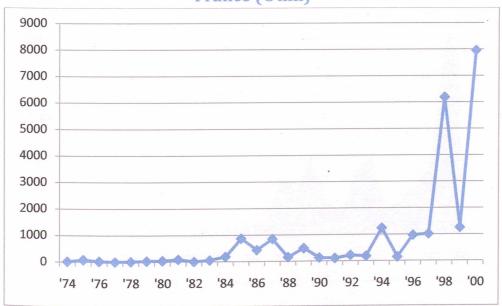
The Monory Law in the seventies which permitted investors to have savings in issued shares exempt from taxes, is considered to be the turning point for the beginning of the golden age of equity ownership. However, as the data indicates, the trends were not continuous. For instance, when the Left was in government during the eighties, and several big companies in France were nationalized, the provision of capital through the stock exchange dropped as a percentage of Gross Domestic Product from 9% in the early eighties to 6% in the mideighties. Because of a wave of French denationalizations and the restructure of the stock markets, it recuperated since the mideighties and increased to 22% by the late eighties. Nevertheless, this trend was briefly interrupted because of a short failure in the stock markets and, in comparison with the late eighties, it decreased by 16% in the early nineties (Paris Bourse, 2003). The stock exchange returned to health to arrive at 35% in the midnineties but it dropped to 33% by the late nineties. Then it decreased marginally to 32% at the turn of the century. Since the beginning of this decade the provision of capital through the stock markets has soared to arrive at 112% of GDP (ibid. 2003).

Just before the elections in the late nineties the Socialists pledged to stop the selling out of national property. Once in office, nevertheless, the Jospin government chose to follow another policy. At the beginning of the twenty-first century the Socialists had sold out national wealth valued at about 25 billion Euros, which was more than the volume of

denationalizations during the Baladur and Juppé administrations in the early nineties and the mid-nineties respectively (O'Sullivan, 2003). Some of the large firms in France that were privatized under the Jospin government were CIC, CNP, Credit Fonsier, Credit Lyonnais, GAN, Société Marsellaise de Credit, Thompson-CSF, and Thompson Multimedia. Besides, Air France and France Telecom were partly denationalized, even though the state described these transactions as an opening of the capital structure of these companies instead of privatization.

Chart 3 displays evidence of the profits from Initial Public Offerings related to public share offerings between the mid-seventies and the turn of the century in France. It illustrates that there was a sharp rise in IPOs during the mid-eighties. They decreased after a short failure in the stock exchange in the late eighties. They picked up for a short while but came down again during the early nineties. And then, they increased to a substantial one and a quarter billion Euros in the mid-nineties. Later on, the profits from Initial Public Offerings arrived at an all time high during the late nineties. The public share offerings related to Initial Public Offerings in France added up to a staggering three and a half billion Euros in the late nineties in comparison with less than four hundred million Euros during the early nineties, just over three hundred and fifty million Euros in the late eighties, less than two hundred million Euros during the early eighties, and only about twenty-five million Euros in the late seventies.

Chart 3: Public Share Offerings Related to Initial Public Offerings in France (€ mn)



Source: Année Boursière, various years.

In relation to the issue of new shares we can observe some important developments in the recent past. For instance an enquiry into the ownership and how shareholder value is generated by French firms discloses that the distribution of dividend yields has been the new norm in France since the early nineties and reached an all time high at 27% during the midnineties. This was followed by a decrease to just 2% in the late nineties. However, since the turn of the century has increased substantially once again. This is something that was analyzed in some detail in the previous section. In particular, the amount of foreign direct investment has grown very fast since the beginning of this decade which has brought about a new organizational culture that emphasizes on the generation of shareholder value.

The quoted firms in France also managed to accumulate wealth through the conversion of high indebtedness. Chart 4 displays that French quoted companies often used the stock exchange to accumulate capital through the conversion of high debt, in particular through public offerings of convertible bonds. After the market had reached a bottom during the eighties, the amount of convertible bonds built up substantially during the nineties. The sum of more than twenty-seven billion Euros was accumulated through the conversion of high indebtedness, in comparison with less than twenty-two billion Euros through the issue of new shares. The financial season 1999-2000 was of special importance for the conversion of high debt, in fact these two years account for as much as fifty per cent of the accumulated wealth through convertible securities.

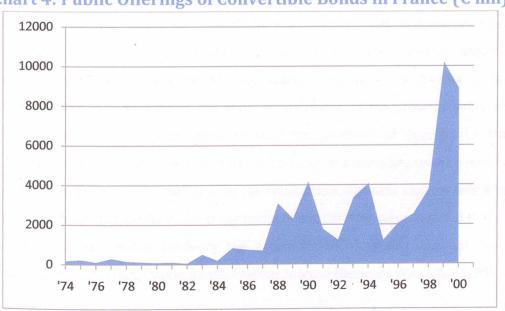


Chart 4: Public Offerings of Convertible Bonds in France (€ mn)

Source: Année Boursière, various years.

Since the early 2000s, several big companies in France have registered American Depository Receipts on the New York Stock Exchange and some of them have registered ADRs on the NASDAQ. They are also known as American Depository Shares and are proceeds drom stocks of a foreign firm which are entrusted to a US financial institution. They entitle the owners to dividend yields but the shares themselves and the ballots related to them, are entrusted to a US financial organization. It must be said, nevertheless, that ADRs can be converted into ordinary stocks at the owner's request.

The main reason for the wave of denationalizations was the state's budget deficit. One way or another, all privatizations resulted in the allocation of resources from the stock markets to the French ministry of Finance. The most important reasons for the denationalizations were economic, such as the need to reduce the deficit of the public sector and to decrease the indebtedness of the public companies. However, some of the reasons were also political, such as the government's shift from François Mitterrand's Keynesianism, and Jacques Chirac's extensive privatization plan that included sixty-five state owned enterprises and a large number of banks, was similar to the policy of Margaret Thatcher in Britain, with the main objective to increase the number of stockholders in France (Jefferys, 2003). The most important objective for the restructure of the stock exchange and the expansion of the stock markets that followed was to assist the denationalization of the public firms as opposed to raise new capital (Juvin, 1995).

What is particularly important about the Initial Public Offerings, is that only in few of these cases the main objective was to raise capital for the company itself. In many occasions, for example, CBS, ISIS, Rhodia, Technip, and particularly Alstom, there was no allocation of resources from the stock exchange to the firm, in fact, Pierre Bilger, the chairman of Alstom, described the IPO as a homage to the good management of the previous years and he announced that the money was raised to fund the purchase of Cegelec (La Tribune, 03/06/98). In some instances, it was part of the strategy of a company to raise new capital but this accounted for only a small part of the transaction. Business Objects was a special case, for the reason that the funds from the Initial Public Offering were invested in the firm, but constant to the general tendency the accumulation of wealth was not the most important objective for registration on the Premier Marché (Business Wire, 05/11/99).

Table 9: Domestic Initial Public Offerings on the Premier Marché (€

Year	Company	Money Raised	Description
1998	Alstom	576.2	Spinoff

CBC	5.9	Spinoff
Coflexip	18.8	Spinoff
EADS n.v.	351.9	
Euler	73.1	
ISIS	33.4	Spinoff
Rhodia	172.1	Spinoff
Technip	9.8	Spinoff
Vivendi Environment	360	
Wanadoo	260.7	
	Coflexip EADS n.v. Euler ISIS Rhodia Technip Vivendi Environment	Coflexip         18.8           EADS n.v.         351.9           Euler         73.1           ISIS         33.4           Rhodia         172.1           Technip         9.8           Vivendi Environment         360

Source: Anneé Boursière, various years.

The idea that firms use the Initial Public Offerings to raise capital seems to be more appropriate for companies quoted on the Nouveau Marché than firms listed on the Premier Marché. The fact that NM companies tend to use the IPOs to accumulate capital to support the growth of the firms, comes as no surprise, given that they are usually not as self-sufficient as PM companies. Nevertheless, it must be said that that it is also required by law that firms in the Nouveau Marché invest fifty percent or more of the Initial Public Offering for their development. This makes it clear that even if the main objective of the IPO was to wind up the firm, the restraining power of the statutory legislation makes the company to spend a fairly large amount of the transaction for the growth of the firm.

A few companies of the public sector that made an effort to raise capital are among the most profitable transactions that took place during the nineties. The deal in which GAN the French financial company, accumulated more than 1.5 billion Euros in the late nineties was part of a strategy laid out by the French government to subsidize and rebuild the firm prior to its denationalization. The French state contributed 84% of the allocated resources and the outstanding 16% was contributed by institutional investors and small shareholders (Les Echos, 13/11/97). Machines Bull is another company that managed to raise new capital in the nineties just before the firm's privatization. The French government which controlled 72% of the electronics giant contributed about 1 billion Euros, France Telecom around 245 million Euros, IBM, NEC, and smaller shareholders about 105 million Euros. The new deal helped the company to decrease its high leverage and happened shortly after the state had invested approximately 380 million Euros in the firm (Reuters News Services, 18/10/93).

**Table 10: Ten Largest Public Seasoned Share Offerings for Cash (€** 

	11	111)	
Year	Issuer	Amount	Purpose
1996	AXA	900,131	Purchase of shares

1994	Euro Disney	907,116	Recapitalization
1994	Eurotunnel	1,110,957	Recapitalization
1990	Eurotunnel	858,910	Development
1997	GAN	255,245	Recapitalization
1993	Machines Bull	1,303,406	Recapitalization
1997	Rhône-Poulenc	1,067,143	Acquisition
1990	UAP	1,600,715	Acquisition
1998	Valéo	1,036,653	Acquisition
1998	Vivendi	2,730,294	Acquisition

Source: Anneé Boursière, various years.

The registrations on the stock exchange by Publicis Groupe and Vivendi Universal, were prompted by their acquisitions of Saatchi and Saatchi, and Seagram respectively. Publicis Groupe purchased the British firm's American Depository Receipts indexed on the New York Stock Exchange when it decided to buy out Saatchi and Saatchi. Vivendi Universal had ADRs indexed on the NYSE to back up its merger with Seagram, and the Canadian company and American entrepreneurs agreed to use them as an acquisition currency. Holders of American Depository Receipts have to comply with US rules and regulations which serves as an explanation for their greater appeal to American investors in comparison with other securities (Global Investor, 2000). According to them, if you put an ADR in place, you are essentially submitting in one form or another to US SEC practice and to US regulation, for a US investor, that is a comfort (JP Morgan, 2000).

When the transactions are related to international business, for example, when French firms use the issue of new shares to finance the buyouts of foreign companies, the allocation of resources becomes more complicated. In several occasions French firms used the stock exchange in order to support a strategy for the enlargement of the scale of commercial operations abroad. Although this policy may have pushed forward these companies to a global status in the stock markets, we cannot really argue that the increased competitiveness resulted in the improvement of the national economic environment. This is true, only to the extent that the dividend yields paid to French shareholders are maximized as a consequence of international expansion.

This section demonstrated that to understand the interaction of capital and growth we have to draw distinctions between the stock markets, so as to comprehend the allocation of resources through the stock exchange, and the organizations that relate to it, such as institutional investors and banking corporations, and their effect on the national economy. In this part, I analyzed the most significant developments in the financial markets of France

over the last twenty years. The results confirm that the role of the stock exchange in the accumulation of wealth for capitalist economies is particularly important for macroeconomic stability. Of special prominence is the fact that most of the capital raised in the bourse helped the French state to improve the performance of firms, and it was basically used to assist the denationalization of public companies. The findings also indicate that we should not take it for granted that the accumulation of wealth through the stock markets always results in the improvement of the allocation of resources to national economies, what is more likely to happen is the decrease in the influence of banking corporations and the reorganization of investment management. In relation to the theories of economic growth, furthermore, arguments that regard growth as the outcome of the emergence of new financial players, radical organizational change, or dynamic political decisions, probably underestimate the benefits of economic growth for incumbents.

#### 3.11 The Historical Evolution of the Latin Model

This final section is an effort to bring enough of the argument together by outlining what are considered to be the main historical evolutions of French capitalism and by arguing the key role of the entrepreneur. The originality of this approach lies in the emphasis given on the role of organizational entrepreneurs and the dynamics of capitalism. The argument is that capitalism under certain circumstances, includes the critique of the organizational entrepreneurs in order to evolve. The organizational entrepreneurs are defined as agents in the economy and the society who, as they encounter socioeconomic phenomena they deem regrettable or maybe dangerous, at the same time produce a critique of the economy and the society, a diagnosis of the risks involved, and propositions for organizational change, irrespective of whether this organizational change is thought as realistic or utopian. The entrepreneurs who become influential and whose views are accepted are rarely lone wanderers, in general they are an integral part of a socioeconomic movement, attend meetings of clubs, organize conferences, and have supporters. A main characteristic of such entrepreneurs, who are considered to be conveyors of political rationalities and programmes as well as advocates of new technologies, for example budgetary control, is that they are not always in a position of authority at the beginning of the process of reformation (Miller and Rose, 1992). They are usually critical of the status quo and public policies, and they have the tendency to position themselves as forces for propositions. But their views may be accepted by enterprises or governments often in order to overcome a

socioeconomic crisis. Their language and vocabulary are conveyed to the very heart of the business system against which they were produced, and their propositions are adopted by the dominant groups of their times. Their proposals give birth to ideas for new mechanisms, and bring about innovative tools which avant-garde managers put into practice.

Other studies have, like this one, taken an interest in the reform process, the circumstances of institutionalization, and structuration of practices, and the language and vocabulary that sustain them (Abrahamson, 1996; Barley and Tolbert, 1997; Oliver, 1991; Watson, 1995; Zbaracki, 1998). This work makes reference to some of these studies and demonstrates how they can be related to the theoretical framework that is used, which is based on a translation of Le Nouvel Esprit du Capitalisme, by expanding on the other studies and emphasizing on the key role of entrepreneurs in organizational change (Boltanski and Chiapello, 2005).

The historical approach taken in this section outlines the main historical periods of a long duration that encompass a normative time as well as a rational time. The first historical phase runs from the early twentieth century to the difficult crisis of the thirties, defined by welfare work and scientific management rhetorics (Abrahamson, 1997). The second historical phase starts with the efforts made to overcome the socioeconomic crisis of the thirties, then to reclaim the world after the political, economic and social crisis of World War II, extending to the sixties when French capitalism encountered another difficult crisis. This second historical phase is marked by human relations and personnel management as well as systems rationalism rhetorics (Barley and Kunda, 1992). A third historical phase begins with the emergence of the Situationist International in the late sixties which started as a resistance to authority and a denial of the mainstream society, and culminated in an economic crisis after the seventies oil shock. This third historical phase is considered to be continuing without interruption and is defined by organization culture and quality rhetorics (Abrahamson, 1997). The current historical period is also marked by rational mechanisms, for example processes for quality control, and applications of information technology. Each historical period roughly corresponds to what has been defined as a spirit of capitalism (Boltanski and Chiapello, 2005).

In the same manner as the political rationalities proposed by some scholars, in other words the changing discursive fields within which the exercise of power is conceptualized, the moral justification for particular ways of exercising power by diverse authorities, the spirit of capitalism also includes its own philosophy and methodology (Miller and Rose, 1992).

Therefore, in each historical phase the managerial discourse has its distinctive language and vocabulary, which help the dominant groups of the times to form the enterprise and governmental technologies, in other words the complex mundane programmes, calculations, techniques, apparatuses, documents and procedures through which authorities seek to embody and give effect to governmental ambitions; these technologies of government seek to translate thought into the domain of reality, and to establish in the world of persons and things spaces and devices for acting upon those entities of which they dream and scheme (Miller and Rose 1990). What is the proposition of this work is to relate this theoretical framework with the hypothesis on the origin of ideologies that come into existence during certain historical periods. Where do these philosophies, methodologies, and ideologies come from to conceive institutions, political rationalities, and the spirit of capitalism? It was analysed in some detail in one of the previous sections that in the case of France, at least in the area of dynamic policies during the last ten years or so, it is the organizational entrepreneurs who have been spearheading the processes that are bringing the country out of exceptionalism and into the global sphere of influence.

The originality of this work also lies in the role it attributes to the critique of capitalism in generating organizational change in corporate governance and employment relations. Scholars have identified different styles of critiques. The first is what the authors call the social critique (Berland and Chiapello, 2003). Here the emphasis is on inequalities, misery, exploitation, and the selfishness of a world that stimulates individualism rather than solidarity. Its main vector has been the labour movement. The second form of criticism, the artistic critique, first emerged in small artistic and intellectual circles, and stresses other characteristics of capitalism. In a capitalist world, it criticizes oppression, the massification of society, standardization and pervasive commodification. It vindicates an ideal of liberation and individual autonomy, singularity and authenticity (Chiapello, 1998). A third type of criticism is produced by organizational entrepreneurs and the socioeconomic networks to which they belong. Their style of critique is theoretical, it aims to diagnose problems, draw attention to situations considered negative, and propose modifications. But it is also practical with the organization of courses to popularize their ideas (Tilly, 1989). Generally, the practices of corporate governance during certain historical phases, particularly those considered to be the best practices, are dependent on the level of criticism. Most of the transformation that French capitalism has gone through since the late sixties can therefore be attributed to a mixture of the critiques from the decade of the seventies to the present day and their urgent requirements for liberty, autonomy, and better human relations. The

theoretical framework used as basis here was initially developed to propose an interpretation of changes in business management methods in France from the post-1968 years (Berland and Chiapello, 2003). Accordingly, it is suggested that the ongoing transformation during the historical period analyzed in this chapter is for the most part the outcome of a synthesis of criticisms formulated by the labour movement, intellectual circles, and organizational entrepreneurs, a point of view that essentially diverts from the standard opinion in the academic literature that all reforms in the French variety of capitalism should be expected to come through the state.

Other than the three main historical phases identified above there is also a sharp distinction between the economic policies of the prewar era and the ones of the postwar era. New Keynesian policies were selected to replace the old Malthusian style, these economic policies were based on productivity gains realized through Taylorism, and were shared between managers and workers, a mode of production thought as Fordist by the regulation theory (Aglietta, 2001; Boyer and Mistral, 1978). Economic, technical, and military aid given by the United States to France for purposes of relief, stabilization and defense contributed to the national reconstruction. It was far too significant for the United States to compete against the Soviet Union and secure capitalism in Western Europe. This foreign aid demanded reorganization to disperse through the country and accommodate any future needs. To direct the national reconstruction, a major planning effort began, that involved the organizational entrepreneurs. They organized conferences with members of parliament to jointly decide on long-term projects. Therefore, central planning became over the years a responsibility shared by the entrepreneurs and the state. In contrast to a bureaucratic approach where needs are decided at the top, in Jean Monnet's mind the aim was to associate the interested parties in order to acquire persuasive force. To identify the country's needs, a new national statistics office, the Institut National de la Statistique et des Etudes Économiques, was set up to replace the former Statistique Générale de France (Debrosières, 1998; Volle, 1977). The productivity gains were an integral part of this grand design. The liberal doctrine and its productivity principles were intensively propagated to sustain the American model.

However, this doesn't mean that there were no divisions in postwar France, and the urge to reform the economy was not any stronger than the urge to disengage from the moral disorder brought about by the Vichy administration. The psychological climate in which economic reform occurred was one of struggle. What began as an international war against

Nazism increasingly became a civil war against Vichy and its supporters. The internal enemy, in economic terms, which was held heavily responsible for the defeat of 1940 and accused of being the mainstay of collaboration, was capitalism in general and the trusts in particular (Kuisel, 1983). What was needed was transcending liberalism, which had brought egotism, disorder, and backwardness under the republic, and destroying corporatism, which had ended in subjugation under Petain. Alongside the hardline republic would be an organized, yet free, economy dedicated to human dignity, economic equality, growth and the national interest (ibid. 1983).

In postwar France, the Fordist mode of production eventually came to be considered as a viable solution by many people who before World War II were in search of a third way between economic liberalism and state socialism. Some of the old problems had now become more relevant because of the increased authority of the communist party, which had come out unscathed from the war, and appeared to be reinforced from the violent political, economic, and social contestation, which also made many people fear would culminate in a communist regime. It was a matter of the utmost importance to ensure that any productivity gains related to future growth would be shared between the employers and the employees, and to reach a new equilibrium for the relations between managers and workers within the enterprise.

In more recent years the need to transform business management so that no political, economic, and social unrest like the ones experienced in the past could ever happen again is clear in the outcome of the organizational enterepreneurs. They promoted the evolution of the technology of budgetary control in an attempt to regulate the business system by proposing that the budget should be defined as a search to plan and take measures to use all the serious data obtainable. In this way, we can distinguish and limit the speculative aspects of capitalism (Berland and Chiapello, 2005). They also thought that budgetary control would serve as a protection or defense for corporate governance. The development of the budget concept, particularly the long-term investment budget covering whole decades, is a response by the capitalist economy to the reproach first expressed long ago by representatives of the socialist economy, that it lacks foresight in the event of crises, which can only be avoided by such a method (ibid. 2005).

In an effort to provide a more comprehensive review of the main historical evolutions of French capitalism we can also identify three main configurations of reforming currents borrowing from the fields of history and sociology. The first reforming ideology was

corporatism that placed the collective spirit at the centre of the economy and the society. It was firmly implanted in European culture and was associated with the rise of fascism in central Europe. The key idea of corporatism was the revitalization of enterprises, in a way that would make them resemble the old métiers, which are defined as professional groups comprised of individual specialists of the same occupation, irrespective of class, in other words employers and employees together (Kuisel, 1984). These bodies would assume the task of arbitrating industrial disputes, fixing work conditions, controlling prices, and determining the quality and even the quantity of the output. And in a corporatist state a system of professional representation elected an economic assembly that bypassed party politics and strengthened the republic's competence in economic affairs.

The second reforming current was planisme and technocracy. Whereas the corporatist ideology tried to prevail over the anarchy of individualism by reconstituting the natural cells of social organism, the planners and technocrats were seeking to manage the economy. They were in favour of the preservation of free market capitalism and wanted to adjust it and reduce the socioeconomic conflicts it produced. They thought that the society and the economy were in need of structural reformation to fight against the discrepancies and irregularities generated by the free market system. Scholars have differentiated between two general tendencies in planisme and technocracy, the neo-liberalist planners and technocrats and the syndicalist-socialist planners and technocrats (Berland and Chiapello, 2006). While the first embraced planning to perfect capitalism, the second did so to build socialism. These two currents had several points in common; reason, controls, and planning were to replace the natural mechanisms of the market. Neo-liberal planisme attracted managers, engineers and high-ranking civil cervants, people who valued forecasting, controls, self-discipline and cooperative networks. Socialist trade unionist planners, on the other hand, were in favour of nationalisations, rigorous interventionism and trade unions (ibid. 2006). These two general tendencies have been responsible for the dirigisme that defined the latin model of capitalism, and it was only during the last few years that the country managed to transition from a state-mediated to a state-enhanced system.

The third reforming ideology was inspired by Human Resource Management, perhaps a better term would be economic humanism, a phrase coined by Coutrot, because the concept was not completely original, and it is sometimes difficult to recognize as distinct or different the reforming currents from the United States and the reforming ideologies which are deeply rooted in European history (Berland and Chiapello, 2009). The concept of

responsibility centres, which for the most part were nonexistent in national business systems of the past, expanded in more recent years as the need for organizational decentralization became much stronger and eventually culminated in the development of high commitment human resource. All the reforming currents of the dominant groups of their time have been contested. The objective, nevertheless, continues to be as specified, in other words to succeed in the formation of a cooperative environment between managers and workers. According to some scholars the main objective was to achieve what corporatism had failed to do, but by other means (ibid. 2009).

Distinct theoretical frameworks have been developed to determine the elements or essential features of the varieties of capitalism that existed either at different historical phases in a certain country, or in different countries at a certain historical period (Boyer, 2002; Crouch and Streek, 1997; Hall and Soskice 2001). In general, nevertheless, the academic literature tends to disregard both the power of reforming currents, although they study and compare the institutions, they tend to neglect ideologies as social institutions, and the key role of organizational entrepreneurs to convey political rationalities and programmes, and to advocate new technologies of government. Some research on the modes of regulation in advanced capitalism is actually inspired by these theoretical frameworks but for the most part has ignored the institutional role of reforming ideologies and has not analysed the language and vocabulary used to transform the social reality of the economic environment (Cooper et al. 1987). This chapter has demonstrated that it is possible to expand the academic literature on the varieties of capitalism into an analysis that is concerned with the role of reforming currents, and that organizational entrepreneurs can also find a place in the critique of capitalism.

# 3.12 Conclusions: Étatisme vs Internationalization

Decentralization, deregulation, and privatizations, at least partially transformed the character of the French State, by decreasing the influence of its interventionist policies, which in combination with the liberalization of the financial markets increased the independence of big companies and provided for a more efficient allocation of resources. Moreover, the Law by the European Union which keeps state subsidies in check has also restrained the government. Despite of these developments, the state has not entirely abstained from exercising authority on managers and workers in the right circumstances.

Section 3.1 suggested that dirigiste economies like France have transitioned from state-mediated to state-enhanced.

It is possible that the centralized steering of the economy by the state was based on the opinion that the families in charge of the French economy in the past were an obstacle to its evolution. However, the government was also convinced that simply a change in management would not be enough for political, economic, and social progress. It was decided that other policies were needed to give a new lease on life to French corporate governance and industrial relations. In an effort to achieve this objective, the state totally reformed the organizational structure of business administration. One of the most important methods to exercise influence was its involvement in French financial markets. The government also decided on a wide range of policies for the improvement of higher education and vocational training in France, as well as for the introduction of new products and services (Amable et al. 1997). Section 3.2 demonstrated that a well established network of corporate governance has gone through a number of changes.

The nature of French capitalism was defined for several years by state mediation, subsidies, and taxes, and until the eighties, the politicians were by far the most significant players in French financial markets. There was a growing concern, as a result, that the large firms would not be able to make a successful comeback. In fact, it was almost certain that the reconstruction of corporate governance should be expected to happen through the state (Cohen, 1989). With the intention to escape from the outdated and inconsistent organizational structure they were trapped since the French model of Fordist production started to decline, the big companies did not want incremental adjustment but a radical change (Hancké, 2003; Howell, 1992). Section 3.3 illustrated that countries such as France which may not have been equipped with a solid regional infrastructure are still capable of organizational change.

The organizational transformation appears to be a sudden shift from the traditional practice of Taylorist management (Schwamberger and Yami, 2000). In my view, there is probably not a one best way to restructure the business administration. In fact, to bring the managers into agreement with the workers is particularly important that each firm can choose an appropriate model for its particular circumstances. A more flexible management can provide support for collective bargaining, and we also observe that employees are now more involved in work-time agreements. As a result, the phases in production and the organizational operations are not disintegrated. Remuneration is not the one and only

incentive for workers, the increased importance of their tasks and responsibilities is also a significant motivation. Finally, the recent agreements call in question the effectiveness of the old organizational structure. Nevertheless, we note that they are basically a way to restrain the antagonistic character of the old management. Section 3.4 argued that a French version of Taylorism has developed into a contractual model which emphasizes on coordination and consensus.

My analysis of the institutional complementarities in business systems emphasized on the interaction between corporate governance, financial markets, and industrial relations. To understand the rise of Total Quality Management in business administration, for example, it was very useful to analyze the recent and current developments in the area of production systems. Scholars who specialize in one subject usually try to interpret the events in a particular area by enquiring into the developments in the same field of knowledge. The studies of corporate governance will often enquire into the institutions that exercise influence on decision making in that particular area, while other studies, for instance, will analyze the events in the private sector in relation to the financial markets (Goedegeburre, 1993). Corporate governance is an area defined by path dependency but this can also become path departure when we set clear objectives and our analysis is not based on the same subject but it relies on different fields of knowledge. Section 3.5 provided a state centric description of the emergence of entrepreneurial culture based upon the propositions advanced by historical institutionalism.

The process of the selection of managers is determined by the grand corps which is the highest level of French business administration, succession to which is dependent on studying at one of the grandes écoles. Scholars describe the grand corps as placement bureau, they suggest that no one was accepted in the Inspection des Finances to administrate resources, or the Corps des Mines to work in mines (Suleiman, 1978). Once they spend about a decade working for the state, often in civil service, the new managers are promoted to the executive committee of a big company, a process defined as parachutage or pantouflage. The ones who descend from prominent families usually obtain qualifications from the grandes écoles so as to legitimate their position which also provides for an interpretation of the continuation of the elite in French business administration and the current political, economic, and social environment. Section 3.6 proposed that what can be expected instead of the abrupt dismantlement of French cross-shareholdings is their incremental adjustment to global markets.

My research draws attention to the entrepreneur as the driving force of institutional change. In this context, corporate governance is determined by the personal characteristics of business managers. One of these characteristics is the existence of an intellectual background that is able to challenge the predominant ideology. Nevertheless, an innovative idea about institutional transformation is not enough to exercise influence on the business system as a whole. This is possible only when the entrepreneur is willing to commit himself or herself to this particular purpose. In theory, it is not the managers who interact with the organizational structure. The motive power of innovation in management is, in general, considered to be the interaction between organizations and institutions (North, 1993). As a result, an organization can be regarded as a platform to use and exercise political, economic, and social influence. It must be said, however, that the institutions which are particularly important for the entrepreneur are not limited to the stock exchange. Various organizations such as employer associations, banking corporations, works councils, and trade unions can also be useful for this particular purpose. Section 3.7 argued that entrepreneurs have emerged as influential in the support of a style of business administration that encourages the creation of shareholder value.

The increase in proceeds, subsequent to denationalizations, is dependent on the volume of stocks allocated to a large shareholder and other investors from abroad. Although in agreement with the theory of corporate governance this proposition is commonplace, because it is a priori based on the effect of the discipline in relation to concentrated shareholders and major investors from overseas, when the larger shareholder happens to be the state, contrary to the arguments of some scholars, there is a noticeable improvement of productivity after privatizations, which challenges the concept of the bad influence of the government on the competitiveness of enterprises (Elrich et al. 1994; Verbrugge, 1999). The denationalizations which are complemented with a progressive disengagement from the state have a higher probability of recovery. From a different perspective, the favourable circumstances related to the influence of organizational entrepreneurs from abroad come as a consequence of the international legislation in relation to corporate governance. Section 3.8 tried to answer the question whether privatizations have contributed to the improvement of the efficiency of French corporations by using the Wilcoxon tests.

Eventually, the shared ideology of the French managing directors has changed with regard to the dispersion of shareholder value. The majority of them think it is wrong to consider this development as something undesirable because it adds to the modernization of corporate

governance in France. The chief executives will have to take into consideration the shareholders demands, and also try to meet their expectations for the maximization of dividend yields. Some of them are talking about insecurity as they have to deal with a relatively new style of business administration by French standards. A weak minority are still resistant to the dispersion of this organizational culture which they however have to adapt to (Morin, 2000). But most of them accept that it is now impossible to disregard it. Section 3.9 discussed the effect of foreign direct investment on the organizational structure of corporate governance in France.

When the transfer of ownership and control is related to cross-border acquisitions, especially when French firms use the distribution of securities to finance the purchase of foreign companies, the allocation of capital is more complex. In many cases French firms have used the stock markets to support their strategy for expansion overseas. Even though this policy has brought these companies into prominence in the global financial markets, we must be cautious not to assume that their improved reputation has resulted in the improvement of the national economy. This is true, only to the extent that the dividend yields paid to French shareholders are maximized because of the international expansion. Section 3.10 tried to determine the reasons for the increased significance of financial markets in developed countries like France.

Finally, section 3.11 made an effort to bring enough of the argument together by outlining what are considered to be the main historical evolutions of French capitalism and by arguing the key role of the entrepreneur. The section looked at the country, its politics, population, and employment relations to argue that at least in the area of dynamic policies during the last ten years or so, it is the organizational entrepreneurs who have been spearheading the processes that are bringing the country out of exceptionalism and into the global sphere of influence. It defined the role of the entrepreneurs, explained why they have embraced institutional change, and how deep and wide this organizational change is.

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# **Epilogue**

"If liberty and equality are chiefly to be found in democracy, they will be best attained when all persons alike share in government to the utmost". (Aristotle)

**Miltiadis Panagiotopoulos** 

## (1) Introduction

The most appropriate way to introduce the epiliogue, apart from indicating its structure, is to go back to the research questions in the introduction and to pose them again here, with the answers that can now be summarized from the research that has been carried out. Based on the particularly significant findings that have been produced, the epilogue first draws some conclusions in relation to the aims and objectives of the individual chapters, it then offers a comparative analysis all across the board between the three case study countries, and continues by drawing overall conclusions and reflecting on how the thesis moved the debate forward and what future research directions emerge from the thesis.

With regard to the first chapter in particular, the study tried to explore the connection between works councils and the adaptability and endurance of trade unions in the complex world of global markets. It was found that the economic and social progress of Germany is sustained by a comprehensive network of partnerships that includes several partners, such as banking corporations, works councils, and labour institutions. The German model is a good example of a coordinated market economy with payment plans which help companies to sign long-term contracts, develop vocational training, and expand to diversified industries. Our conclusion is in agreement with some scholars who equipped with the advantage of a comparative approach, have been favourably disposed, for the most part, towards this variety of capitalism as opposed to the theoretically less efficient Anglo-American model (Hall and Soskice, 2001).

The first case study made an effort to add to the research of the process of organizational change through incremental adjustment. It was found that based on the continuous improvement of know-how, work organization, and vocational training, diversified quality production policies are assisted by codetermination as it helps the assimilation of workers into company level coalitions, as well as organizational change, which is discussed with trade unionists, regulated by firm level arrangements and achieved in a simple manner. In addition, negotiations at the company level draw our attention to a general tendency in wage systems which provides for a high level of earnings (Hassel, 1999). Centralized agreements overlook the large differences of firms which offer variable remuneration schemes. Big companies are able to negotiate with workers' representatives wages above the going rate, as well as more appropriate remuneration schemes, so they can bring in more qualified employees.

The first chapter also tried to inquire into the reorganization of national trade unions in those areas which appear to be the most important. It was found that in spite of the problems related to organizational change, special importance should be attributed to other concepts about the restructuring of labour institutions which combine distinct policies. German trade unions need to develop a strategy at the European level and also focus on workplace practice. In relation to the latter, the revitalization of labour institutions depends upon the recruitment of new members and vocational training complemented with delegation of power to the local level and organizational change. As directors introduce reforms at the shopfloor, workers will also have to respond with amendments which are advantageous to the employees. Groping to regain the initiative increases worker's authority at the workplace and forms new strategies.

With reference to the second case study in specific, the thesis made an effort to explore the impact of stakeholding on the role of trade unions as regards the relations between employers and employees. It was found that the dispersion of social partnership has a great effect on the determination of union strategies and the current developments in industrial relations. The success of partnership unionism is dependent upon the support of both managers and workers. When the Conservative Party were still in power and the European Union was not present, trade unions had no other option but to focus on the shopfloor. However, the extended jurisdiction of the European Parliament, supported by the Socialists, suggests that we can look forward to more constitutional acts, to arrive, like the EU Directive Establishing a General Framework for Informing and Consulting Employees, and restore to favour the enfeebled labour institutions. At this point, the concept of social partnership as a different form of corporate governance or a different style of employee involvement has already proved its status with European Works Councils. As a result, we can also expect the language of politicians, economists, chief executives, and trade unionists to reflect new ideas and original concepts. Nonetheless, if social partnership is based on a fragmented organizational structure of workplace relations, the authority and sovereignty of labour institutions are both at stake. Despite the fact that the academic literature of industrial relations and trade unions provides for different interpretations, social partnership is better understood as an alternative to pluralism or unitarism.

The second chapter tried to add to the research on the decline of unionism and to determine if the late developments point to regeneration. It was found that in relation to union tactics, the balance between providing for old workers and recruiting new employees

was not always the right one. Until very recently, the collection of statistics and the monitor of promotions had not been given proper attention. It was taking far too long for labour institutions to deal with the administration of these tasks and responsibilities and in particular to cope with the breakdown of centralized agreements. The emphasis, more recently, on business ethics indicates that these problems may have been resolved.

The second case study also made an effort to inquire into the effect of European statutory legislation on national industrial relations and trade unions. It was found that workplace relations systems are path dependent and difficult to emulate. There are probably some lessons to be learned from the continental European countries. If British labour institutions follow the American way they will become isolated in the shrinking field of collective bargaining. On the other hand, it is very likely that they can benefit from works council type agreements like in Germany. However, the French example indicates there is not one best way to succeed, unless they are able to really benefit from these agreements. The conclusion reached is that European style representation and participation can be transferred to Britain. My research demonstrated that there have been reforms in British Law towards multiple channels of advising and counseling and this is particularly important for both employers and employees. Furthermore, the introduction of the Information and Consultation directive and the complementary Works Council directive are reasonably expected to have a much greater effect. To conclude, social partnership and collective organization can complement each other because a multi-channel network of worker representation and participation with works councils and trade unions can support this organizational compatibility.

With regard to the third chapter in particular, the study tried to explore the emergence of entrepreneurial culture based upon the propositions advanced by historical institutionalism. It was found that institutional complementarities in business systems are present in the interaction between corporate governance, financial markets, and industrial relations. My research looked at the national state, its politics, people, and employment relations to argue that at least in the area of dynamic policies during the last ten years or so, it is the organizational entrepreneurs who have been spearheading the processes that are bringing the national state out of exceptionalism and into the global sphere of influence. It defined the role of the entrepreneurs, explained why they have embraced institutional change, and how deep and wide this organizational change is.

The third case study made an effort to add to the research of foreign direct investment on the organizational structure of corporate governance and industrial relations. It was found that, eventually, the shared ideology of the French managing directors has changed as regards the dispersion of shareholder value. The majority of them think it is wrong to consider this development as something undesirable because it adds to the modernization of corporate governance in France. The chief executives will have to take into consideration the shareholders demands, and also try to meat their expectations for the maximization of dividend yields. Some of them are talking about insecurity as they have to deal with a relatively new style of business administration by French standards. A weak minority are still resistant to the dispersion of this organizational structure which they however have to adapt to (Morin, 2000). But most of them accept that it is now impossible to disregard it.

The third chapter also tried to inquire into the way the three varieties of capitalism, Germany, Britain, and France, have all been adjusted. The study, on the whole, emphasizes a high degree of persistence, although in changing forms, and concludes that the three varieties of capitalism have all been adjusted by moving towards different directions. It was found that the complementarity of political economy with corporate governance, that was first identified by scholars who reported on its significance, is dependent on regulation which is the determining factor in the evolution of business administration (Bris and Cabolis, 2002; La Porta et al. 2002). Regulation often determines the dissimilarities between countries, and the effect of these differences on the level of investment, the diversification of financial markets, the amount of dividend yields, the ownership and control of firms, and the strategy and objectives of companies. The thesis adds to the existing research literature by extending concepts and arguments in relation to all these issues.

## (2) Comparative Analysis

In the academic literature of corporate governance some scholars suggest that in reality managing directors do not pursue the interests of shareholders (Allen and Gale, 2001). To the contrary they pursue their own interests which culminates in ineffectiveness. The contradiction between the responsibilities of chief executives and the protection of equity owners has been emphasized by several experts and resulted in the evolution of the agency theory in corporate management (Fama and Jensen, 1983; Hart, 1985; Jensen and Meckling, 1976). The agency approach to business administration focuses on the question: how can

shareholders ensure that managers pursue the shareholders' interests? Some sholars have successfully attempted to answer this question (Schleifer and Vishny, 1997). The thesis has argued that there are limitations in this proposition. A comparative analysis of business systems between countries such as the United Kingdom, Germany, and France provides for an alternative.

In the United Kingdom the executive committee is comprised of outsiders and insiders, the latter being the managing directors of the company. It is unusual that the chief executive officer is not in the committee. The chief executive officer is usually the chairman of the firm. It is the executive committee that decides on the strategy to be followed by the company. The task of managers is to realize the policy decided by the committee. Shareholders have a small role to play in decision-making apart from voting for the executives. For instance, it is the executives who decide on the level of their own wages, without the shareholders. A board of outsiders decides on the general manager's salary. It is only in cases of a proxy contest that the outsiders are elected by the incumbent manager and therefore normally remain loyal to the chief executive.

In Germany corporate governance is different, fifty percent of execurives are selected by the shareholders and fifty percent by the workers. The representatives of shareholders are selected in their own conferences. Two thirds of worker delegates are employed by the firm and one third are representatives of labour institutions. The executive committee selects a chairman and a vice chairman among the executives. More than two thirds of the voters are needed for a chief executive to be selected. As a consequence, the chairman is often from the side of the shareholders and the vice chairman is from the side of the workers. In the case of an equal number of votes in the executive committee the chairman has an extra vote. It is in this way that shareholders can direct a company.

In France the most usual structure is single tiered as in the Anglo-American variety. The executive committee selects the Président Directeur Général, who is like a Chief Executive Officer. He/she is the only person who can represent the firm and is also the only person who can transfer this authority. Single tiered committees are usually comprised of outsiders who are shareholders and representatives of other enterprises with which the company has contractual relations. As in the Anglo-Saxon variety the committee decides on the strategy which is then implemented by the Président Directeur Général. There is also an organizational structure with two tiers, like in Germany. The Conseil de Surveillance is like the supervisory board apart from the fact that the workers cannot be represented.

Nevertheless, one distinct element of the French business system, which brings it closer to the German one, is that there are two ways in which employee representatives can be board members, either elected by all employees or as representatives of employees holding shares, in addition, in a third variant, they can also be present at board meetings as non-board members, only with the right to ask questions (Fulton, 2007).

With regard to regulatory restrictions and share ownership the United Kingdom is less regulated than Germany or France. Banking corporations are unrestricted to share ownership and as long as it is permitted by the Bank of England to large shareholding blocks. Insurance companies are restricted only by the necessity to spread investment which is self-imposed. With reference to shareholdings of non-financial institutions, the only restriction is that companies should not own each other's equity so as to restrain a hostile takeover. In Germany and France there are specific regulations on share ownership related to banking corporations. In both countries there are several restrictions on the amount of companies that can be controlled.

Some experts have researched into the relation of management effectiveness to different performance indicators in France, Germany, and the United States (Allen and Gale 2000; Kaplan, 1994). They found that there is a similar effect in all countries, for example large shareholding blocks and a close relationship with a major banking corporation appear to be quite effective. Other scholars confirm these findings for Japan and also provide evidence for the efficiency of various styles of business administration (Kang and Shivdasani, 1995). Their results indicate that the existence of outsiders in the executive committee has only a relatively small impact on the sensitivity of chief executives or managing directors to earnings or stock prices.

In the market for corporate control, takeovers happen more frequently in liberal economies like the United States or the United Kingdom. Some scholars have reported that in the U.S. more than ten per cent of firms included in the Fortune 500 have been acquired since the eighties in deals that were hostile (Prowse, 1995). For the U.K. other experts have reported there were thirty-five hostile bids that took place during the mid-eighties (Franks and Mayer, 1992). This is much more frequent than in Germany or France. In Germany, it was reported that there have only been three hostile takeovers which have been documented since World War II (Franks and Mayer, 1993). In France, it was reported that there were no hostile takeovers at all between the forties and the nineties (Vives, 2000).

What is the reason for the differences in business administration between countries? Some scholars have suggested that corporate governance evolves in relation to regulatory restrictions (Prowse, 1990). Other experts have indicated that in comprehending the distinct organizational frameworks of business administration in a cross country analysis it is significant to take into consideration the evolution of the economic environment (Roe, 1994). The argument is that the United Kingdom has opted for a business system which restrains the way the authority of financial organizations such as banking organizations is exercised. As a consequence, they cannot not play a very important role in business administration. On the other hand, in Germany and France a different economic landscape has facilitated banks to become engaged with corporate governance.

The opinion that German and French companies do not work for the shareholders is confirmed by available data. In spite of the organizational change the evidence demonstrates that France persists as a stakeholder economy that is more akin to the Geman model. On the one hand, chief executives in the United States and the United Kingdom, 75.6 per cent and 70.5 per cent respectively, think that shareholders are the most significant. On the other hand, executives in Germany and France, 82.7 per cent and 78.0 per cent respectively, think that stakeholders are more important. Chart 1 displays the preferences of managing directors in an international survey of large enterprises organized every ten years for the nations compared, between two distinct options, shareholder interest should be given the first priority (red), or a company exists for the interests of all stakeholders (blue).

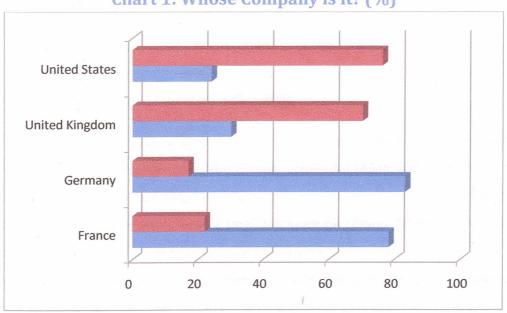


Chart 1: Whose Company is it? (%)

Source: Institute of Fiscal and Monetary Policy, 2001.

The most recent questionnaire by the Institute of Fiscal and Monetary Policy asked the managing directors what their preferences are in relation to dividends and job security. Once again there was a sharp distinction between the United States and the United Kingdom on the one hand and Germany and France on the other. American and British managing directors, 84.5 per cent and 83.0 per cent respectively, believe that executives should maintain dividend payments even if they had to lay off a large number of employees. German and French managing directors, 68.0 per cent and 69.5 per cent respectively, believe that executives should maintain stable employment even if they had to substantially reduce dividends. Managing directors were requested to select from the following options, executives should maintain dividend payments, even if they must lay off a number of employees (red), or they should maintain stable employment, even if they must reduce dividends (blue).

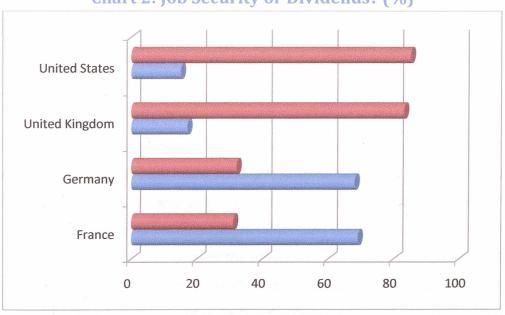


Chart 2: Job Security or Dividends? (%)

Source: Institute of Fiscal and Monetary Policy, 2001.

The survey results on executives' preferences about the role of the company are endorded by the way wages are determined in the nations compared (Allen and Gale, 2001). In the United States and the United Kingdom wages are dependent on the nature of work. The workers' personal circumstances bear a small influence on remuneration. In Germany and France, it is very usual for employees to have family allowances as well as other perks which are quite common between younger workers. In both countries, vacation allowances are widespread. These discrepancies and irregularities indicate that in the U.S. and the U.K. the company is organizationally structured to pursue the interests of shareholders while in

Germany and France it is more of a grand design of people who act together. This is not merely an assertion but a solid argument that is backed up by valid data provided in chart 1 and chart 2 which clearly demonstrates that in American and British companies priority is given to shareholders and dividends whereas in German and French companies priority is given to stakeholders and job security.

To conclude this comparative analysis it becomes appropriate to reflect on the three chapters altogether. The coordinated market economy in Germany has gone through incremental adjustment heading towards a hybrid model but remains distant to a liberal market economy. The United Kingdom has decicively followed the European path although the inherent characteristics of a liberal market economy persist. France has recently become more Anglo-Saxon even though the state retains a central role which makes it more akin to a coordinated market economy. The fact that the three varieties of capitalism have all been adjusted by moving towards different directions makes it possible to speak of a convergence in the future which essentially diverts from free market fundamentalism.

#### (3) Overall Conclusions

Even though the overall argument of the thesis is that greater employee involvement tends to produce positive outcomes, thinking about the Aristotle quote that begins this chapter, it seems that only Germany is close to the democratic ideals of the Greek philosopher who conceived of politics as being like an organism rather than like a machine, and as a collection of parts none of which can exist without the others. This is because German administration is more open to shared governance which equally applies to big companies and small companies. Unfortunately, this is not quite true for Britain or France. Although stakeholder structures of corporate management can act as supportive mechanisms for long term employment, organizational change has supported shareholder oriented business administration all over the world. Can this reformation influence industrial relations and cause a global convergence to a liberal market economy? This study presented a comparison of the institutional complementarities across corporate governance and employment relations in three contrasting European national economies using for the most part a qualitative comparative analysis approach. This was discussed in some detail at the outset and was referenced in the prologue (Creswell, 2004). Examples and case-studies from Germany and France demonstrated that companies in these two countries have to deal now with financial market pressures, just like Britain, though they do so by incremental

adjustment of their national industrial relations systems. Cross-national differences are therefore becoming smaller, but convergence is not likely to happen in the near future.

Countries with outsider systems of corporate governance are fairly homogeneous and market oriented. Liberal market economies sometimes also support long term employment. However, these systems can come in many different flavours. The emergence of managerial capitalism in the United States originated from the divorce of ownership and control many years ago, but was succeeded by a golden age of welfare capitalism for American workers in the postwar years (Jakoby, 1997). During the late eighties and the early nineties an increase in hostile takeovers resulted in the abandonment of diversification policies by companies and an increase in unemployment. Although the separation of ownership and control made managers more autonomous, it culminated in the rise of a market for corporate control which threatened their status. Postwar Japan also experienced the divorce of ownership and control but management was able to secure the stability for shareholders and to resist the emergence of a market for corporate control. This absence of financial market pressures is considered to be the most significant determinant for the rise of the employee oriented Japanese company, and by the absence of financial market pressures we refer to freedom from capital market pressures in general (Jackson and Aguilera, 2004).

On the other hand, countries with insider systems of corporate management and employment relations are more diversified, in agreement with the concept of functional equivalence, equivalent functions may be played by different institutions (Merton, 1967). For instance, stockholders may be concentrated in comparison with the United States and the United Kingdom, but blockholders can come from different backgrounds, for example, they may be families, coalitions, or investors. Industrial relations are cooperative compared to outsider systems of corporate governance, but diversified in relation to co-ordination of wage bargaining and employment protection law. The security of workers results from statutory legislation, company-level agreements, and organizational provisions for organized workers to exercise voice rather than exit. Countries with relational systems of corporate management sometimes demonstrate characteristics of liberal market economies. Japan, Germany, and France have high financial market capitalization, and in the case of Japan high merger and acquisition activity, but at the same time they have more cooperative workplace relations, which was discussed in some detail in the two individual chapters about Germany and France, and in the case of Japan high employee turnover, nevertheless, employee turnover is lower in the two continental European countries than in the United Kingdom,

and this is an issue that is discussed further below. Therefore, it has now become unclear whether these countries can be classified as co-ordinated market economies. Indeed many different labels are used such as insider, relationship oriented, stakeholder, or co-ordinated economies. The quality of such typologies depends on identifying the empirically and theoretically relevant dimensions of variation (Jackson, 2004). A different clustering of countries would result if different variables were included, such as whether unions are organized around industry, occupation, craft, or enterprise lines.

Some of these discrepancies and irregularities can also help us to understand the latest developments in financial markets and corporate management in the context of economic globalization and European integration. During the late nineties and particularly since the beginning of this decade, a large number of reforms in business administration took place in different parts of the world. The European Union has promoted the relaxation of corporate governance restraints in all of its member countries. Financial markets have become more significant, and the reformation of corporate governance has reinforced the protection of shareholders. In countries such as Germany and France the effect of banking corporations has declined, while in Britain the role of the stock exchange persists as important (Streek and Yakamura, 2003; Jackson 2003). Cross-national mergers and acquisitions have increased. These general tendencies are important for understanding the emergence of liberalization that made relationship oriented systems of capitalism to become more market oriented.

The institutional complementarities across corporate governance and labour management can be explained in different ways. The interdependence of corporate governance and labour management can either affect company strategies and objectives, or complement the policies of institutions such as welfare systems (Ebbinghaus and Manow, 2001; Jackson and Vitols, 2001).

Class coalitions can sometimes emerge when the interests of owners and managers are in conflict with the interests of labourers, especially with regard to issues of distribution. Controversy may have to do with salaries and bonuses, capitalization and investment, employee empowerment and stockholder value. The participation of employees in decision making can bring into line the interests of management and labour and alleviate the problem of conflict. In the United States and the United Kingdom controversy in relation to capitalization, investment and stockholder value is more usual as stockholders are more finance driven and the wages of managers are often dependent on stock options and other financial derivatives. In Japan, Germany, and France antagonism related to these particular

issues is less common as interlocking shareholdings and mutual linkages complement investment and long term employment (Aoki, 2001). But in the more general sense, Germany and France have also had a fair share of social conflict in relation to salaries, bonuses and employee empowerment from the mid-nineties to the present day.

Insider-outsider coalitions can also be formed which are usually based on the vested interests of stakeholders in a particular company. For instance, large shareholders may have different interests than small shareholders. Similarly, full-time employees of a specific firm can have different interests with part-time employees within the same firm. An insider alliance may include only the managers and the workers as opposed to the owners of a company and exclude all the large shareholders. Labour and management can be favourably inclined towards empire building, and restructure the company, or build up strong defensive mechanisms to discourage the investment of outsiders. Firms sometimes have cross class coalitions comprised of large shareholders, managing directors, and trade unionists. From a different perspective, companies in Germany, in particular, are more susceptible to the outsider effect because of codetermination and the centralization of trade unions.

Accountability coalitions can sometimes rise when stakeholders have common interests and want to monitor the managers of a company. Stockholders and workers may be included in an alliance to replace managers with a poor performance record or to require greater accountability. In Germany, and to a lesser extent in France, the employees participate in the supervisory board of a firm to complement the role of the large shareholders and place managers under control. Even though this does not yet apply to Britain, the execution of the European Works Council Directive can now open the way for similar developments in the United Kingdom. Of course this is something that we have to wait and see but there is already some research on the effect of the European Directive Establishing a General Framework for Informing and Consulting Employees and the related European Works Council Directive that were discussed in some detail in the last section of the second chapter (Bewley et al. 2008).

Employee representation at board level is more associated with Scandinavian countries, this system of corporate governance combines investor rights with accounting, dispersion, market value, and union centralization. Another style of corporate management which is primarily related to Italy and Austria links dispersion with investor rights and private pension fund development. A system of corporate governance that is more associated with Spain and the Netherlands combines dispersed ownership with private pensions, unionization, and

mergers and acquisitions. A different style of corporate management which is primarily related to Greece and Belgium links ownership concentration with investor protection and mergers and acquisitions.

The enquiry into national trajectories supports the argument of the presence of institutional complementarities across corporate governance and labour management, particularly with regard to market oriented systems. However, several countries have mixed economies or hybrid models of business administration that seem to be compatible with various structures of workplace relations. During the late nineties and especially since the beginning of this decade, many countries reformed their corporate management and supported financial markets. Can this economic liberalization and greater emphasis on shareholder value influence labour management?

This work has demonstrated that the coexistence of strong legal rights for both stockholders and workers is not necessarily contradictory. Labour management can complement corporate governance when employees can respond promptly to the developments in financial markets. More precisely, the participation of workers in decision making can assist in restraining the short term failures of capital markets. We will have to wait and see whether employees are able to promote an enlightened variety of shareholder value which emphasizes on the positive elements of business administration. The evolution of such a corporate governance system will arguably have a large influence on the working lives of many people in several countries.

We can further analyze corporate management by taking into consideration different corporate governance configurations. The first sub-mechanism to identify relates to the concept of managerial control and can be described by the term organizational design (Daily et al. 1998). This factor is determined by the methods used to place managers under control so as to ensure that they operate in a balanced organizational environment. In theory, the most effective methods originate from the Board of Directors, and they are designed to protect the shareholders (Gedajlovic and Shapiro, 1998). This corporate management device can be found in the national systems of many countries across the globe as it is basically an internal sub-mechanism which is far less expensive to manage than an external mechanism, for example, the market for corporate control and the managerial labour market, and it is also far less expensive to manage than a mixed sub-mechanism combining internal and external components (Walsh and Seward, 1990).

The second sub-mechanism is representative of a dominant corporate governance system and can be defined by the term ownership concentration (Schleifer and Vishny, 1986). This factor is related to the idea that the best method to keep managers under control is to decrease the effect of the divorce of ownership and control through the concentration of the ownership of the company by only a small number of shareholders (Berle and Means, 1991). Because of concentrating the ownership of the firm, these shareholders will have the motivation and the capacity to keep managers in check, the motivation to place managers under control is high due to the fact that the powerful shareholders are the only residual claimants, on the other hand the capacity to keep managers in check is high because these shareholders are a majority in the supervisory board (Alchian and Demsetz, 1972; Fama and Jensen, 1983; Schleifer and Vishny, 1997; Tosi and Gomez-Mejia, 1989). Ownership concentration is a corporate management device used in the national systems of several countries around the world, and it appears to be some kind of a second best sub-mechanism to the first best mechanism of strong legal rights of small stockholders (La Porta et al, 1999; Roe, 2003).

The third sub-mechanism to identify relates to the concept of ownership oriented managerial control and can be described by the term dispersed ownership (Grossman & Hart, 1980). This factor is determined by the methods used to resolve the problems of the divorce of ownership and control by ensuring that the strong legal rights of both small shareholders and large shareholders are protected (Jensen and Meckling, 1976). This corporate governance device can be found, at least to some extent, in the three national systems compared in this project, Germany, Britain and France, as strong legal rights of small stockholders can contribute to a more effective allocation of resources, the development of capital markets, higher valued companies, and a more successful economy in general (Beck et al. 2000; La Porta et al. 2002; Rajan and Zingales, 1998).

The fourth sub-mechanism is representative of an alternative corporate governance system and can be defined by the term managerial empowerment (Davis et al. 1997). This factor is related to the idea that real life managing directors are not necessarily as self interested as the principal agency approach makes them to be, and that several managing directors are in reality benevolent guardians who have common interests with their superiors as they can both be proud for their contribution to the economy and the society in which they belong (Lee and O'Neill, 2003). Apparently, the best method to make sure that these benevolent creatures help to bring about the best results for their bosses is to make their authority as

large as possible, and therefore stewardship theorists focus on structures that facilitate and empower rather than those that monitor and control (Heugens and Otten, 2005). Managerial empowerment is a corporate management device used in national systems with a strong collectivist culture such as Japan, however, with no preventive measures it can be expensive, because in the absence of control mechanisms managing directors are not expected to seek the maximization of shareholder value (Tosi et al. 2003).

The last sub-mechanism to identify also relates to the concept of managerial control and can be described by the term esteem responsiveness (Brennan and Pettit, 2004). This factor is determined by the methods used to place managers under control by directing the flow of praise and criticism they receive. The effect of esteem responsiveness has both internal and external components. The external part is explained by the fact that most people are reasonably expected to desire the praise of others (Fodor, 1983). Therefore one can anticipate that managing directors will do their best for their companies, so they can win the admiration of outsiders. The attraction of external praise to managing directors lies in how they can benefit from this (Ellickson, 2001). In this sense, managing directors are particularly interested in having a good reputation as this will entitle them to higher financial rewards (Milbourn, 2003). This corporate governance device originated in the United States but can be found in the national systems of many countries across the globe, and it is not expensive at all because its self enforcing and self policing attributes can guarantee that managing directors do as they pledge (Elster, 1989).

The proposition that is advanced is that corporate management can also be analyzed in terms of sub-mechanisms. Of course they are not all of the same status, for example, neither ownership concentration nor dispersed ownership is a sub-mechanism equal to managerial empowerment or to esteem responsiveness. The critical analysis offered here is to support the conceptual distinction between corporate governance mechanisms and corporate governance sub-mechanisms, as it has demonstrated that the latter exist in stable configurations around the world, thereby comprising the former. Corporate governance mechanisms are control and monitoring devices that single-handedly guarantee the suppliers of external finance that the managers they appoint to run the firm will operate in their best interest. On the other hand, corporate governance sub-mechanisms are devices that help to control and monitor managers, but they must be used in conjunction with other devices to ensure effective control over managerial conduct, this is how they operate in shaping the structure and outcomes of firm. The thesis has succeeded in identifying a gap in

the academic literature which has neglected to distinguish between corporate governance mechanisms and corporate governance sub-mechanisms. Even though the latter apply similarly to the three case study countries, at the same time they comprise distinct configurations of the former.

After this detailed analysis, it is particularly important to also discuss the issue of convergence or divergence. Europe has recently become the focal point of an academic debate about the international political, economic, and social environment. The British press has warned of a clash between nations such as France which believe in the old-style Europe of social protectionism and the more free market Anglo-Saxon model (The Times, 13/08/05). The German press has called it a war of ideologies (Die Zeit, 17/09/05).

On the one hand, the eastern European countries and the Republic of Ireland appear to be closer to the British vision. On the other hand, Germany and the other western European countries seem to be nearer to the French camp. The two models or ideologies are thought as either aiming to reduce the European Union to a vast free trade area or pushing for a more social Europe.

Are these discrepancies and irregularities between the Anglo-Saxon model and the European ideology really that big? At first sight there are many differences, but on closer inspection there are at least as many similarities. What is more, there is evidence of convergence. It is not federalism from Brussels that directs the course of this convergence, but the efforts of European countries to learn from each other, and their determination to succeed in the formation of a common style of corporate governance and labour management.

Another argument is that the old continent needs a dose of fresh Anglo-Saxon liberalism if it wants to emulate Britain's better performance in terms of economic growth and employment figures. But what is it actually that makes the other European countries so different from the United Kingdom?

Britain is much more accessible to foreign direct investment, but in terms of international trade, Germany comfortably beats the United Kingdom. In recent years German firms have traded more goods than any other country in the world, and this also includes the United States and Japan. Britain, on the other hand, runs the largest trade deficit in Europe (Barysch, 2005). Germany is also more receptive to international trade than other large European countries, its import and export sales and purchases account for about seventy percent of its Gross Domestic Product. In the United Kingdom this is about fifty percent

which is roughly the same with protectionist France, and with other large continental countries like Italy and Spain.

Another characteristic of Anglo-Saxon liberalism is supposed to be the small influence of the national state. However, in agreement with the EU data, state subsidies in Britain are almost the same as in Germany. Furthermore, public spending in the liberal eastern European countries exceeds the average of the European Union. It is only in France and the Scandinavian countries that state subsidies account for around fifty percent of Gross Domestic Product, which is well above the EU average (ibid. 2005). Besides, although public spending has decreased in the European Union, it has increased in the United Kingdom, as the state has invested large amounts of money into the public sector. Even though the national budget has shifted from a surplus into a deficit, state subsidies have boosted economic growth and employment figures. As a result, the number of jobs in public services has risen by about one million since the late nineties.

What about trade unions and welfare schemes? One in three British employees belong to a labour institution, in comparison with one in ten in France, but the French trade unions exercise a larger influence on industrial relations. The United Kingdom has a national minimum wage, compared to Germany that has no minimum earnings, but German labour institutions can determine better minimum wages through collective bargaining. Britain beats most European countries by a mile with regard to the implementation of the EU rules and regulations on health and safety. In agreement with the OECD data, the United Kingdom spends on welfare schemes only a little less than Germany, France, and the Scandinavian countries, but much more than the United States. Britain also provides for free health services for everybody.

Therefore, the European countries are not necessarily more social than the United Kingdom. Jobless claims in Germany and France are about twice as many as in Britain. However, the more versatile labour market in the United Kingdom has a much higher level of contingent employment and part-time jobs. For this reason, when it comes to full-time work for prime age male workers the employment figures are roughly the same between the three countries in comparison.

Although Britain is finding it somewhat difficult to reach the standards of public services in Germany and France, the two countries are trying to emulate the success of the United Kingdom in the generation of new jobs. They have both founded British style job centres to

offer greater opportunities for those at the rough end of the market. Besides, Germany has reduced its social security benefits and France has loosened its thirty-five hour week. What is more, there has been a relaxation of corporate governance restraints in both countries.

Whereas people in Germany or France may be envious of the economic growth and the employment figures of the United Kingdom, they would rather not replicate other characteristics of the British economy. For instance, employees in the United Kingdom work about 250 more hours on average than workers in Germany or France. Britain is also not doing very well on indicators of income inequality. And it is still behind Germany or France in its level of productivity, even though it has been doing a lot better in recent years, which can also support the argument of convergence.

The incremental adjustment that Germany and France have gone through over the last few years may have been modest. But it is possible that it pays off in terms of economic growth and employment figures in the future. There are predictions that economic growth in all eurozone countries will pick up after 2007/08. However, the United Kingdom, like Sweden and Denmark, still have to join the European Monetary Union.

It is likely that convergence in growth rates will make the discussion about the right economic strategies and objectives less controversial. For the time being, the European countries appear to be out of synchronization. When British think about social Europe, they are haunted by pre-Thatcher memories of high taxes, state industries and social unrest (CER, 26/06/07). When the French or Germans talk about Anglo-Saxon liberalism they envisage a future of cut-throat capitalism where social safety nets have dissolved and all workers earn Chinese wages (ibid. 26/06/07). To conclude, all European countries are finding it rather difficult to maintain a high level of social security and public administration in the context of a global economy and an integrated Europe. Every country will probably have to find a solution to these problems, according to its own particular circumstances. Nevertheless, the European Union can help them to learn from each other and work together. How and why can they achieve this? European countries can take advantage of the hybrid system through which the EU operates that increasingly relies more on supranationalism and less on intergovermentalism as well as of the many things they have in common such as history, governance, foreign relations, justice, economy, development, demographics, and culture.

One of the most noticeable limitations and salient shortcomings of the current academic literature on corporate management is that the debate is basically focused on two systems, namely, the Rhineland and Anglo-American traditions of governance, and classifies every other corporate governance variety as a hybrid model that selectively combines elements of these two archetypal systems. The contribution of this thesis is that by avoiding this simplistic dichotomy it has gone beyond these bipolar distinctions, it identified other systemic configurations and distinct corporate governance sub-mechanisms, like in our discussion above in this epilogue, see pp. 320-323, and also devoted a whole chapter to the case of France.

This work contributes to the academic literature by emphasizing on the institutional complementarities across corporate governance and labour management which provides for some original insights and makes the varieties of capitalism approach more appropriate for an East-West comparison particularly in the face of economic globalization and neo-liberalist tendencies. The thesis followed a genuinely interdisciplinary approach, the research in crossnational studies is probably as path-dependent as the national economies themselves, however, when it is based on various disciplines instead of the same field of knowledge, this can sometimes turn to path departure. A future research direction that emerges from the thesis, is to build on these findings and, for example, to focus on developed economies and the differences between them without necessarily trying to expand an identical theoretical concept to all other countries, as well as to focus more on a comparison of convergence or divergence instead of simply an examination of the development of national organizational structures in the context of increasing interdependence.

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