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## **The Challenge to Industrial Relations in Germany**

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## THE CHALLENGE TO INDUSTRIAL RELATIONS IN GERMANY

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### **Introduction: Convergence or Divergence?**

This chapter explores 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 enquires into the transformation of corporate governance and its strong 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 of 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 issue discussed in this case is important well beyond the boundaries of the unified Germany. 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 conventional Anglo-Saxon liberalization?

The workplace relations in modern Germany are a significant illustration for all these matters. German politics are at the heart of the EU and exercise a great influence upon economic advances in both western and eastern Europe, as a consequence Germany is a distinctive model of industrial democracy of a large nation.

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)

At the centre of the 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 the German IR, it takes the shape of top settlements, inclusive sector-level collective bargaining, company-level and shop floor decision making, and other significant deals which form vocational training and labour strategy. On the whole, they are the foundation stones of industrial democracy and social partnership in the new Germany.

Accordingly, the debate introduced here is primarily one about 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 up-to-date 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 unification of West and East Germany, suggests a more difficult background in which to examine the institutional approach.

Therefore, institutional expansion comprises an important element of this investigation.

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 considerations of interest, or eastern political tradition and collective understandings.

(Turner, 1998)

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

In spite of well built conventions, high levels of unemployment, and a recession, it can be advocated that the only way the astonishing developments in East Germany may be comprehended is to identify how institutional expansion from West Germany has formed attitudes and preferences for employers and business executives, the 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 works councillors and managers a secure position from which to support their nationwide interests in addition to a groundwork on which to extend international cooperation. The significance of institutions for academic research, works councillors, chief executives, and state politics, will have to be taken into account. The issue to stress at this point is that unions and social partnership 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 being an integral part of a global economy in the future (Soskice, 1990). The social partnership, a major part of this system, especially the trade union and works council alternative, can provide a choice against the more liberal market economies, an option that may be compared between countries in Europe. Extensive decorporatization of Swedish society 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 variant of corporatism is more consistent than a centralized system 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 model will be broadly 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 revitalization or institutional disintegration.

### **Employment Relations in the New Land**

This section describes the key features of the old communist industrial relations in eastern Germany by drawing attention to shop floor unofficial decision-making and the feelings that the employees had for the employers, their labour, and trade unions. Giving an account of the late institutional structure serves as a depiction of the advance of the convergence of employment relations.

It was stated in the introduction that the institutional expansion has been accomplished and is beyond dispute, however, this can not also be stated for the sense of institutional values. It must be noted too that the concept of transformation is employed for central and eastern Europe for a continuing procedure (Eisen, 1996; Frege 1999). This section identifies the fundamental and underlying principles of post-communist convergence in East Germany.

An important idealistic principle of the employment relations structure was probably that it formed a distinct, uniform, all-societal interest network which included all classes (Hethy, 1994). It is argued that the all-societal interest stemmed from the exertion of authority by the working people and from the state ownership of the economic resources. The workplace relations actors could be classified as neither self governing nor sovereign, and were also considered to be unanimously in favour of the socialist structure

(Csuhaj and Hethy, 1990). The employment relations network indicated a holistic approach of the benefits of society, and challenged the presence of divergent or contradictory political and economic interests among employment relations actors, and theoretically there was no exploitation of the workers. When discrepancies or conflicting interests emerged, they were taken as examples of personal misconduct, or as infringement of the rules and regulations, and were regarded as subversion opposed to the social morality (Hethy, 1991). Besides, collective bargaining and differences of opinion were not thought as very important. In a greatly centralized interest representation procedure the East German government determined the one best way for collective activities and workplace relations in a strongly centralized bureaucratic structure and carefully administered the accomplishment of goals set by an equally inflexible bureaucratic management (ibid. 1991).

The idea of uniform social values was illustrated in 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 highly centralized as well as increasingly dependent on external influence by the government and the directors.

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)

Therefore, it becomes evident that trade unions were also bureaucratic organizations of interest representation.

Some writers propose that control mechanisms, the personnel policies and the centralized organization exercised no great influence upon the course of action on the shop floor (Fritze, 1993). Other authors suggest that a framework of centralised, scientific and rational operations from one point of view, and resilient institutional procedures from another point of view, defined the communist system (Heering and Schroeder, 1992).

Regardless of the discrepancies between the scholars, evidence in other studies indicates that in the former socialist GDR and all over central and eastern Europe, informal bargaining was present on the shop floor (Frege, 1996). For that reason, unofficial bargaining may be taken as something significant and as the rise to power for the workers and their delegates.

The academic literature talks about emergency communities, and a plan fulfillment pact for both employers and employees (Heidenreich, 1992). This was advantageous to the two camps, but as concerns the society and the economy at large the procedure was not quite as useful. The unofficial agreements encouraged the detachment of employees from productivity, though the companies attained versatility and obedience on the part of the employees. The politicization of the industrial relations is frequently utilized by researchers to account for the organic rigidity of the companies, for example the informal network combined with the formal network but simultaneously impaired it, and they argue that resistance to change is considered to be one of the main attributes of communist organizations in eastern Germany (ibid. 1992). Therefore, the informal network progressively impaired the formal network and presented an alternative for it, strangely enough it simultaneously made it more solid.

In brief, because East German scientists did not frequently explore the performance of employment relations we must refrain from generalizations. Unofficial agreements may have been a big part of the industrial relations system only in some places and for certain people. Nevertheless, it is beyond dispute that unofficial agreements and to some extent informal bargaining and unofficial negotiations were present in most communist organizations and this may result in difficulties for the ongoing convergence of employment relations between East and West.

Some writers maintain that them-and-us feelings were present in the GDR (Kern and Schumann, 1985). In a corresponding manner, it was characteristic of East German workers to discriminate in the open between top and bottom, between the domain of members of government, managers and supervisors, and their own community. Other authors claim that this situation was similar to them-and-us feelings of West German employees in the past (Kreibig, 1992). Nevertheless, academic research has not specifically or in detail explored them-and-us feelings. In addition, it has to be debated whether them-and-us feelings prevailed for identical reasons in both parts of Germany. There is no empirical data to support that the division found between top and bottom was connected to class and property issues.

From one point of view some writers define the unofficial system as a genuine work community and emphasize the psychological significance of the GDR collective (Gensior, 1992). These communities represented companionship, enthusiasm, harmony and a moral philosophy. Furthermore, there is evidence for the influence of both physical and psychological factors of the unofficial system on people's daily decisions (Diewald,

1995). This judgement is in agreement with the opinion that the consequences and the repercussions of the informal networks vary in proportion to the individual.

From another point of view lots of unpublished data endorse an extensive disillusionment by most blue-collar and white-collar workers, however, the point that trade union membership in eastern Germany was high is significant. This reinforces the hypothesis that the prime motive for entering the state union was its social functions.

A review of evidence provided in the literature on employees' earlier feelings, suggests that most East German employees were discontent with a number of workplace activities, had some kind of them-and-us feelings for their employers, and unity with their fellow workers. They perceived the FDGB as not representative of them and blamed external actors for their difficulties. This evidence may assist to explain the feelings of workers since the unification, although they do not apply to all East German employees.

### **Shopfloor Stability versus 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 WC's network, the continuing importance of the Vertrauensleute, 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 (Larmann 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 per cent stated that it was relevant. During the nineties most of directors sought advice from works councils often or at the least sometimes. It appears that directors view works councils as a significant organization and seek advice from them constantly on a great number of topics. The directors in Germany openly questioned about works councils, they did not seem to perceive an erosion, illustrated in former 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
Wages Levels	8	66	18	8
Other Issues	22	47	2	28

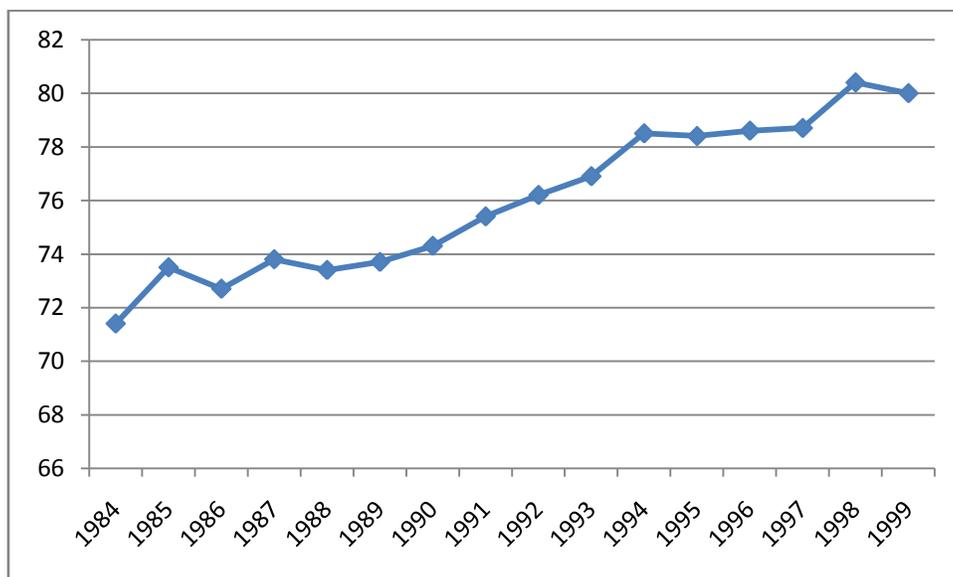
Source: Federation of Employers, 2002.

The 120,000 shop stewards are a substantial part of the relations between management and workers in industries because WCs are not allowed to demand industrial action and associate only with factory affairs (Murakami, 2000). The trade unions, via the

shop stewards, arrange industrial actions. They are very important particularly 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 of either local or sectoral status (Metall, 2000). Besides, the shop stewards are engaged in collective bargaining as well as in areas like training.

Generally, since the eighties it is obvious that shop stewards have been indispensable in industrial action for working hours cut-backs (Eaton, 2000). Strikes caused a continuous cut-back of working time, from 40.1 hours in the eighties to 36.7 in West Germany and 38.7 in East Germany in the nineties (Hahlen, 2001). Besides, between the eighties and the nineties, the German trade unions arranged for collective agreements which reduced the income disparity between males and females. Though there is now a small income disparity of about 20 per cent before tax, between women and men, 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 promoted by a combination of local agreements at company or sector level and of 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 nationwide level (Knut and Lloyd, 2003). Besides, when a multi-sectoral union succeeds in reaching settlements in the metal working industry it can exert influence on labour institutions and manager organizations in other parts 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 in the number of 19 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 level of coordination (OECD, 1997).

Statistical data shows a quantitative expansion of local collective agreements, at this point about 50,000 collective agreements are implemented, and regularly, 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 per cent of employees, with a 20 per cent in West Germany and 29 per cent in East Germany of firms willingly complying with them (IDW, 2001).

A 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 Grote, 1997).

Even though neoclassical criticism developed in IR in several countries, the neoclassical plan to cut back wages was not embraced in Germany (Strengelhofen and Wachter, 1995). A more solid assumption is that the neoclassical doctrine of the eighties and nineties did not bring about an erosion of the relations between management and workers in industries and German unions have never accepted the neoclassical model. A high union membership among politicians over the past ten years 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 1998 built up to more than 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 (BusinessWeek, 28/06/04).

Several political statements call to mind that the German unification has not been completely settled, and there are very important socioeconomic discrepancies 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 US\$23,000, indicating a significant disparity. (Klikauer, 2002)

Early in the new millennium, in regard to purchasing power, there is still a great disparity between East and West 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 Branderburg 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, in other words, small facility retailers in West Germany (Dahne, 2001). Unification difficulties are evident in the migration from East to West Germany. In 1998, almost a decade since unification, 182,500 migrated from East to West, in 1999, 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. Following the collapse of the Iron Curtain and the completion of the reunification process, an extra 3,000,000 people of German origin came back from the Eastern Block since the turn of the century. About 2,200,000 of those people returned from the independent states of the

Soviet Union, 575,000 came from Poland and another 220,000 from Romania (MPI, 2004).

In theory, the unification through employment legislation in Germany has been effectively attained, even though socioeconomic integration appears to have been delayed. It is clear that it was less difficult to form a set of labour laws in Germany than to develop an economically coordinated mechanism (Hyman, 1996; Klikauer, 2002). One more difficulty in the formation of the 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 industrial relations organizations have been established, politically and economically East Germany and West Germany continue to be rather conflicting, as the data displays. Research has disregarded this in such a manner that it has belittled the part of the public sector in the IR of Germany.

Hassel and Kotthoff have displayed a false viewpoint about Germany. WCs continue to be powerful, and they complement the role of the shop stewards. The decentralization of bargaining continues to be at the sectoral level, and the tripartite foundations to the IR model appear to be solid. If the topic is transformation, the research that has analyzed the discrepancies between West Germany and East Germany must serve as an example.

### **A Coordinated Strategy for Reunification**

The socioeconomic prosperity of West Germany was sustained by an inclusive structure of associations between the main participants, like financial establishments,

governing bodies, employer organizations, and trade unions. Despite the fact that West Germany was a capitalist society, plenty of integrated 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 lasting and coordinated associations between financial establishments and big companies. 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 mostly 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 government and development that generated dynamic domestic labour markets and resilience, new expertise, and diversified, quality production (Streeck, 1992). My own analysis of Germany will illustrate the connection between works councils and the adaptability and endurance of trade unions in the complex situation of modern world markets. An empirical study of negotiated adjustment in the metal works sector provides valid data for the productive cooperation of directors, works councils, and trade unions, and the trend for an innovative and resilient work structure (Thelen, 1991). In a related empirical study, Ferner and Hyman suggest that the combination of well organized trade unions and high 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).

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 crucial to the attainment of social partnership in post unification times (Katzenstein, 1989). The attempt by the Christian Democrat leader Helmut Kohl in the eighties to mastermind a transformation into a market economy with trade unions of little authority was unsuccessful in changing West German industrial relations (Webber, 1992). Trade unions were found to be solid, labour institutions emerged as resilient, and manager organizations regarded the policy of the chancellor as wrong. Since the great success of the German Metalworkers' Union strike for less working hours, relations between the various participants continued to be firm during the prosperity times of the eighties.

Regardless of the demands for transformation by managers and unionists at the same time, relations of partnership seemed 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)

By the end of the eighties, managers and trade unionists did not seem to have a clue of the forthcoming social disturbance.

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 prior to German unification, a settlement based on the two former

arrangements was agreed. Many scholars suggested that successful incremental adjustments will carry on with systems of 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 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 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, also had an above average productivity growth in the nineties.

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

	West Germany = 100	Change in index value
	1990	1990 - 2000
Munich	118,0	20,4
Starkenburger	101,6	15,3
Hamburg region	110,9	9,5
Central Franconia	104,7	6,3
Danube-Iler	100,1	4,9
South West Schleswig-Holstein	108,1	3,5
Rhine-Main	127,9	2,9
Lake Constance-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 organizations and added to the collapse of the state controlled economies of the central and eastern European

countries. During the eighties, the years when statesmen in western European countries were concerned at eurosclerosis and occupied with European Community affairs, communist regimes grew constantly alert to their state controlled economies being unable to maintain progress like the western nations. New leaders took over to make the regimes less severe, and to carry on with reforms that could restore the economy. When the amendments 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 socioeconomic regimes in central and eastern Europe broke down, as statesmen asserted their confidence in a free market economy, big issues came forth. Can those nations achieve an unconstrained conversion? To what a degree will they have to dispose of the old fashioned organizations to move on, and to what a degree will they have to secure former establishments? How long will the demanded renovation last? Can they draw level with the western countries? Distinct methods came up in Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia (Iankova, 1997). All the same, in Germany though the problems were identical, the situation was unparalleled (Liebert and Merkel, 1991). Can politically well founded and financially well balanced West Germany assimilate East Germany, population 16 million? Can this be fulfilled with avoiding damaging solidity 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?

A very important mission during the nineties was to integrate the new land into West Germany on the foundations of parliamentary democracy and a free economy. The

determined strategy was organizational expansion to the former German Democratic Republic, and the elimination of obsolete establishments so that an effective adoption of the East by western organizations becomes possible (Baylis, 1993). Nevertheless, things were more complicated, organizations 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 fragmentation. The results were diverse and ambivalent, incorporating contemporaneous and competing views of success and failure, of development and stagnation, of social partnership recreated in the former GDR or controversy, depression and rejection (Jacoby, 1995).

Right after the collapse of the Berlin wall, western trade unions started to develop associations with their East German peers. At first, the developing associations were cautious, founded upon personal and team engagements at various stages of production and trade union activities. Much the same as other organizations, unions were not ready for the downfall of East Germany and the forthcoming reunification. The DGB and the western trade unions were hesitant at first, unconvinced about the perfect policy in a unique situation, they did not wish to interfere with the domestic issues of the new land and its acknowledged institutions.

At the time that West German companies started purchasing portions of the economy from the GDR, manager organizations stepped in to set up business in the new land. In the same way as unionists identified the need to provide for the East, manager organizations realized straight away that unless they make a move, they may lose ground in the West (Bispinck, 1991). In the early nineties, the Federation of German Employers

was the first to make a move, they enlarged manager organizations and they encouraged the foundation of brand-new departments. Later on, manager organizations were founded all over the GDR, each associated with proper institutions of the Federation of German Employers (Ettl and Heikenroth, 1996). About the same time, the DGB publicized a declaration asking for the expansion of the West German collective bargaining model eastward, and the underlying framework was eventually in the right position for the opening bargaining rounds in the months 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 1990-91 made the unions immediately capable of offering resources, training, and other benefits of union membership to newly elected works councillors. (Turner, 1998)

Those people, prior to and following their appointment as works councillors, regularly turned into major trade unionists on the shop-floor, enlisting other associated employees and organizing their own society.

Under codetermination law, the new eastern works councillors 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 consented in the early nineties to underpin the advance of Employment and Training Companies (Knuth, 1993). The concept, brought forward and supported by trade unionists, was to hire dismissed employees at idle factories to raise productivity and subsidize training facilities that 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, 1997). It is not for sure whether the Employment and Training Companies can bring about new jobs, or mostly help to conceal the redundancies.

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

The recent publications are in disagreement and often abstract about the prospective evolution 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; Streek, 1997). The circumstances may be associated with England in the eighties, when the scholars were disunited about the Thatcher amendments that caused new industrial relations, culminating in continuity vs. change scholastic arguments which presented plenty of inconsistent facts (Bassett, 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. Co-determination 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 is whether decentralization expands the capacity and autonomy of works councils in relation to unions or WCs are progressively integrated into the trade unions' discipline, and consequently unionists grow more significant at shop floor level due to the works councils' progressive dependency on their advisory support.

There are more publications on WCs relations with executives than with trade unions (Frege, 2002). A general perception is the 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 are progressively and willingly associated with decision-making on institutional conversion by directors that is taken as an indication of their augmented authority upon executives (Frege, 2003). Some scholars in Germany they suggest that WCs hold a particularly strong influence on management 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, particularly if they are subject to managerial pressure, it is by itself more influential upon decision-making.

Co-ordination is a widely investigated area of study in diverse subjects such as psychology, sociology or political economy. Though there have been some employment relations studies on collaboration between unionists and directors as contracted associates there have been practically no studies on the preceding circumstances of employment coordination between the unionists and the directors (Gold, 1986; McKersie and Walton, 1991; Spieb and Nerdinger, 1998). I make reference to the theories of a literature review of inter-institutional coordination where the investigations on the determining factors of collaboration between firms were carried out by organizational theorists (Smith et al.

1995). Power and conflict theories that pay attention to discrimination or prejudice and inconsistencies between organizations (Pfeffer and Salancik, 1978). Modeling theories that investigate the socio-economic learning approach in promoting collaboration and therefore emphasize the significance of compliance and uniformity of coordinative models through formerly established class and institutional attitudes (DiMaggio and Powell, 1983). Social structure theories that stress the importance of internal and external determinants in promoting coordination (Blau, 1974).

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

In respect of the present employment settlements 40 percent of the works councillors questioned engaged to a greater degree in industrial or institutional amendments than decreed by legislation. Besides, in 66 percent of the occasions that had 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 councils investigated had the objective to bargain work security as a trade 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, that was below the 66 percent higher than the sector-level arrangement discovered by the Wirtschafts-und Socialwissenschaftliches Institut (Schafer, 2001). The evidence endorses that the works councillors questioned are defined as powerful in effect and

notwithstanding the demand for delegation and collaboration difficulties, they persist as significant in the process of decision-making.

The opinion of councillors about unionists, though often the same people, was generally favourable. In comparison with the other scenarios of institutional change and organizational transformation mentioned above, the outcomes do not display signals of alienation and augmented liberalization or extended union integration. They are faithful works councillors who are esteemed by the unionists and who respect the unionists' sponsorship instead of becoming their opponents. For instance, 58 percent disputed that membership coordination is not a significant issue at shopfloor level and 64 percent argued that collaboration is critical for their negotiation power. Therefore, to the degree those feelings demonstrate behaviour, a great percentage of works councils appeared to carry on performing this important duty for the unionists, as opposed to growing apprehension between the unionists that works councils' endeavour is declining.

**Table 3: Works Councillors' Perceptions of Works Council-Union Relations: Five-Point Scale**

Variable	Mean	SD
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 with the works councils' work	1.99	0.68
I am proud to be a member of my union	3.83	0.88
I completely share the values and principles of my union	3.40	0.96
In general employees need the union less now than they used to	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 unions officials who engage in membership	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 take my opinion as works councillor 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 councillors about the directors were diverse but favourable, 66 percent defined the workplace relations as coordinative. About 80 percent thought of executives as not anti-union or impeding future membership. Furthermore, just 28 percent felt that directors did not have strong associations with the trade unionists. Almost 50 percent accepted that executives recognized the self determination of works councils avoiding to extend their authority over the works councillors. A comparable percentage also described the directors as reliable associates. Nevertheless, there was a different opinion about the building of confidence over time, 44 percent believed that the magnitude of reliability persisted as unchanged during the past ten years, as opposed to 38 percent who perceived that they had more confidence in earlier years.

**Table 4: Works Councillors' Perceptions of Works Council-Management Relations: Five-Point Scale**

Variable	Mean	SD
The relationship is cooperative	3.39	1.03
Management is a trustworthy partner	3.14	1.01
Ten years ago I had more trust in management than today	2.94	1.14
Management is not intimidating potential new union members	4.02	0.98
Management has a good relationship with the union	3.12	1.04
Management accepts the works council	3.05	1.08

Our works council was much stronger ten years ago	2.32	0.98
Our works council does not have much influence at this workplace	2.02	0.82
Management is generally less willing to compromise	3.07	1.06
There will always be divergent interests between employers	4.10	0.88
The differences between workers' and company's interests	3.47	1.10
Today's works councillors are co-managers	3.11	1.17
What is best for the company is also best for the workforce	2.30	0.99
Performance-related pay is more fair than equal pay for equal work	2.88	1.13
Industry-level agreements should become more flexible	2.73	1.14
Globalization not management to be blamed	3.04	1.09

Source: DPG and IG BCE, 2003.

The first objective of this section was to examine the importance of employment coordination for German industries with a view to contribute to the continuity versus change academic debate for Germany. Instead of investigating advances in the context of industrial settlements or actual relations like in other readings this part put forward the necessity to investigate works councillors' behaviours in an effort to demonstrate the importance of works councils.

The second objective of this section was to make a substantial effort to analyze the determinants of coordination which are defined by power, modeling and social structure theories. Further research is evidently required to endorse those exploratory outcomes. In detail, councillors' assistance to constructive power relations with chief executives was most emphatically dependent on councillors' collaborative behaviours. From another perspective, coordinative behaviours in this bisectoral study were not affected by organizational characteristics like industry, company, or occupation of trade unionists and works councillors. Therefore, the association between directors and works council was to

a considerable degree bureaucratic and not entirely contingent upon individual qualities of the actors. 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 the developing dynamics of executives and works councillors. In the strongly organized environment of German employment relations, the coordination of directors and works councillors is conditional on everyday power relations. This may be taken as a significant result for the labour relations literature. It indicates that though the constitutional sponsorship of industrial democracy is essential it is certainly not enough to ensure collaborative industrial relations. Nevertheless, statutory powers for works councils may assist to produce a much better power equilibrium that appears to be a critical precondition for coordination.

A democratic society requires an economic environment in which disputes are resolved through conference and not by coercion. Co-determination is a prerequisite for this. The objectives of co-determination are equality of capital and work, democracy in the economy, social development, and control of economic power (BMAS, 1995). The co-determination rights ensure employee involvement, employee representation through the works council, as well as engagement in economic planning and decision-making. Co-determination in Germany becomes manifest on two levels, establishment level and company and group level. Distinct legislation governs the individual systems on the two levels. (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 Rhenish Variant of the Anglo-Saxon Model**

This study attempts to make a contribution to the main part of investigation by demonstrating some concepts about the potential German transformation. In general the current situation can be described as incremental adjustment in the German version of the stakeholder economy. The adjustments have taken place in the sphere of institutions and of practice. In the sphere of institutions, the post-unification alliance of stakeholders affecting the firm has not been substituted for or suppressed by shareholder value. This post-unification alliance has rather been augmented through the incorporation of institutional investors into the alliance. Thus one may argue for the manifestation of an augmented stakeholder coalition in Germany. In the sphere of practices, 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 principles in America and Britain, the German version of shareholder principles is described as negotiated shareholder value, with a couple of outstanding characteristics (Vitols, 2003). The execution of methods devised to serve shareholder interests for the benefit of institutional investors has to be negotiated with the associates of the stakeholder alliance, especially the banks and works councils. To reach equilibrium of control in a reinforced stakeholder alliance, methods devised to attain shareholder principles are ordinarily modified throughout the course of action to consider along with other factors the benefits for various stakeholders. New methods, like remuneration incentives were devised to bring into line the interests of shareholders,

directors, and workers, therefore the German version is distinct from the one in America and Britain, especially where employee involvement is concerned.

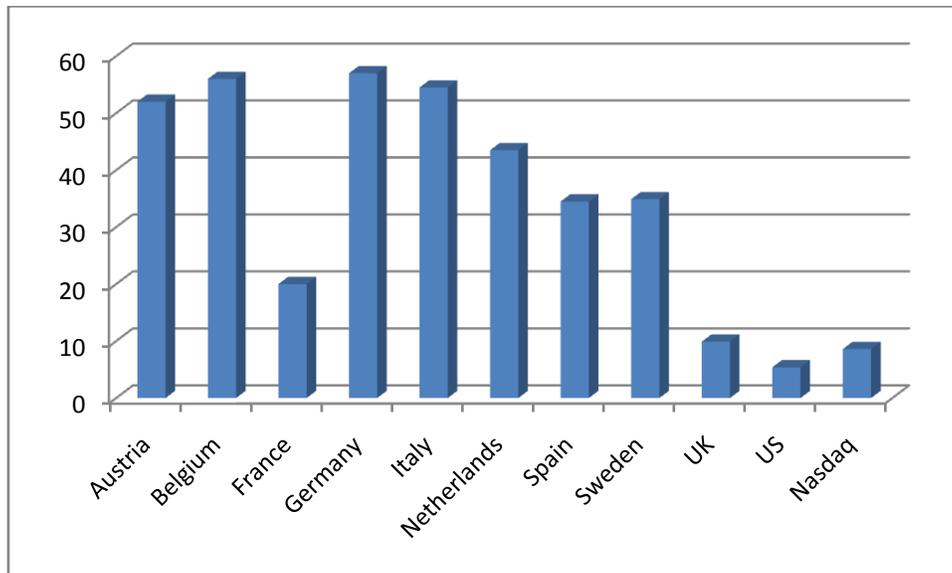
**Table 5: Regulations on Shareholding of Financial Institutions and Nonfinancial Corporations**

	U.K.	Germany
Banks	No special regulations	Holdings greater than 10%
Life Insurance Companies	Voluntary self-limitation	Holding of shares up to 20%
Other Insurance Companies	Same as above	No regulations
Mutual Funds	Same as above	No regulations
Pension Funds	Same as above	No regulations

Source: Institute for Fiscal and Monetary Policy, 1999.

In fact Germany has grown into one of the most distinguished and illustrious examples of a stakeholder structure of corporate management. An extensive international research has displayed that Germany had the largest blocks of shareholders concentration amongst the nations investigated (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 a further attempt to make a contribution to this knowledge, my study also suggests one or two general concepts about the transition of the German stakeholder economy. Based on the differentiation described initially between the sphere of institutions and the sphere of practices, one of these concepts is that the reorganization of institutions has supported the manifestation of a hybrid structure where large companies and works councils have an important part. The outcome of this development is an augmented stakeholder coalition, which employs the incorporation of shareholder principles into the post-unification alliance of stakeholders, of which the most significant associates were banks and works councils.

Lately, quite a few scholars have 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 its effect on business administration have developed into an Anglo-Saxon variety, labour has continued to be influential on the shopfloor with works councils and trade unions. Efforts to explain this transition incorporate the notion of hybrid models, multi-dimensional structures for organizing business administration networks, and greater emphasis on the procedure of transformation (Aguilera and Jackson; 2003, Höpner, 2003; Vitols, 2002).

In spite of the decrease of blockholding in the mid nineties, Germany is to this time well ahead of the United States. The median value of the largest shareholders in German quoted firms in the year 2000 was about sixty percent, in contrast with 5%, for firms quoted on the New York Stock Exchange. With a prolonged decrease of 5 percent every five years in Germany, it will take fifty-five years to drop to the levels of the United States. The typical definition of a large shareholding, or blockholding, is that at least 5

percent of the total outstanding shares of the company are held by the same owner (Vitols, 2003).

In this regard a contrasting of the Dow Jones and the Deutsches Aktienindex, the 30 large firms in both cases, is quite informative. 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. Investigating the firms in the Deutsches Aktienindex, the index of the thirty large German quoted firms, one observes the prolonged effect of the largest investors. Just 3 of the Deutsches Aktienindex firms in the year 2002 had not a large investor, Adidas-Salomon, Deutsche Bank, and Siemens. Of those business with large investors, insurance establishments were the largest investors at 8 of the business, 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 Co.	11.4	Altana AG	50.1
AT & T Corp.	7.7	BASF AG	9.2
Boeing Co.	5.3	Bayer AG	5
Caterpillar Inc.	>5	Bayerische Hypo-und	26.3
Citigroup Inc.	>5	Bayerische Motoren	48
Coca-Cola Co.	>5	Commerzbank AZ	10
E.I. DuPont de Nemours	>5	DaimerChrysler AG	12.5
Eastman Kodak Co.	11.6	Deutsche Bank AG	>5
Exxon Mobil Corp.	>5	Deutsche Lufthansa AG	10.1
General Electric Co.	>5	Deutsche Post AG	71.3
General Motors Corp.	5.6	Deutsche Telecom AG	43.1
Hewlett-Packard Co.	10.4	E.ON.AG.	7.6
Home Depot Inc.	6.1	Epcos AG	12.5
Honeywell International	5.2	Fresenius Medical Care	50.3
Intel Corp.	5.3	Henkel KGaA	58.2
International Business	>5	Infineon Technologies	71.9
International Paper Co.	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	Muncher AG	24.8
Microsoft Corp.	12.3	RWE AG	13.3

Philip Morris Cos. Inc.	7	SAP AG	62.5
Procter & Gamble. Co.	>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

Source: Company annual reports and company websites, 2002.

The growing significance of institutional investors is based on their capacity to take hold of a larger allocation of stock purchases by primary shareholders, such as families. The late part of the nineties was accurately defined by this advancement. Families in the United States and the United Kingdom built up their contributions in stock purchases. The firms of these nations were highly valued, and the institutional investors progressively searched 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 Bundesbank, 2003). Families and Works Councils in Germany expanded their share of savings in bonds and mutual funds in the late part of the nineties, and in 2000 came up to the sum of around 80 billion Euros (ibid. 2003).

Numerous explanations of the diminished responsibility of the workers in Germany were given about the bargaining structure, mainly on the downgrade of the size of trade union density and the exodus of some directors from managers' organizations. Inside business, in comparison, the works councils have evolved into a more significant power standing for the benefits of the employees, and exert influence on decision making at both the factory level and the enterprise level (Thelen and Kume, 2003; Vitols, 2003).

As analyzed before, the effect of institutional investors as well as of trade unions and works councils as stakeholders has been miscalculated in numerous explanations of the German variant, not including the firms in which the district managers have a substantial

proprietorship part. Even though more district managers have proclaimed the clear objective to make firms private, progression in this regard has been quite moderate, and the trend for the most part has been to denationalize firms to a limited extent.

What kind of facts can advocate this theory as opposed to the arguments of conversion and no adjustment? One can anticipate proof of a bargaining methodology, in which the initial requirements of an associate of the alliance are faced with opposition or different recommendations from other associates of the alliance. One can also anticipate that when antagonism is substantial, the initial requirements for shareholder interests will be either adjusted or excluded. As a consequence of the motive forces of this reinforced stakeholder alliance, one may as well anticipate an adjustment of the techniques in German companies which consider along with other factors the needs of institutional investors, with avoidance of full-time conversion to the Anglo-Saxon version of shareholder principles.

Comprehensive indices of firm praxis are in agreement with the general notion that company techniques in Germany 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 initiate stock options, and made it simple for executives to be linked with dividend yields. From that time until now many German companies have actually introduced stock options. Nevertheless, German enterprises utilize 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 as a %	Company	Options as a %
Dow Jones		DAX	
3M Co.	8.8	Adidas-Salomon AG	1.1

Alcoa Inc.	8.7	Allianz AG	0.3
American Express Co.	11.0	Altana AG	1.7
AT & T Co.	8.9	BASF AG	0.5
Boeing Co.	3.4	Bayer AG	0.0
Caterpillar Inc.	9.4	Bayerische Hypo-und	0.0
Citigroup Inc.	7.2	Bayerische Motoren	0.0
Coca-Cola Co.	5.7	Commerzbank AG	0.0
E.I. Dupont de Nemours	6.7	Daimler Chrysler AG	4.2
Eastman Kodak Co.	17.3	Deutsche Bank AG	2.7
Exxon Mobil Corp.	3.9	Deutsche Lufthansa AG	0.4
General Electric Co.	3.6	Deutsche Post AG	0.5
General Motors Co.	3.7	Deutsche Telecom AG	0.2
Hewlett- Packard Co.	11.2	E.ON.AG	0.6
Home Depot Inc.	3.0	Epcos AG	0.9
Honeywell International	6.6	Fresenius Medical Care	2.6
Intel Corp.	11.5	Henkel KGaA	0.2
International Business	9.3	Infineon Technologies	1.8
International Paper Co.	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	Muncher AG	0.1
Microsoft Corp.	16.6	RWE AG	1.0
Philip Morris Cos. Inc.	6.4	SAP AG	2.2
Procter & Gamble Co.	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 Inc.	1.1	TUI AG	0.0
Walt Disney Co.	9.0	Volkswagen AG	1.7
Average	7.7	Average	0.9

Source: Company annual reports and company websites, 2002.

This section argues that the recent developments in Germany may be described as significant, but fundamentally incremental adjustments in the stakeholder structure of corporate management. In this regard it differs from the arguments of no essential changes and of large scale convergence to the Anglo-Saxon shareholder version. The most critical question for corporate management and organizational change in late years in Germany has been how to adjust to handle the requirements for the fulfillment of shareholder interests. Those adjustments have been evaluated in two spheres.

In the sphere of institutions, the principal adaptation of the post-unification stakeholder alliance was the incorporation of institutional investors into an augmented

stakeholder coalition. In the sphere of practices, a structure of negotiated shareholder value becomes apparent. German corporate governance provides for an alternative that is different from Anglo-Saxon business administration, in the procedure by which decision making occurs, and in the developments that this bargaining process results in. There is support for a negotiating procedure, in other words, a negotiated shareholder value, which often culminates in the adaptation of the initial requirements for shareholding interests when social partners of the stakeholder alliance disagree. Macroeconomic evidence, for instance in the utilization of stock options and the partition of value added among stakeholders, also confirms this explanation of a Rhenish variant of the Anglo-Saxon model of shareholding interests.

### **From Path Dependency to Organizational Change**

This section draws attention to the reappraisal of some concepts that help to analyze organizational transformation. The incremental adjustments taking place in most parts of Europe have brought up the topic of institutional change, and the comparison of several factors that were formerly ill defined. Despite focusing upon a limited number of areas, this analysis can bring forward issues particularly important for a more comprehensive interpretation of the general topic of organizational change. This section concentrates on the concept of corporate management, but further associated concepts can also benefit from analyzing organizational transformation in a practical and theoretic context. For instance, such is the case of the well known conception of civil society, now reemerging together with the innovative practices in central and eastern European countries

(Leszczenko, 2002; Reichard, 2002). Other notions calling for a reappraisal may as well apply to the issues of governmental deficiencies and industrial democracy which have been high on the agenda because of the enlargement of the European Union. In addition, it may be said that as a consequence of the emergence of Europeanization, the necessity to review the variety of academic opinions has become stronger. This equally affects the issue of corporate governance as primarily related to business structures and the business environment, and the broad meaning of governance in the core political context (Federowicz, 2003; Grabbe, 2000). The issue of democratic deficiency is also related to the problem of poor or premature democratic consolidation in the CEE (Mokrzycki et al. 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 actors. In the first part I propose a suitable structure for East and West convergence, maintaining the proposition on the grounds of organizational resourcefulness. In the second part, well defined topics of the post socialist system associated with corporate management are identified, and a clearer explanation of these concepts is given. With the intention to expand further, the third part addresses the intricacy of these concepts in the context of developed economies (Soskice, 2000). The fourth part indicates clearly that there is a disparity between East and West, identifying the topics that have to be taken into consideration and examining how a solid corporate management can materialize. The final comments stress the significance of business administration in the light of further European integration and a political and economic equilibrium.

An original theoretic perception is needed that can develop in a sequence of innovative conceptions 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 perspective, and therefore encouraging and motivating all advanced societies to shift toward this structure. There are two points specifically that favour this concept of conversion, firstly, disenchantment with state communist notions about political centralization, and secondly, dissatisfaction with the Japanese productivity and the Japanese practice, which have been extensively researched (Morck and Nakamura, 2000). Nevertheless, the perceptions of a mixed economy and the end of history instigated more extensive investigations applied to highly industrialized societies, and concentrated upon nationwide historically developed financial organizations (Berger and Dore, 1996). The results indicated definite countrywide trajectories on organizational change, with reference to internationalization, and displayed every developed and consistent nationwide network as being more advantageous than the others, still experiencing at the same time several difficulties, that combined, they caused opposing counteractions to the present day market from the large companies (Casper and Hancké, 1996; Soskice, 1994; Vitols et al. 1997). In fact, taking the last twenty years of international integration into consideration, we find out that academic discussion has not been concentrated upon a clarified comparison of conversion and divergency, but instead has been focused on a comprehensive examination about the development of nationwide networks in the context of increasing interdependency, 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 part in affecting how capitalist organizations grow increasingly integrated, and in fact this is how the path-dependency approach of capitalist organizations becomes manifest (Chavance and Labrousse, 1998; Chavance and Magnin, 2000). This usually applies to developed societies and, in this respect, is endorsed in the Varieties of Capitalism. The viewpoint is, nevertheless, that employing a similar path-dependency approach in East Europe may frequently be confusing, inasmuch as it can not solve the difficulties of substantial and elementary 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 nations, for instance France, which was not just capable of building but also overcoming a dirigiste government organization, the path-dependency perspective correspondingly 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 management, ultimately resulting in a substantial modification of the organizational background of French business administration (Hancké, 2000).

The last two decades developed in a completely dissimilar fashion in East and West Europe. Accordingly, there were discrepancies between nations in eastern and western Europe, still, with regard to management topics, the most remarkable inconsistency

between these nations was that in eastern Europe, not like in developed industrialized societies, the financial decline taking place during the early eighties was originally resisted, but later stimulated considerable organizational transformation. There was no nation that could meet the demand for large improvement without a considerable structural transformation. The important outcome of financial decline in eastern Europe was wasting the economic 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 tried to dampen or delay it (Federowicz, 2003).

Since 1990, eastern Europe has become susceptible to these pressures, although to a different extent in different nations and industries. In fact, this accounts for the discrepancies between the countries, though in a way, eastern companies found themselves under the circumstances of internationalized markets immediately, whereas western firms had experienced incremental adjustments with regard to internationalization, partially generated by the advantage of prosperousness in the sixties. During the same period, in eastern Europe, the revenues of premature financial success were mostly wasted in attempting to recover the expenses incurred by the propagation of one party economic and social control.

As a matter of fact even in developed and industrialized societies the concept of corporate management can not entirely be supported by the relationship between shareholders and top-level directors. At all events, this is not the manner to comprehend the corporate management issue, and definitely 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 make sense of its determinants which stem from different areas of organizational environments. A method like this helps us to understand how corporate management truly functions, and more significantly, observe the organizational changes that paved the way for the formation of corporate management leading the national perspective in different nations, and also helps us to perceive the meaning of the various dynamics of transformation. What is lacking in the post-socialist societies is this kind of coordination and consistency between corporate management organizations on the one hand, and the policies for decision making and quality control.

To analyze the intricacy of management mechanisms at the company level, it is helpful to put into practice the well known comparison between two enduring and established models, the Anglo-American and the German. In defiance of the demands for adaptation, the two models hold on to their conflicting properties, with each one defined by the process of incremental adjustment, instead of an openness toward significantly innovative resolutions (Casper, 1999; Casper and Vitols, 1997). The discrepancies help us to identify the fundamental characteristics which play a part in business administration at the moment. Expressing the same thing differently, the conflict between the two models of business administration makes provisions for the construction of an analytical tool for cross national comparisons which essentially diverge from the Anglo-American model of corporate governance.

For instance, with regard to Germany or Japan, we discover that financial markets are distinct from those found in the United Kingdom or the United States of America. Some scholars have argued about the pros and cons of bank-based structures against market-

based structures (Levine, 1999). The discussion is basically concentrated on four nations. In bank based economies like Germany and Japan, banking corporations have an important part in the mobilization of funds, the allocation of resources, the provision of financial derivatives, and the process of investing. In market based economies like the United Kingdom and the United States of America, it is the stock exchange that has a significant part in mobilizing funds, allocating resources, 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, the network of corporate management interrelates with the stock markets, the modernization policies put into effect, as well as the financial activities in different nations. Similarly, the network of corporate management interrelates with other important ingredients of developed capitalist structures, in specific, the legislation about the industrial relations, learning and training, especially vocational training at work, and the variety of the operations performed by firms and organizations, like technological development and quality control. With regard to the network of 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 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 structure like this, the corporate management topic has become well known as the principal agency approach. In such a scenario, shareholders have clear objectives they want the board of directors to accomplish, and from the shareholders' point of view,

corporate management must advance this authority over what top-level directors can determine. This presents, in a greater or less degree, the approach made by experts, or the manner they have approached this issue quite recently.

The extent of the research on the economy of Japan diminished the leading Anglo-American perspective on the intellectual market for institutions and paved the way for continental orientated studies. The procedure of growing European integration, during the early nineties and mid nineties, strengthened the conception of a European business administration and assisted the development of a continental Rhenish corporate management, in opposition to the Anglo-American model. Nevertheless, the notion of the Rhenish variant was based on the German environment, and directed attention to other continental nations 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 nation pursued organizational transformation in a distinct manner, attempting to merge its organizational structure with some innovative designs, and becoming more responsive to the strains of internationalization rather than working for a European organizational environment. There are obviously a number of organizational frameworks found in the corporate governance of the European countries to anticipate an even coordination.

With regard to corporate management, the opposed principles of capitalist growth are first, the Anglo-Saxon model, closer to a free market idea but not equal to it, the shareholders are scattered throughout the organizational expansion but directors are consolidated and focused as well as exposed to a competitive environment, and second the German or Japanese model of capitalist growth, less oriented to a free market idea yet also subjected to a market type competition, the shareholders are consolidated and

focused as well as organizationally interrelated with institutional investors, whereas directors are less focused and have more liabilities toward financiers and staff members.

A major difference of liberal and coordinated markets is the character of decision making, whether it allows management to dominate the organizational operations of the firm, or it is based upon *Mitbestimmung*, or codetermination, with management and workers running the firm in the context of a consensus oriented decision making organizational environment. However, decision making does not apply only to management and workers, it applies as well to the relationship between owners and management. A consensus-oriented economic landscape that is broadly defined as codetermination between owners, management, and workers is typical of the Rhenish variant of business administration, on the other hand an organizational framework with proprietors, and stockholders, who are not accountable to chief executives, is characteristic of the Anglo-Saxon model of corporate governance. The discrepancies and irregularities in the independence of decision making, the dependence on shareholders, and the mechanisms of power relations 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 nations following the years of socialist control (Greskovits, 1998). This argument focuses on the relations between the economic structure and the social structure of those nations, and considers the existing problems with respect to their ability to reinforce democracy, and their influence on the important economic modifications, that presumably culminate in substantial social unrest. However, the unrest has not developed to a degree that might have jeopardized the success of the modifications. As stated by the

low level equilibrium theory, those nations have already succeeded in building popular egalitarian organizations and the basics of market relations, even though they are somewhat substandard and relatively immature. As a consequence, the low level or low quality equilibrium of the structure is quite steady as well as enduring.

There is not actually a market for institutions, market forces can not 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 inevitably found in regions or districts with the highest demands. The best structures interchange and, at the organizational level, there is no durable selecting mechanism. Because of this, the historically formed national economic environment has an important part in a government's flexibility, and, with it, makes a contribution to shaping enduring, capitalist, organizational transformation. However, the long term financial robustness of a nation may have a significant impact on this procedure, and stems to certain extent from its global standing, as well as from its social and cultural status at international level.

This part discussed a theoretic perception for an international comparison of business administration. Even though the discipline of corporate governance is extensively researched, the analysis focuses on developed societies and the differences between them, and some times tries to extend an identical theoretic perception to other nations. Nevertheless, the evolution of a solid business administration in catching-up societies like the former GDR is influenced by political reforms. Resistance to change that exists in the process of organizational transformation, impairs the development of corporate management in those nations. The argument is that the study of business administration

in an East-West comparative analysis should also incorporate a broader debate on the economic and social character of agreements both official and unofficial. This discussion also explored the relevance of path-dependency. It supplemented the approach of Varieties of Capitalism with some concepts which make it more appropriate for an East-West comparison.

### **Collective Bargaining and Incremental Adjustment**

In this section I will put forward for consideration another explanation of the German model, which draws from studies of the performance of large German firms since the late eighties (Rehder, 2001). I would like to set forth three major arguments, which constitute the rest of 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 investigation concentrates on the part of large firms in the continuous evolution of the German collective bargaining organizations.

As opposed to abandoning the model, and this is my second major argument, large firms have actually been capable of attaining a substantial amount of resilience and versatility within the industrial relations structure since the mid-nineties. Big companies have tactically been capable of increasing effectiveness and productivity in relation to their costs. This has added to the lasting stability of the official institutions as the

augmented cost-effectiveness has restrained the workers from abandoning the centralized organizational structure.

However, this does not entail there have been no changes. In my third argument I give an account of the statutory amendments which developed in collective bargaining as an alternative to straightforward disintegration. In this case I suggest that the balance of collective bargaining has moved from making provisions for standard rules focusing on egalitarian relationships between large and small firms to the promotion of resilience and versatility that focuses upon ensuring the maintenance of entrepreneurial functions in uncertain circumstances. That procedure has signaled a revision of the correlation between productivity and the industrial relations system. The effectiveness of diversified quality production was initially founded on the manufacturing sector that provided large earnings and equal rights and opportunities. Nevertheless, that process culminated in a rearrangement of this correlation as the collective bargaining system had to be adapted to the requirements of production.

One important consequence of a centralized collective bargaining structure is its peace-keeping function. By switching the controversy in decision making between managers and employees to labour institutions outside the organization, managers in particular achieve a larger degree of peace-keeping inside the organization.

Bargaining rounds take place between employers' 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 introducing a state of opposition in decision making. When employees can disturb the composure of the firm in retaining workplace stability, managers have a vested interest in sustaining 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 can also be a disadvantage. The important consequence 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 sometimes managers have to take measures with regard to remuneration and work time that do not always serve their personal interests or their own companies. They diverge from wage patterns to a small extent, and often have to add optional bonus schemes. Managers would have otherwise been capable of negotiating more suitable pay schemes and working hours at company level. Centralized collective arrangements may as well involve measures in relation to human resource management issues which might not have been taken at the firm level. They also prevent any rapid fluctuations in pay schemes and other amendments. As a result they hold back and impede certain industrial policies that managers may have implemented.

Nevertheless, large companies in Germany did not attempt to demolish the centralized collective bargaining structure as a means of counteracting or removing its

undesirable consequences. Instead, they resorted to firm-level bargaining for a solution. Bargaining at the firm-level has been quite prominent in the employment relations of Germany for a while now. Managers were favourably disposed towards cooperation as a component part of the corporate governance model in Germany, as it helps them to maintain workplace stability and coherence by incorporating the workers into the decision making procedure (Kommission Mitbestimmung, 1998).

Founded upon the persistent elaboration of expert knowledge, job coordination, and research and development, diversified quality production is helped by cooperation as it assists the integration of workers into plant-level alliances, and institutional change, which is debated with works councillors, adjusted by company-level pacts and put into effect simply and rapidly. What is more, firm specific collective bargaining has also brought forward a new trend in remuneration that makes provisions for a higher level of wages (Hassel, 1999). Centralized arrangements disregard the large dissimilarities between companies which provide different wage systems. Large firms can bargain with the works councillors 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 during the nineties. In the nineties, most of the corporations bargained a plant-level agreement. These firms employed more than 4 million workers. About half of these workers were affected by the pacts. 156 plant level agreements were made in 55 corporations. (Monopolkommission, 1998).

When negotiating over company level agreements, a number of managers' interests can be identified, to exercise power over labour expenses, to maximize efficiency by enhancing the resilience of the manufacturing procedure, and to reassign responsibilities between the workers which is the basis of versatility. Table 8 indicates the three distinct kinds of arrangements.

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

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

Source: MPIfG, 2001.

The strong participation of works councillors and trade unionists in decision-making can be interpreted by the characteristics of German business administration. German firms have always been identified by the strong participation of organized employees in decision making. In most enterprises, eighty per cent of works councillors are trade unionists, in several occasions they are even more. Besides, works councillors and trade unionists are usually involved in the executive committees of companies. In large firms which have company-level agreements, works councillors, trade unionists as well as employee delegates are in the supervisory boards of corporations. As a consequence, managers accept councillors and unionists as mediators in employment agreements. They

would rather incorporate them instead of endangering social harmony (Bronfenbrenner, 2000; Hassel and Rehder, 2001).

Intrinsic flexibility within the context of extrinsic inflexibility has customarily been the *modus operandi* of the employment relations in Germany. As I have indicated, bargaining versatility at the firm level and extensive regulation in collective arrangements have been distinctive characteristics of the workplace relations in Germany. Are the plant level agreements of the nineties, simply a continuation of the success of incremental adjustments to altering socioeconomic conditions? In this part, I will display that, in spite of the solidity of bargaining organizations, the capacity and authority to regularize working standards by collective arrangements has altered to an extent that indicates a more substantial modification of the German model.

The incremental adjustments of the nineties in Germany may be explained in a different way. The expansion of employment organizations from the west to the east in the aftermath of unification was the driving force toward the decentralization of the collective bargaining structure. Once employment organizations were expanded from the west to the east, the effect of higher wages was immediate. In the mid nineties, the 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 initiation 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 labour institutions found that 181 firms registered for hardship clauses in eastern Germany in the nineties (Bahn Müller and Bispinck, 1999).

The German model of centralized bargaining arrangements and company level settlements has changed. Firm-level agreements used to take place within a predetermined context. Organizations at the local or sectoral level used to decide on incremental adjustments at company level and determine the extent to which firm level actors were capable of taking their own decisions. Based on law, collective bargaining supersedes company-level arrangements. Firm level actors must have authorization to rearrange payment issues and work conditions at company level. When the centralized agreements do not incorporate this authorization or the possibility of decentralized bargaining to the firm-level, the company-level actors are constitutionally obliged to abstain from bargaining of those topics.

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 arrangements about employment in the nineties have in several occasions displaced the centralized agreements. Despite the fact that statutory provisions have not been modified and most arrangements do not breach the regulations, institutions have lost the ability to restrict company level agreements by implementing collective

arrangements. Even though firm level bargaining enforced centralized agreements, the arrangements of the 1990s demonstrated a tendency to regulate at the company level. The supremacy of centralized arrangements in relation to firm level pacts on important topics and practices has been overcome.

Whereas the advantages for maintaining a centralized collective bargaining structure outbalance the disadvantages for complete delegation, the alignment of the collective bargaining institutions in Germany to a globalized economy triggered a substantial modification of the industrial relations system. To a degree those adjustments sound like the term organized decentralization, the dual system that integrates central cooperation with features of delegation, as reported by scholars (Traxler, 1995). The notion of organized decentralization relates to a bargaining system in which bargaining tasks have been deliberately delegated to lower-level associations in a way that does not eliminate coordinating control by the higher-order associations over the bargaining process at lower levels (ibid. 1995). On account of their peace-keeping function, 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 a procedure of organizational adjustment to a competition driven model of wage regulation that is based on the departure from collective bargaining agreements rather than upon their practice. Although centralized arrangements at the industry level make provisions for a comprehensive system of payments and work conditions, the rules and regulations for certain institutions and big companies may essentially differ with the requirements of production. Greatly versatile work time systems facilitate production to meet the demand without necessarily a rise in wages for

overtime. Formal centralized arrangements combined with firm-level pacts for competitiveness permit enterprises to adapt their wage patterns progressively to the business cycle.

The nationwide collective bargaining structure has customarily made provisions for higher incomes and a better work environment for white-collar and blue-collar workers and excluded low road strategies. It has also preserved peace keeping to a large extent. Furthermore, organizational provisions for vocational training, which were incorporated in the industrial relations of Germany for years, increased the dedication of workers and maximized production, both characteristics of a high road strategy (Streek, 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 remuneration, industrial cooperation and employment measures. 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 make provisions for products and services that companies are not capable of producing 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 and large production, so that higher wages yield good results.

In this part I made another effort to add to the research on the process of organizational transformation 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, institutions are usually defined as rigid, for the reason that most organizations take some time to become

efficient (Genschel, 1997). Consequently, organizational transformation which doesn't happen through radical change is hard to define. Because the demand for adaptation to an international economy is high, institutions may have to change their activity whereas the organizational structure remains stable.

### **The Restructuring of Labour Institutions**

The presence of a solid, unified, efficient, and coordinated work force 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 political 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 and requirements of industrial unionism. In the fifties, there were divisions between the DGB labour institutions, and 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 represented the professions of teaching and printing respectively. After a transitional period, the work force 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 management and workers in decision-making was the permanent theme. The trade unions and the works councils were organized for action

against anti-democratic advancements. With regard to the constitutional system of government and the power of collective bargaining, unionists and councillors have contributed substantially to the employment relations of the Federal Republic, in other words an extensive network of establishments that resolves the disputes between managers and employees. The term German model first came to mean what it does today in the Federal Republic of Germany in 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.

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 organize and secure the services of the associates in the modern post-industrial economy. Members should not be considered as subservient associates but have to be regularly engaged in unions. Organizing has to be an all inclusive policy which enlists associates and persistently motivates existent unionists. 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 greater quantity of economic assets to organizing. Additionally, trade unions must be considered less as aid suppliers and more as a political front that inspires associates to become motivated and sympathize with a common principle. Customary every day topics have to be integrated with principles of economic stability. Members should be conscious of belonging not just to an institution that bargains payments but moreover to a fellowship that stands for positive ideas. In America and Britain this is translated many times as an emphasis on militancy.

In some occasions union mergers offered a good chance for internal restructuring and facilitated the decision-making procedure (Muller, 2001). As the analysis signifies, nevertheless, there is no customary model of union mergers and the result with regard to internal restructuring heavily relies on the main attributes of the trade unions engaged as well as on the kind of relationships between them. As table 9 suggests, union mergers are in essence a recent phenomenon. Although the amount of self-governed associates of the Deutscher Gewerkschaftsbund continued to be unchanged at seventeen for the best part of the post-1945 era, this perseverance was succeeded by union mergers that reduced the amount of the associates to seven.

**Table 9: Union Mergers**

Union	Merged With	New Name	Membership	Year of Merger
IG Druck und Papier	Gewerkschaft 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 und Kunststoff	IG Metall	2,763,485	2000
Gewerkschaft Öffentliche Dienste	IG Medien	Vereinigte	2,888,482	2000
Transport und Verkehr	DPG	ver.di		
ÖTV	HBV, DAG			

Source: IAB Betriebspanel, 2002.

For many years sector wide collective bargaining has been a major characteristic of industrial relations in Germany. Strong labour institutions and comprehensive managers' organizations bargained collective arrangements at nationwide or local level, and this way reduced the possibilities of controversy between firm-level administration and WCs. The robustness and cohesion of the main players, together with the reduced exercise of

militancy, produced 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; Jacoby, 2000; Thelen, 2000). Though it is not well defined what this something else could be, there are indications that trade unions and works councils have to revise collective bargaining. There are other issues to be considered. For example, the increasing proportion of firms that decide not to participate in managers' organizations and are not included in a sector wide collective agreement. In the late nineties 52% of firms in West Germany and 73% of firms in East Germany were not included in a sector wide collective agreement. Nevertheless, the firms in Germany that implement the 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 Betriebspanel, 2002.

German trade union federation strategies, nevertheless, seek to adapt the coverage of collective bargaining to the requirements of management and employees. Suchlike strategies aim at factions of employees which have not been the focus of attention before. They incorporate the latest bargaining issues that have attained significance on account of financial restructuring and the requirements of firms, or by reason of institutions attempting to recompense employees for losses not indemnified by the welfare state. Many of these original strategies were initially implemented at firm-level and it is still not clear whether their provisions can extend to the entire sector. There has been a

number of occasions recently where trade union and company-level administration in Volkswagen incorporated original clauses in a firm-level arrangement which were subsequently spread throughout the metal sector. In a way, Volkswagen is a laboratory for sector wide innovative agreements in the entire metal sector. Other examples are IG Metall, Debis, and ÖTV.

On the whole these laboratories of pioneering arrangements and brand-new agendas indicate that trade unions have the capacity to adapt their collective bargaining policy as well as tactics to the fluctuating demands of their members and to managers' requirements for more versatility. In several cases trade unions expressed dissatisfaction at the low density of membership of female and white collar 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 with management and managers' organizations. 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 occurred within the Deutscher Gewerkschaftsbund raise questions with reference 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 formalized organizational framework, the Deutscher Gewerkschaftsbund can achieve a better position than before.

My argument is that institutions must encourage alliances with political fronts, to demonstrate and increase their socioeconomic influence on political factions, to devote more finances for strategic objectives, and to enlist possible organizers from a number of workplaces. This point defies the notion that institutions have to stick to their last and do not have to become comprehensive. Nevertheless, the hypothesis is that institutions in reality have to stick to their last when they encompass working lives inside and outside the factory or the office, for this is what trade unions and works councils have done ever since they were formed years ago.

Though internationalization has become a slogan in the ongoing academic discussion, labour institutions are interested in well defined issues of the procedure (Frege, 2005). There is no academic discussion on the strengths and weaknesses of internationalization like in America and Britain. Institutions in Germany are not against internationalization and they do not engage in anti-globalization demonstrations e.g. Seattle, Washington, Prague, Davos. Institutions are mainly concerned with global industrial relations and political provisions, both of which are associated with their specialized sections for economic policy. The requirements for political provisions in global industrial relations have been an issue since the seventies and are especially associated with the Gewerkschaft Textil und Bekleidung. Accordingly, the clothing and textile industry has formed a special relationship with establishments like the Kinderhilfswerk TDH and religious institutions in the developing countries.

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

The social dialogue was brought in by the EEC treaty of 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 arrangements settled by mediation between ETUC, UNICE, and CEEP for the workers has not been quite satisfactory (Kuhlmann, 1998). In recent times, nevertheless, there has been increased interest in the application of social dialogue in bargaining (Bansbach and Keller, 2000). However, the chances of the social dialogue evolving into a main instrument of inter regional institutional cooperation are 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 legitimacy with its own national constituents and by using the openings provided by these European institutions to try to elicit changes in employer behaviours (Martin and Ross, 1999). This method can be employed at regional level as well. Only when the 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 integration of collective bargaining policies. IG BAU introduced a research project about institutional coordination and a large number of industrial relations issues in the European Union, in the mid nineties (Lubanski, 2000). In the late nineties, there was an arrangement with the construction unions of 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 Tarifpolitik 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 function of inter-regional trade union committees is not spectacular, but it is imperative for promoting the spirit of European integration. The establishment of these committees is a procedure that furthers the transnational collaboration and harmonization of industrial relations in the European Union. The role of inter-regional trade union committees is to resolve workplace and regional development issues. Topics like Mitbestimmung that is to say cooperation between management and workers in decision-making, social security and environmental affairs are some examples.

Besides the well known difficulties of institutional change, I attribute particular significance to a couple of propositions for union revitalization which integrate different strategies. Institutions in Germany have to develop a tactical approach at the European

level and in many occasions concentrate upon shop-floor policies. With respect to the latter, success is contingent on enlisting members and educating organizers combined with organizational transformation and assigning authority to the local and workplace level. As managers introduce modifications in the workplace, trade unionists also have to reply with incremental adjustments which serve their own vested interests. Making the first move can reinforce employee power in the workplace and create a new landscape.

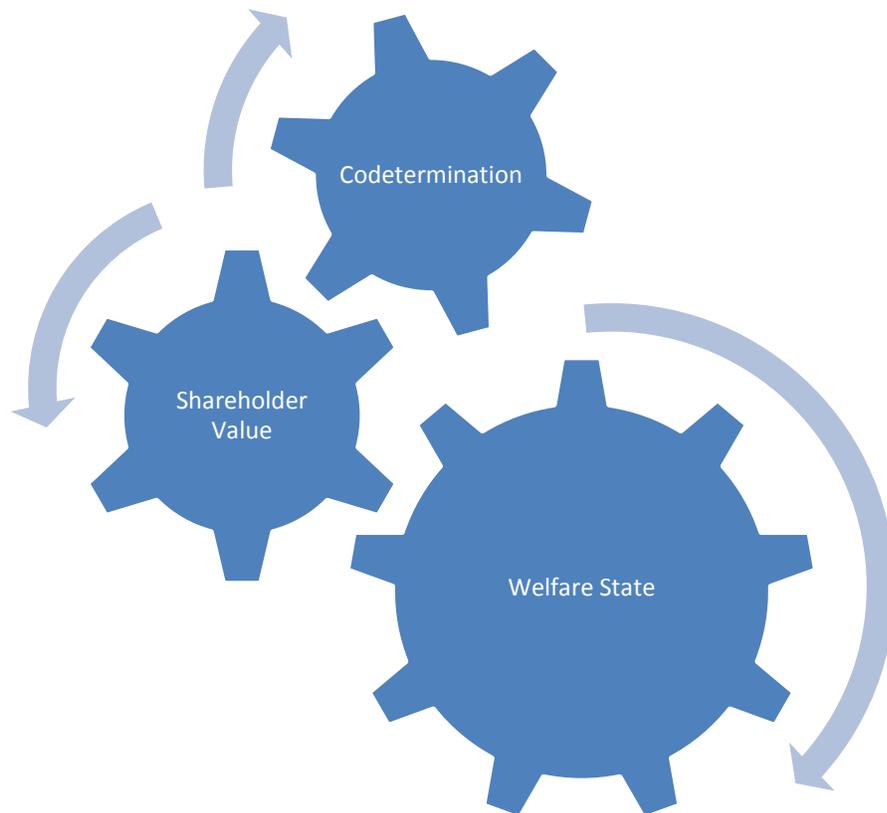
The aim of this section was two-dimensional. Firstly, I wanted to broadly discuss the reorganization of German labour institutions as it becomes manifest in a number of areas that appear to be the most important. E.g. organizing the unorganized, mergers and internal restructuring, social partnership, political action, coalition building, and cross-border trade union collaboration. Secondly, I described some of the latest developments in these areas and I proposed union revitalization strategies, at the national and international level.

### **The Reformation of Welfare Schemes**

This part suggests that co-determination and shareholder value are incompatible by definition, for the reason that the empowered employees enter into a state of opposition with stockholders. However, if the restructuring of corporate governance, through early retirement or voluntary redundancy is facilitated by a prosperous social security system, co-determination and shareholder value become complementary by the embodiment of one more institution in workplace relations, and that is the Welfare State (Boyer, 2005). Incidentally, a threefold compatibility like this was evident during the golden age of

workplace relations in Germany even though the context was not the same, the patient capital provided by banking corporations was compatible with the empowerment of employees at the company level, through co-determination and works councillors, and at the national level, by centralized bargaining. Such an institutional complementarity confirms the role of the welfare state as a facilitator of corporate restructuring and is displayed by chart 3.

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



Source: PSE, 2005.

In fact, it may be difficult to demonstrate that the coexistence of shareholder value and codetermination in Germany is because of the ambitious welfare state, this complementarity among 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 such an uncertain set of circumstances. As a result this theoretical explanation provides for a hypothesis instead of a conclusion, but it draws attention to a different concept in the debate on the industrial relations of Germany. The evolution of corporate governance and industrial relations should not be disengaged from the reformation of welfare schemes.

In the political economy of the welfare state some influential doctrines emerged which were capable of explaining the paradox of welfare state flexibility in times of economic and social constraints and despite the difficulties of fundamentalist parliaments (Pierson, 1996; Pierson and Weaver, 1993; Weaver, 1998). Those doctrines have been practically confirmed by the evolution of welfare states during the late nineties, and they have been able to account for the magnitude of diversification observed by the recent developments in welfare states. However, because they are not capable of explaining the paradox of organizational path departure, this section attempts to revise the latest theories of welfare states. I will review the latest theories, compare them with the reformation of the welfare system in Germany, and attempt to revise them. Looking into the topic of principal organizational transformation in the German welfare state, I follow the example of the deviant case study in comparative economics (Pierson, 1994). My research of the German welfare state has four purposes. Firstly, it attempts to bring forth ideas that capture principal reforms in welfare systems. Secondly, it identifies other trends which were formerly disregarded or ignored and makes propositions about the influence upon the procedure and the end results of welfare state reformation. Thirdly, it clarifies the theories which put together an essential supporting structure for the interpretation of the

welfare system reform. Lastly, it attempts to pay attention to the new events which must be interpreted by these theories.

There are a number of advantageous circumstances which support governments to suppress the opposition from the general public and to achieve success in carrying out incremental adjustments, firstly, policies to decrease, or avoid liability, secondly, appropriate organizational capabilities, and thirdly, an effective strategy implementation. 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 integrate leftist political factions and labour institutions into a reformation alliance, inasmuch as they are usually advocates of the welfare state. On the contrary, in parliaments where the opposition is not a supporter of the welfare state, 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). Parliaments with centralized jurisdiction, like in the United Kingdom and the United States, come up against fewer obstacles in the process of making laws and are capable of carrying out incremental adjustments (Huber and Stephens, 2001; Tsebelis, 2002). In many cases, nevertheless, the interrelation of governmental organizations with welfare state reforms is quite intricate and complicated (Hering, 2003; Bonoli, 2001). From another perspective, an effective strategy implementation that justifies the welfare system reform by incorporating popular beliefs facilitates parliaments to overcome the resistance from political factions (Schmidt, 2000).

For governments, the public and social cost of welfare state reforms was quite large in western Germany, but it was larger in eastern Germany. While in western Germany,

most people would be contented 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 public and social cost of welfare system reforms is 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 and 10 percent, support private programmes (Kohl, 2002). What is more, unpublished material on social security indicates that people are favourably disposed towards state responsibility. A great number of people, both retired and employed, 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 an alliance to protect the welfare state. In the nineties, the Social Democratic Party strongly disputed the moderate reductions legislated by the political alliance of the Christian Democrats and Neo Liberals. Following the unsuccessful effort of Helmut Kohl to obtain the assistance of the Social Democratic Party for reductions in expenditure in 1997, the Social Democratic Party disagreed with the government, pledged to cancel those reductions in expenditure, attained a parliamentary majority in 1998, and carried out its pledge. Having said that, the reductions in expenditure put into effect by the government in 1999, caused great 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 great controversy among the labour institutions and the works councils. Consequently, in 2000 the new parliament introduced a gradual privatization of the German pension system. This legislation by the parliament controverts the latest doctrines of welfare state reforms about the function of the Social Democratic Party as a welfare state supporter over the last twenty years.

Some scholars have indicated that fluctuations in public opinion and personal interests with regard to the reformation results of the welfare system may as well be interpreted by the availability or insufficiency of an effective strategy implementation which authorizes unpopular amendments by appealing to common values (Hering, 2003). They have also indicated, nevertheless, that German parliaments up to now have not been successful in the implementation of an effective strategy to convince political factions about the indispensability of the welfare system reformation. Helmut Kohl's neo-liberal internationalization strategy in the late-nineties damaged his reputation among interest groups and resulted in the loss of the federal elections (Kocher, 1998). Neue Mitte, another liberal strategy implementation by the German Social Democratic Party, has up to now been unsuccessful (Kocher, 2002). The table demonstrates that the German Social Democratic Party suffered the loss of the reputation that obtained in the elections by crusading against the government's reductions in expenditure. The public opinion is that the major beneficiaries of the reformation in the late nineties were the government, the managers and the prosperous instead of the youngsters, the workers and the needy.

**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: Institut für Demoskopie Allensbach, 2003.

The urgency to shift blame and the necessity to obtain the support of labour institutions and interest groups essentially determines the reformation policies that parliaments use to carry out welfare system reforms. Scholars put forward an argument 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 will be able to avoid blame (Weaver, 1998). Other scholars argue that there is every reason to believe that policy makers will seek systematically to engineer changes that produce their major expenditure implications only at a later point in time (Pierson, 2001). The argument of blame avoidance is for that reason capable of explaining firstly, why an increase in the age of retiring or social cutbacks, for instance, are postponed and last for a sufficient period of time. Secondly, it is able to explain why parliaments decrease the visible reform strategies and the immediate reductions (Hering, 2005).

The innovative privatized pension system that the German parliament initiated in 2001 was devised as an inclusive and encompassing act against the reductions in expenditure and benefits. As the magnitude of the private pension system increases, the size of public pension benefits decreases. What is more, social security contributions will remain the same at around twenty per cent of gross earnings shared equally between employers and employees. The parliament's initial programme was to make privatized pension systems compulsory, but this programme by Bundesrat was delayed by works councillors and opposed by trade unionists. Nevertheless, the 2002 welfare system

reformation incorporates an act which demands to revise this option in a few years. Furthermore, privatized pension systems are partly compulsory due to the fact that the increase in privatized pension programmes virtually shrinks the magnitude of state pension systems. What is more, the parliament's objective is to make sure that workers finish up with an amount of privatized pension benefits 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 up to now been insufficient. In the research on the comparative politics of the welfare system, there has been only one project by scholars on welfare reforms that had an overwhelming impact in consolidating and restructuring the powerful theories of the welfare system (Esping-Andersen, 1990). In this section, I will propose a new theory of incremental adjustment which is based on those 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 capable of capturing path departure in the world of welfare capitalism and to differentiate this 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 other international financial organizations, overruled an objection by Gerhard Schroeder and the minister of employment about the government's reductions in expenditure. Secondly, Gerhard Schroeder and the minister of employment overruled an objection by

the minister of finance to make provisions for the initiation of the privatized 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 emergence, and ongoing evolution, of financial affairs at the EU level offers a good example of the impact of the mechanism of institutional interference on the welfare system reformation. The German chancellor and the minister of employment, who was the head of the Christian Democratic Union for a long time, are good examples of creative opportunism. The ideals and activities of those two members of parliament had a great effect 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 an actor which secures economic aid from international sources. Identifying financial organizations with economic constraints misinterprets the character of organizations and underrates their influence. Primarily, organizations have positive as well as negative characteristics (Offe, 2001). European organizations are not all about fiscal pressures. They have objectives, and also comprehensive schedules. They make provisions for politicians with common values to use as resources. Those positive characteristics of institutionalized activities are also of a growing significance for the European organizations. It started as an arrangement of financial convergency criteria with no immediate effect on the German welfare state but grew into a comprehensive schedule with many objectives which entail

welfare system reforms. It was a few years ago that financial organizations elaborated on a comprehensive schedule for the reformation of welfare states. Those organizational objectives are frequently accepted and appropriated by finance as well as labour ministers at the national level (Bundesministerium der Finanzen, 2000). In spite of the presence of fiscal pressures, European organizations exert an influence at the national level.

I also argue that the politics of parliaments, as well as the new ideas and vested interests of actors such as works councils and labour institutions have an important part in the reformation of welfare states. They are capable of explaining the solidity of welfare systems in spite of institutional barriers. For instance, the solidity of the system in Germany till 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 barriers were of secondary importance. The main reason why parliaments in Germany did not introduce elementary modifications was their unreserved devotion in the maintenance of the welfare system. As scholars have rightly suggested in a research of smooth consolidation in Germany, the absence of open and polarized conflict was not only due to the tactics of its containment, the success of conflict containment must 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 conceptions of identity which prevented German parliaments from taking into consideration fundamental changes in the welfare system (Schmidt, 2002).

My suggestion is that we have to take some political dimensions into consideration so we can understand the blame avoidance and credit policy motives of German

governments. The importance of economic and social dimensions may be different between nations. Innovative cross-cutting dimensions are emerging. For instance, an innovative dimension emerged between the mid and late nineties which is now cutting across the German welfare system. The decrease and stability of social security contributions has offered a chance for the German parliament to avoid blame, as well as to implement its credit policy. The social and economic controversy during the nineties has generated a contribution resistance among the people in Germany which can be compared with the tax resistance in some European neo-liberal welfare systems. The manifestation of this cross-cutting dimension has resulted in a political compromise in the field of benefits. Reductions in expenditure are not popular among the people and they result in generating blame. But if reductions in expenditure result in lowering and stabilizing social security contributions, the outcomes of those cutbacks are popular. Consequently, parliaments may be inclined to give up blame avoidance strategies if the outcomes of the reductions offer a chance for credit claiming.

Another suggestion is that we have to take the ideals and values of labour institutions into consideration and 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, institutions were given financial motives to bargain with managers about welfare systems. Since *Industriegewerkschaft Bergbau, Chemie, Energie* accepted to negotiate about welfare systems under the amended regulations, it comes as no surprise that its employees welcomed the plan for the privatization of pensions and health

services. IG Metall, the metal workers' union, did not take the opportunity offered by the German parliament to bargain about welfare systems and vetoed the proposal for privatized pensions. Because of the much larger influence of IG Metall in Germany, Deutscher Gewerkschaftsbund also rejected the government's plan. One year later, however, both IG Metall and the union federation welcomed privatization.

Furthermore, German parliaments sometimes welcome an organizational change, but their own ideals and values makes it impossible to implement it. For many years, the department of employment in Germany had an instruction 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. Such a conservative idea ruled over the German department of employment from the sixties to the nineties. Employment ministers in Germany did not think that an institutional change is viable, and utilized the PAYG system as an ideational weapon that opposed the supporters of capitalization in the Christian Democratic Union. However, the dominance of ideas and values is dependent on the competence of the contenders who advocate them or upon organizational socialization and support. The change of personnel in the department of employment since the late nineties elections brought politicians in influential posts who think that the remuneration difficulties can be resolved. To sum up the main points of this argument, when parliaments are firmly persuaded that funding systems can not be reversed, they will not make an effort, but when they are willing to introduce reforms, they may well have the capacity to resolve these matters.

I have illustrated that comparative politics need another model of cause and effect to interpret organizational transformation in welfare systems than it has so far been used to

justify the incremental adjustment of social security in relation to developments in the economic environment. I have proposed a couple of new theories which have to be included in the current debate, institutional interference and creative opportunism. Those two theories are capable of explaining the paradox of organizational path departure in the welfare system of Germany. They provide for an interpretation of new events that the latest theoretical components of institutional change can not explain, the ability to initiate things by the Social Democratic Party, the rejection of personal interests, the overthrow of old policies and parliament's strategy of blame avoidance, the controversial, though effective reformation procedure and the role of European financial organizations. Institutional interference and creative opportunism serve as an explanation for the organizational transformation of the German welfare state and may be able to justify 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 quite 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 the nature of industrial relations and social security 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 well known uncertainty about corporate

governance, industrial relations, and the welfare state. 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 Schröder administration. The announced reforms include the rise of tax share in welfare funding which comes from the rise in Value Added Tax. In exchange, social security contributions will become less.

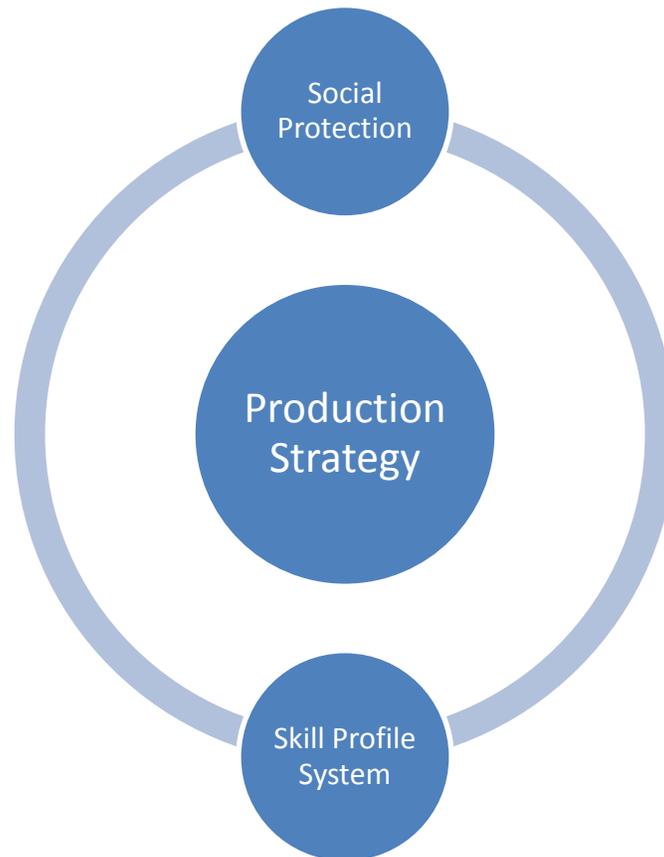
### **A Comparative Advantage of Skill Profiles**

This section expands on the concepts of institutional complementarities and varieties of capitalism by demonstrating the influence of operational management on the welfare state. The explanation for this organizational compatibility is investment in human resources. To express the same thing differently, different aspects of the welfare state fit together and fit with different aspects of the production regimes, in particular their labour market components and this fit is not a one-to-one correspondence between a whole configuration of welfare state and production regimes (Huber and Stephens, 1999).

Besides, distinct organizational structures form the institutional environment for distinct productivity policies, and there is not, generally speaking, a more effective business system in comparison with others, when 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 period. All these concepts shall become clearer in the next pages. I speak of the theory of comparative 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 various brands of capitalism. Today's comparative political economy is marked by other juxtapositions of polar models, fordist vs. specialized production, Anglo-Saxon vs. Rhenish capitalism, deregulated vs. institutionalized political economies (Albert, 1991; Crouch, 1993). In coordinated market economies like Germany, companies are dependent on non market

relations to correlate with intermediaries and to develop their own competence. 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 relation between investors, suppliers, customers, and through this way funding does not depend on quarterly balances, they are able to obtain information about the firms, to monitor the production activity and, eventually, to sanction it. The information flow is sustained by the internal structure of the firms which favours consensus decision-making. Rarely, in fact, the managers have the capacity of unilateral actions as happens in Anglo-Saxon economies (Mocetti, 2004). The productivity policy 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 coordinate bargaining which acts as a defense mechanism for companies against the departure of employees and ensures that workers receive the maximum payment in exchange for the services they provide. What complements this organizational structure, at firm level, is a comprehensive network of works councils comprised of authorized employees, often trade unionists themselves, with substantial powers on the shopfloor. The works councillors provide for workers to resist lay offs or disadvantageous policies at the workplace, and they support them to invest in company specific vocational training. A wide ranging state supported vocational system also 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 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 councillors 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 corporations to employ or dismiss workers so as to profit from a favourable occasion but makes it more difficult for them to adopt a productivity strategy founded on a long term programme. They support employees to learn generalized skills that can be transferred between corporations instead of company specific skills or careers which embody vocational training in a working environment (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 juxtapose coordinated and uncoordinated 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 among Anglo-Saxon market economies.

According to the literature, social protection is considered as the principal institution in the construction of different models of post-war capitalism, and discrepancies and irregularities between welfare regimes are ascribed to dissimilar methods of government interference (Esping-Andersen, 1990). The concept of regime underlines that the welfare states are not simply an aggregation of distinct social programmes, to talk of a regime 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 diminishing returns, for decreasing employee motivation and for the careless management of financial resources, 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 politics 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 have, always, the same vision of the welfare state but the changed political climate implies that sympathetic economists get higher rewards than critical ones. In Germany temporary jobs were introduced since 1985, but successive legislative acts has put narrower constraints to duration and renewal of such contracts, in France use of atypical contracts was liberalized in 1985, but in 1990 a new legislative act has restricted the use and increased the costs (Mocetti, 2002).

Distinct organizational structures cause a comparative advantage for distinct production regimes. In agreement with this, organizational change in social protection challenges the thesis of convergence as regulations are formed according to the path-dependency of nations. A good example is the procedure of regulation of industrial relations, in Europe the divergences persist not only as a result of institutional infrastructures which come from the past but even because correspond to different strategies of the economic agents (Regini, 2002). In spite of similar pressures faced by every country, the responses to these pressures are quite dissimilar. There is a general

trend for making workplace relations systems more flexible but there are also different production models and welfare states. This partially confirms the interdependence of social protection systems and productivity policies.

Skill profiles are hard to measure as they can not be observed. Nevertheless, some reliable indexes can be used for this 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 previous 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 taken into consideration, 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	0,582	0,578
Finland	0,568	0,954	0,463	0,810

Source: Eurostat, 2004.

The EHCP data clearly demonstrates that 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 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 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 the United Kingdom have the lowest level of work and social protection, a low level of specific skills, and an average level of industrial skills. Most importantly, nations with high levels of work or social protection also demonstrate high levels of specific or industrial skills. To the extent that skillfulness is related to productivity the Eurostat evidence defies the argument that there is a big tradeoff between equality and efficiency.

The evolution of industrial relations theory, since the mid seventies, has made provisions for another argument which emphasizes on the effectiveness of national welfare states, by taking into consideration the production systems. The most important argument of all has been the concept of market imperfections because of specific assets and mental patterns. The relationship of employers and employees involves an investment in relationship specific resources which generates some sort of a dual monopoly, and as this particular exchange goes on, it also generates mutual gains in the

long term (Buechtemann and Walvei, 1999). Both empirical and theoretic approaches provide an interpretation why, from a microeconomic point, 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 suggests a 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 corporation, or a continuous training procedure with increased skillfulness, the wages, in this occasion, are another index of the value of the employee to the company. The point is that the resignation of workers is expensive for a corporation, 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 policy, a sum withheld at the beginning and to be returned in 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 problems could arise if we consider cases of credit constrained (Milgrom and Roberts, 1994). The work would be more precious for employees and the managers would depend 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 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, of greater openness that disrupts established economic relations, the workforce will need insurance against a rainy day (Agell, 1999). It is widely accepted, in sociology, the general notion that reforms in production regimes cause and regularly affect, the attitudes of employees, in different manners. In agreement with the literature, the social policy preferences mainly depend on four variables, the level and the typology of skills acquired, the industry to which they belong, the production strategies of a country and the level of existing social assistance (Kramer et al. 2000). Besides, the attitudes of workers may be the reason for differences in economic choices and labour institution and party requests (Manow, 2001). The desire 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 associated with specific skills, employees with specific assets 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 kind of analysis seems to be strongly related to the manufacturing sector but some preliminary analysis in these fields seems to confirm this analytical approach and to consent new and more particular considerations, sector by sector, which becomes a proposition for further study.

## **Conclusions**

The adaptability of the German model of workplace relations demonstrates that industrial democracy which is held in high respect by some authors will probably not become obsolete in an international economy (Soskice, 1990). The social partnership, a main feature of this variety, particularly the dual dynamic of labour institutions and works councils, makes provisions for an alternative to the neoliberal policies, and a comparison can be made with other countries. Substantial liberalization of the Swedish economy had already started twenty years ago (Rothstein, 2002). The resilience of the German model in contrast with the decorporitization of the Swedish model, apart from its ambitious welfare state, demonstrates that a decentralized version of a coordinated market economy is more appropriate in the context of global competition (Thelen, 1993; Turner, 1998). A more comprehensive examination of the Scandinavian society was beyond the scope of this chapter but the decentralization of the German variant was extensively discussed.

A major theme in the ongoing 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 as successful. It was also the reason for the disengagement of employees from the production line, although firms achieved flexibility on the part of employees. The politicization of workplace relations is often used by academics to interpret the organizational sclerosis of the 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 major characteristics of German labour

relations (ibid 1992). Consequently, the unofficial agreements which undermined the official structure also offered another option, but oddly enough the new framework became much more stable.

From a theoretical point of view, political consolidation in Germany has been practically achieved, while socioeconomic coherence has been put off. It is well defined that it was much easier to reform employment legislation in Germany than to introduce a socioeconomically coordinated 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 western Germany and eastern Germany has been reduced because of the role of works councils, and new labour institutions have been founded, as the facts indicated, the discrepancies between eastern Germany and western Germany persist. Researchers have formerly ignored this in such a way that they have underestimated the role of the public sector in German industrial relations.

The economic and social progress of Germany was sustained by a comprehensive network of partnerships that incorporated major actors, such as banking corporations, works councils, and labour institutions. Notwithstanding that Germany was a western liberal society, it was also described by definitive terms such as bargained political economy or democratic corporatism because of the coordinated structure and the large number of collective arrangements (Katzenstein, 1985) Solid and integrated organizations of banking corporations and large firms were very important. Writers portrayed this design as a good example of a cooperative market economy with payment plans that help firms to sign long-term contracts, develop vocational training, and expand to diversified

industries, they were favourably disposed towards this political economy as opposed to the less efficient Anglo-Saxon version (Soskice, 1990; Turner, 1998).

In my first attempt to make a substantial contribution to the main part of investigation, 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 provided the most evident presumptions. In particular, works councils willingness to build close associations with managers was very clearly conditional upon works councils coordinative attitudes. From a different perspective, cooperative attitudes in employment relations were not influenced at all by institutional characteristics such as firm, sector, trade union and works council. Consequently, the relation of labour institutions with managers was to a large extent formal and not dependent on the personal characteristics of social partners. Nevertheless, this does not entail that coordination of the actors is clearly an inherent quality of the German model. To the contrary, cooperation is a constantly debated development of the dynamics of managers, works councils and trade unions. In the well organized structure of industrial relations in Germany, the collaboration of labour institutions and managers is contingent upon day-to-day relationships. This is also an important statement for the academic literature of workplace relations. It makes clear that although statutory support of democratic corporatism is necessary it is not adequate to secure a cooperative employment relationship. However, constitutional authority for labour institutions may be able to help in producing a different equilibrium of power which seems to be a precondition for collaboration.

In another attempt to make a contribution to knowledge I also illustrated some notions about the transition of corporate governance in Germany. Generally speaking the ongoing developments may be defined as incremental adjustments in the German variant of the stakeholder society. The incremental adjustment has occurred in the field of institutions and of practice. In the field of institutions, ever since the political unification the coalition of stakeholders has not been replaced or hindered by small-scale investors. This stakeholder coalition has instead been reinforced by the inclusion of institutional investors into the social partnership. Therefore, I argued for the emergence of an augmented stakeholder alliance in Germany. In the field of practices, the well established goals that large companies have focused, have not been replaced by shareholder principles but have been reinforced by the stakeholder alliance. In contrast with the model of shareholder interests in the United States and the United Kingdom, the German model may be defined as bargained shareholder economy, which has two distinct attributes (Vitols, 2003). The employment of strategies designed to accomplish shareholder value to increase the profits of large companies must be discussed with the delegates of the stakeholder coalition, particularly the banking corporations and labour institutions. To keep in a state of balance in an augmented stakeholder coalition, strategies designed to accomplish shareholder principles are regularly adjusted in order to take into consideration the advantages for the economy and the society. A number of policies, such as remuneration incentives were initiated to align the interests of investors, managers, and employees, consequently Germany is distinct from the version of shareholder value in the United States and the United Kingdom.

To examine the complexity of corporate management at the firm level it was quite useful to investigate the well known controversy about long lasting and standardized models like the Anglo-Saxon and the German. In contrast to the requirements for transformation, the two versions stand firm in their individual qualities, and are both determined by the procedure of incremental adjustment, as opposed to a tendency for groundbreaking modifications (Casper, 1999; Casper and Vitols, 1997). The differences serve as an explanation for the factors that have a significant role in organizational change at present. In other words, the controversy about the two versions provided for the fundamental characteristics of the formation of an analytical mechanism for international trends which take a different course to the Anglo-Saxon version of corporate management.

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 factory level coalitions, and organizational changes, which are discussed with trade unionists, regulated by firm level arrangements and accomplished in a simple manner. In addition, negotiating at the company level has drawn attention to a recent tendency in wage systems which provides for a higher level of earnings (Hassel, 1999). Centralized settlements overlook the large differences of firms which offer various remuneration schemes. Big companies are able to negotiate with delegates of employees wages above the going rate and appropriate remuneration systems to bring in qualified staff.

In spite of the problems of organizational change, I attributed special importance to some concepts about the rearrangement of institutions that combine separate policies.

German unions need to elaborate on a strategic procedure at the European level and in some cases focus on workplace practices. With regard to the second, the revitalization of institutions depends upon the recruitment of associates and vocational training complemented with organizational reform and delegating power to the district level. As directors initiate changes at the shop floor level, workers will have to respond with incremental adjustments which are advantageous to employees. Groping to regain the initiative increases workers' authority on the shop floor and forms new strategies.

With regard to the reformation of the welfare system, socioeconomic developments had to be considered to comprehend the strategies of blame avoiding and credit claiming by parliaments. The significance of some political advances can differ between the European nations. Innovative cross-cutting reforms are materializing. For example, an innovative socioeconomic dimension has become manifest for a few years now and is cutting across the European states. The reduction as well as stabilization of public benefit contributions has provided an opportunity for the German government to carry out its policy of credit claiming. The political controversy 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. The emergence of this cross-cutting dimension has culminated in a substantial reformation of the German welfare system. Cutbacks in spending are not welcome by the employees and they 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, parliaments are likely to abstain from blame avoiding when the results of low expenditure provide an opportunity for credit claiming.

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 toward an unparalleled hybridization, which bears only a slight resemblance to a liberal market economy.

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