

# Corporate Governance and Employees in Germany: Changing Linkages, Complementarities and Tensions

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# The Issue

- What relation exists between the role of investors and employees in corporate governance? How do changes in ownership and control impact human resource management?

# The German Case

- „Varieties of Capitalism“ approach posits complementarities between patient capital and cooperative, high skill labor (Soskice/Hall)
- „Law and Economics“ literature sees employee rights as hindering the emergence of dispersed ownership (Roe)

# The Paper

- Sociological analysis of governance coalitions and institutional linkages between investors and employees
- Empirical focus on changes in largest 100 German companies since the late 1990s

# Germany in Comparative Context

- Patient Capital
- Long-Term Employment
- Consensual Management
- Contrasts with more „marketized“ relationships in US-UK
- Contrasts with Japan include corporatist associations, horizontal organization based on social class and occupation, coercive role of law

# Investors

- Ownership
  - Concentrated ownership
  - Investors with strategic organizational interests
  - Contingent monitoring by banks and holding companies
- Finance
  - Internal finance, external finance dominated by banks

# Employees

- Employment Relations
  - „Decommodification“ of labor
  - Long employment tenure, employment security
  - Industry-wide collective bargaining
- Industrial Relations
  - Codetermination
  - Industrial unionism
- Work Organization
  - high skill, functional flexibility, occupation-centered, flat span of control

# Management

- Functional specialization
- Consensual decision making
- Internal careers
- Separation of management and supervisory functions by law
- Compensation avoids high power incentives based on stock performance



# Institutional Linkages

- Specifying complementary relationships requires theoretical models linking economic functions across domains
- Positive-sum or negative-sum relationships depend on issue area, and institutional definition of interest and rights
- Inherent selectivity of models may lead us to overestimate the „tight fit“ between institutions
- Alternative approach? Sociology of governance coalitions

# Three Axis of Conflict in CG

- Class conflict
- Insider-Outsider conflict
- Accountability conflict

# Institutionalization of Stable Governance Coalition

- Limited class conflict
  - Strategic ownership stakes
  - low market capitalization, stable rate of return
  - protection from takeovers
- Only latent insider-outsider conflict
  - protection of insiders, but effective contingent governance by banks
- Acceptable accountability?
  - lack of transparency, but strong insider information and demands for consensus

# Changes among Investors: 1990s

- Rise of institutional and foreign investors with predominately financial interests and pursuing greater liquidity
- Erosion of bank monitoring
- Erosion of barriers to hostile takeovers

# Changes among Management: 1990s

- Professionalization
- Growth of external labor markets
- Financial orientation
- Reduction of average tenure and time horizon
- \*\*Rise of the shareholder-value paradigm as new managerial ideology

# Shareholder-Value Orientation of Listed German Non-Financial Companies

Company	Score		
• Bayer AG	1,61		
• VEBA AG	1,48		
• SAP AG	1,33		
• Hoechst AG	1,20		
• BASF AG	1,14		
• Mannesmann AG	1,11		
• Henkel KgaA	1,09		
• Daimler-Benz AG	1,02		
• RWE AG	0,90		
• Siemens AG	0,86		
• Schering AG	0,74		
• Metallgesellschaft AG	0,72		
• Degussa AG	0,55		
• Viag AG	0,55		
• Preussag AG	0,45		
• MAN AG	0,36		
• Deutsche Lufthansa AG		0,28	
• Linde AG	0,22		
• Continental AG	0,21		
• Thyssen AG	0,17		
• Deutsche Telekom AG	0,16		
• Krupp AG	0,16		
• Buderus AG	0,04		
• Agiv AG	0,00		
• Beiersdorf AG	-0,17		
• Volkswagen AG	-0,26		
• Rheinmetall AG	-0,31		
• BMW AG	-0,43		
• VEW AG	-0,46		
• Metro AG	-0,70		
• AVA AG	-0,81		
• Deutsche Babcock AG	-1,08		
• Deutz AG	-1,18		
• Karstadt AG	-1,23		
• Bilfinger+Berger AG	-1,25		
• Spar AG	-1,28		
• Südzucker AG	-1,30		
• Axel Springer Verlag AG			-1,70
• Holzmann AG	-1,90		
• Strabag AG	-2,29		

# Interactions with Employment

- Shrinking core employment
  - redistribution toward shareholders. Per capita wages stable, but shrinking domestic employment
- $SV \rightarrow$  Variable pay
  - linked to individual and firm performance
  - incentive and cost saving elements

# Interactions with Industrial Relations

- Variable pay --> industrial relations
  - less homogeneous wage structure, marketized incomes, decentralization of bargaining
- Labor supports transparency
- Conditional support for variable pay
- Conditional support for spin-offs, restructuring (e.g. Mannesmann, Thyssen Krupp)



- „Co-Management“ orientation
  - contractualization of industrial citizenship
  - contribution to efficiency
  - externalization of costs
  - new tensions between works councils and unions

# Conclusions

- More marketized role of capital leading to more marketized labor
- Employee voice does appear to have some impact on strategies aimed at SV
- No „tight“ causal linkages between investors and HRM as expected in the literature. But important relationships.

# Contrasts with Japan

- Similar processes in Japan
  - reduction of core work forces
  - marketization of incomes
- But against background of institutional differences
  - enterprise unions vs. industrial unions
  - informal consultation vs. legal codetermination rights

