PARIS-JOURDAN SCIENCES ECONOMIQUES
48, BD JOURDAN – E.N.S. – 75014 PARIS
TEL. : 33(0) 1 43 13 63 00 – FAX : 33 (0) 1 43 13 63 10
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What future for codetermination and corporate governance in Germany ?

Robert Boyer

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WHAT FUTURE FOR CODETERMINATION AND CORPORATE GOVERNANCE IN GERMANY?

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Abstract

Contrary to the prognosis derived from the variety of capitalism literature, since the mid-90s the significant restructuring of large German corporations in the direction of shareholder value seems to have been compatible with the persistence of a genuine configuration of industrial relations, including co-determination at the firm level. This article investigates whether this is a long lasting compatibility and tests various research programs in institutional economics and thus explores the consequences alternative hypotheses about institutional complementarity or hierarchy, comparative institutional analysis, comparative historical analysis, hybridization and finally *régulation* theory. Even if the process is highly uncertain, one major conclusion emerges: the old German model is probably irreversibly transformed and is evolving towards an unprecedented configuration, with only mild and distant relations to a typical liberal brand of capitalism.

QUEL FUTUR POUR LA CODÉTERMINATION ET LE MODE DE GOUVERNEMENT DES FIRMES ALLEMANDES ?

Robert Boyer

Résumé

Contrairement aux pronostics avancés par la théorie de la variété des capitalismes, depuis le milieu des années 90 la considérable transformation des modes de gouvernement des grandes firmes allemandes en vue d'adopter les principes de la valeur actionnariale s'est avérée compatible avec la persistance d'une forme originale de relations professionnelles, basée sur la codétermination. Cet article s'interroge sur le caractère durable de cette configuration et s'attache à tester les conséquences de divers programmes de recherche en économie institutionnelle quant à cette question. Il explore ainsi l'hypothèse de complementarité/ hiérarchie institutionnelle puis il mobilise l'analyse institutionnelle comparative, les approches comparatives historiques. Enfin il cerne l'applicabilité de la notion d'hybridation et des problématiques inspirées par la théorie de la régulation. Même si le processus est largement ouvert, il apparaît que le modèle de capitalisme rhénan enregistre une transformation irréversible et qu'il évolue vers une configuration sans précédent, qui n'est pas la copie conforme de la forme emblématique du capitalisme de marché.

JEL Classification : B52 – J51 – M14 – M54 – P52.

Mots clefs : Variété des capitalismes – Codétermination – Valeur actionnariale – Capitalisme rhénan – Complementarité / Hiérarchie institutionnelle – Analyses institutionnelles comparées – Hybridation – Théorie de la régulation – Crise allemande.

Keywords : Variety of capitalisms – Codetermination – Shareholder value – German capitalism – Institutional complementarity / hirarchy – Comparative institutional analysis – hybridization – "Régulation" theory – German crisis.

WHAT FUTURE FOR CODETERMINATION AND CORPORATE GOVERNANCE IN GERMANY?

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INTRODUCTION: A SURPRISING FINDING IN SEARCH FOR EXPLANATION

Within the competition among alternative brands of capitalism, the German institutional configuration has permanently played a critical role in assessing the future of the restructuring of national economies that has been triggered by the demise of the Golden age. Since the seminal work by Michel Albert (1991), the German highly specific industrial relations have been perceived as a key component of the success of a productive model based on the diversified quality production. More recently, Peter Hall and David Soskice (2001) have made popular the idea that the German capitalism was an emblematic example of a coordinated capitalism to be opposed to the liberal market capitalism typical of American configuration. They emphasized the complementarity between high skill workers, flexible equipments, and quality production. Consequently, this configuration could resist to the pressure exerted by the diffusion of new technologies and financial globalization, including the evolution of corporate governance in the direction of the promotion of shareholder value. Implicitly, this feature was supposed to be typical of liberal capitalism, thus totally contradictory with coordinated capitalism.

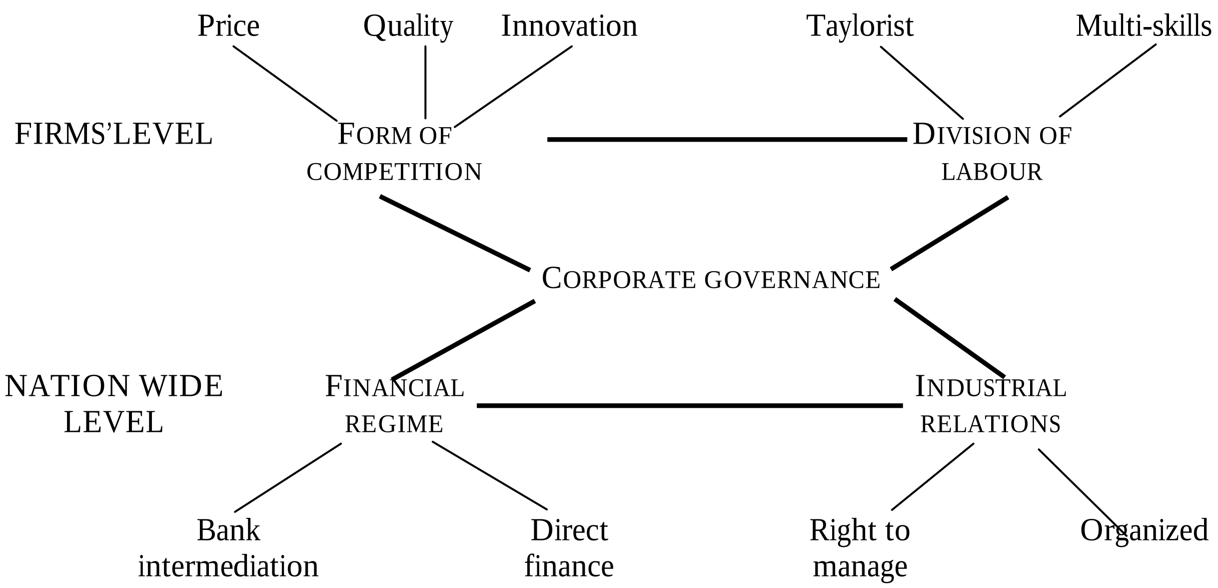
A recent study challenges this vision that considers the coexistence of two basic and alternative brands of capitalism (Höpner, 2003a; 2003b). A systematic analysis of the transformations of the organisation of large German companies convincingly shows that the codetermination, typical of German industrial relations, has proved to be compatible, at least until the early 2000s, with the adoption of the rhetoric and to some extent the practice of shareholder value. This article proposes to investigate alternative explanations of this puzzle, mobilizing the notions built by various institutionalist research programs. It is important to review first the hypothesis of strict institutional complementarity between codetermination and the other components of the German productive model (section 1), and then contrasts this configuration with the American one (section 2). A second line of argument challenges the hypothesis of a strict complementarity (section 3) and discusses the differences between mere compatibility, weak and strong complementarity (section 4). A third step introduces the idea that the relevant complementarity is not necessary dyadic – between shareholder and codetermination – but possibly triadic – only a generous welfare system allowing early retirement made compatible the adoption of shareholder value with the persistence of codetermination (section 5).

Another branch of the literature opposes the notion of hierarchy among two institutions to the typical complementarity of these institutions. According to this line of analysis, the codetermination would not any more be on an equal status with other institutional and organisational forms, but would be driven more and more by the requirements of financial markets, and this opens the possibility of structural and major changes in the long run for industrial relations (section 6). Alternatively, comparative historical analyses suggest other explanations and scenarios: codetermination would undergo a process of conversion and ultimately a recombination of German industrial relations with a totally different mode of governance (section 7). A comparative institutional analysis detects in this new German configuration various similarities with the Japanese employment relations and its links with corporate governance back to the 70s (section 8). A macro institutionalist approach stresses another hypothesis: the large German firms might well cope with the requirements of shareholder value at the micro or industry level, but they externalise the social costs associated with the slimming down of the workforce. Thus, the disequilibria would pile up into the welfare and public deficit, making problematic the full adoption of shareholder value (section 9). Finally, a régulationist approach stresses that it takes several decades for a radical institutional change to impact upon the *régulation* mode and the growth regime: the jury would still be out (section 10). A similar approach in terms of productive models suggests a still different interpretation: pure imitation of American born shareholder value would be impossible but the adoption of this principle would trigger a complex and uncertain process of hybridization, ultimately leading to a genuine constitutional configuration, that would differ both from the American and the German present configurations (section 11). Confronting these different approaches delivers a list of the factors that are the origin of the viability of a new configuration between corporate governance and industrial relations (section 12). It is then possible to propose some general but provisional conclusions about the future of codetermination.

ARE THE CODETERMINATION AND THE INSIDER GOVERNANCE PART OF THE COMPLEMENTARITIES TYPICAL OF THE GERMAN CAPITALISM?

One of the major arguments in favour of the diversity of capitalism puts forward that the coherence and the stability of given institutional configurations are closely related to the complementarity between their components. This argument has been forcefully put forward in order to oppose the American to the Japanese firms organisations and by extension the related capitalisms (Aoki, 2000; 2001). It applies too for the German capitalism, as pointed out by many authors (Streeck, 1991; 1997a; Amable, Barré, Boyer, 1997; Hall, Soskice, 2001; Amable, 2000; 2003). Under this respect, for any institutional configuration, corporate governance is crucial in linking the micro and macro levels (figure 1).

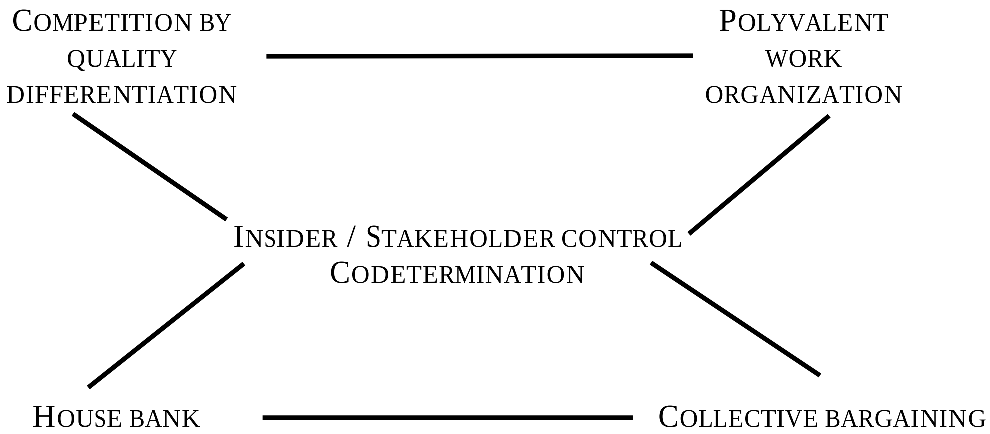
Figure 1 – Corporate governance and the variety of capitalism



On one side, a mode of corporate governance has to be coherent, possibly complementary, with the nature of the financial regime – either bank centred or governed by the stock market – and the style for industrial relations – organised and negotiated versus governed by the principle of the right to manage. On the other side, within the firm the corporate governance has a definite impact upon the division of labour, employment relations but also upon the form of competition, alternatively driven by price, quality, servicing or innovation.

This analytical framework is useful in order to sketch out the specificity of the German capitalism. Basically, the financing and to some extend, the control of firms is the responsibility of house banks, whereas collective bargaining is the rule for wage formation. Many scholars assess that the patient capital is complementary to the compromise elaborated between the business association and the wage earner unions. At the firm level, a polyvalent work organisation is crucial in order to nurture sophisticated products, distinctive by quality and servicing. Again there is a strong complementarity between product strategy and human resource management. This might be the outcome of a typical rational decision by firm (Hall, Soskice, 2001) but it is not necessarily so in the German context, since the history of industrial relations suggests that the codetermination at the firm level and the institutionalisation of work councils at the shop-floor level derive from demands expressed by the workers and converted into law by the governments. Only *ex post* have these institutions proven to be favourable to the competitiveness of the German economy. Thus the imposition of these institutional constraints has benefited both to the workers and the firms themselves (Streeck, 1997b). Quite few nation wide institutions, especially in the domain of labour relations, do derive from the cooperation that would emerge from the confrontation of the self interest of individual actors. By the way, when some typical German firms open new plants abroad, they rarely mimic the very specific German configuration, especially in terms of skill formation and wage determination. This means that national institutional constraints do shape the organisational choices of the firm (Boyer, Freyssenet, 2002). Consequently, institutional complementarities are thus converted into organisational complementarities (figure 2).

Figure 2 – Germany: a typical set of complementarities between institutional forms and firms organisation



The literature of industrial relations points out that the institutional complementarity hypothesis (ICH) can be applied fruitfully to the analysis of the German case. There is a correspondence between the three levels of labour legislation.

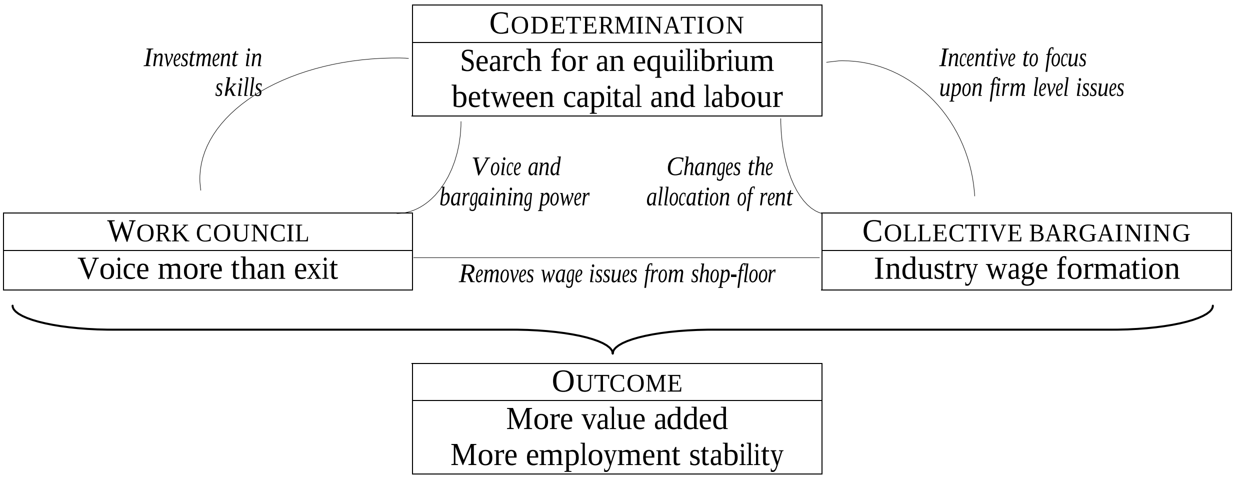
- *At the shop-floor level*, the works councils express voice instead of exit and thus help in designing and operating more efficient labour organisations (Streeck, 1995).

- *At the firm level*, since 1976, half of the supervisory board (Aufsichtsrat) of firms with other 2.000 employees consist of labour representative, even if the chair, appointed by the owners, retains a casting vote (FitzRoy, Kraft, 2005: 233).

- *At the industry level*, at least until the mid-1990, collective bargaining has the task to set industry wide wage that has to be adopted by each firm belonging to the same sector.

The works councils complement the presence of wage earners at the supervisory board: the later discusses and makes decisions about the grand strategy of the firm whereas the former deals with the everyday management of production, quality, investment in skills (FitzRoy, Kraft, 2005: 239). The fact that wages are not negotiated at the local or firm level, puts a constraint and an incentive in the managerial decision of the supervisory board: instead of allowing the conversion of rents into wage differentials, this device helps in promoting productivity, quality, investment in firm specific assets (Hübler, Jirjahn, 2003). Last but not least, the 1976 legislation that extends codetermination has the merit to overcome the conventional dilemma according which the distributional effect probably leads employees to demand an excessive degree of empowerment, while employers tend to maximise their share of surplus when employee involvement is low (Freeman, Lazear, 1995). These theoretical conclusions tend to be confirmed by the most recent econometric studies: when the presence of workers in the supervisory board was increased to nearly the half by the 1976 law, a panel data analysis on the two periods 1972-1976 and 1980-1995 exhibits a weak but robust and positive impact of codetermination on productivity (FitzRoy, Kraft, 2005: 243). Many experts finally consider that the German configuration of industrial relations displays complementary features both in terms of efficiency and welfare for the workers (Figure 3).

Figure 3 – Work council, codetermination and collective bargaining: the complementrity of German industrial relations



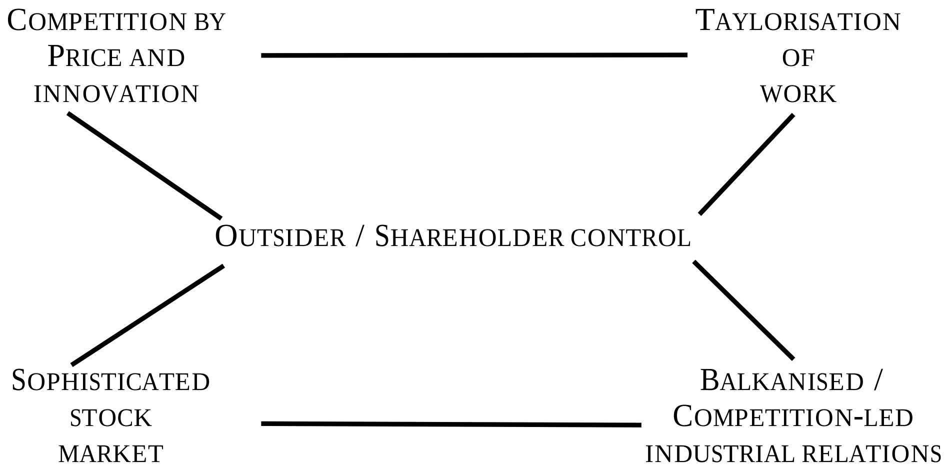
THE AMERICAN CAPITALISM: QUITE DISTINCTIVE COMPLEMENTARITIES…

The German configuration is therefore highly original, especially when compared with liberal capitalism configuration. The same institutional complementarity hypothesis can be applied, but the nature of the institutional and organisational forms is quite different indeed (figure 4).

Since the mid-80s, the innovations on the financial market have permeated the governance of large American quoted corporations. Consequently the issue of value creation and the reassessment of shareholder value have become central.

- *At the macro level*, the financial regime has become central in the institutional configuration: the search for high and possibly stable rate of return for capital owners has triggered various spill-over effects from the monetary regime – the central banker now has to prevent or cure financial crisis – to the industrial relations. Actually, more risk has been transferred from capital to labour and simultaneously, the collective bargaining typical of the Fordist era, has been decaying to be replaced by a vigorous decentralisation and individualisation of employment relations. No surprise then, if wage inequality has been increasing, since it is the direct consequence of the balkanisation of American industrial relations.

Figure 4 – The United-States: a distinctive set of features



- *At the level of the firm,* the diffusion of shareholder control has triggered a series of new business practices, such as fast employment reduction when firms face a down-turn, and the generalisation of outsourcing both at home and abroad. These changes take place in a context of acute price competition for mature sectors and patent race for sunrise industries, where innovation is central for the success of firms.

Thus, the American configuration displays too clear complementarities between the financial regime and industrial relations on one side, the strategy of the firms and the employment relations on the other. Basically, the logic of shareholder value implies a reduction of the rent distributed to workers. Hence, a pressure on wage and the diffusion of labour market flexibility. Compared with the German configuration, the distribution of income between wage and profit is different and simultaneously more risk is transferred from capital to labour.

…HENCE A PRIORI INCOMPATIBILITY BETWEEN SHAREHOLDER VALUE AND CO-DETERMINATION

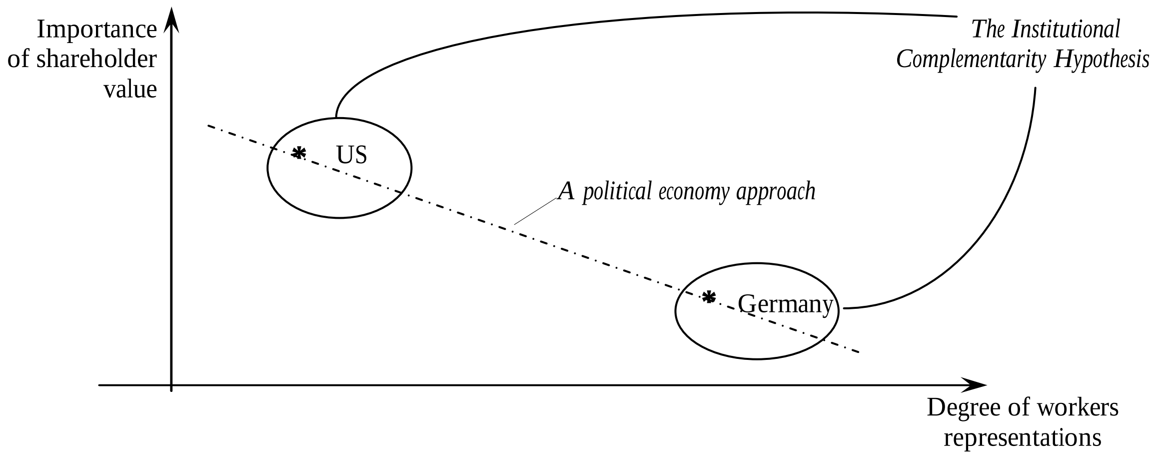
The sharp contrast between the two configurations is confirmed both by some formal modelling and by cross national comparative studies.

- When competition is moderate and the technological paradigm stabilized, a financial system centred upon bank intermediation entitles the viability of a long term employment relationship based upon the cumulativeness of firm specific investment in worker skills. Analytically, incremental innovations, bank based financial intermediation and the stability of the employment relations are complementary (Ernst, 2001; Amable, Ernst, Palombarini, 2001; 2002). Conversely, if competition becomes more acute and when radical innovations trigger a technological paradigm shift, the firms are rationally induced to adopt another strategy based upon direct finance via stock markets and a flexible employment relation, since this mix delivers better outcomes and this is an evidence for the complementary between these elements.

- International comparisons of governance modes suggest an equivalent clustering in the distribution of financial regimes and industrial relations (Roe, 1994; 2002). At one extreme, the concern for shareholder value is associated with a significant dispersion of share ownership and a low degree of workers representation in the management of the corporation. At the other extreme, when the industrial relations system gives a significant voice to wage earners, generally the ownership is rather centralized and banks play a significant role both in the financing and the control of large firms.

These arguments converge in pointing out a potential conflict between shareholder value and workers representation. Nevertheless, two different analyses can be given of this incompatibility. The first focuses on the hypothesis of institutional complementarity and prognoses the existence of two distinctive configurations, in accordance with an analysis in terms of supermodularity (Boyer, 2005). A second line of analysis borrows to political economy approaches the idea that there is a trade off between owners and wage earners relative power. Consequently, one could imagine a continuous distribution of national cases between the two extreme and emblematic configuration of US and Germany (figure 5).

Figure 5 – The links between the nature of ownership and workers representation



Source: Inspired by Mark Roe (2002)

According to the first framework, the introduction of shareholder value in Germany should disrupt the German industrial system. Until the early 2000s, this has not been the case and the issue at stake is thus to provide some explanations about this discrepancy between the prognosis of an apparent incompatibility between the persistence of codetermination and the (partial or global?) adoption of shareholder value by a significant number of large German firms and the observation made b Martin Höpner.

HOW FLEXIBILE ARE THE GERMAN INDUSTRIAL RELATIONS FACING A SERIES OF STRUCTURAL CHANGES?

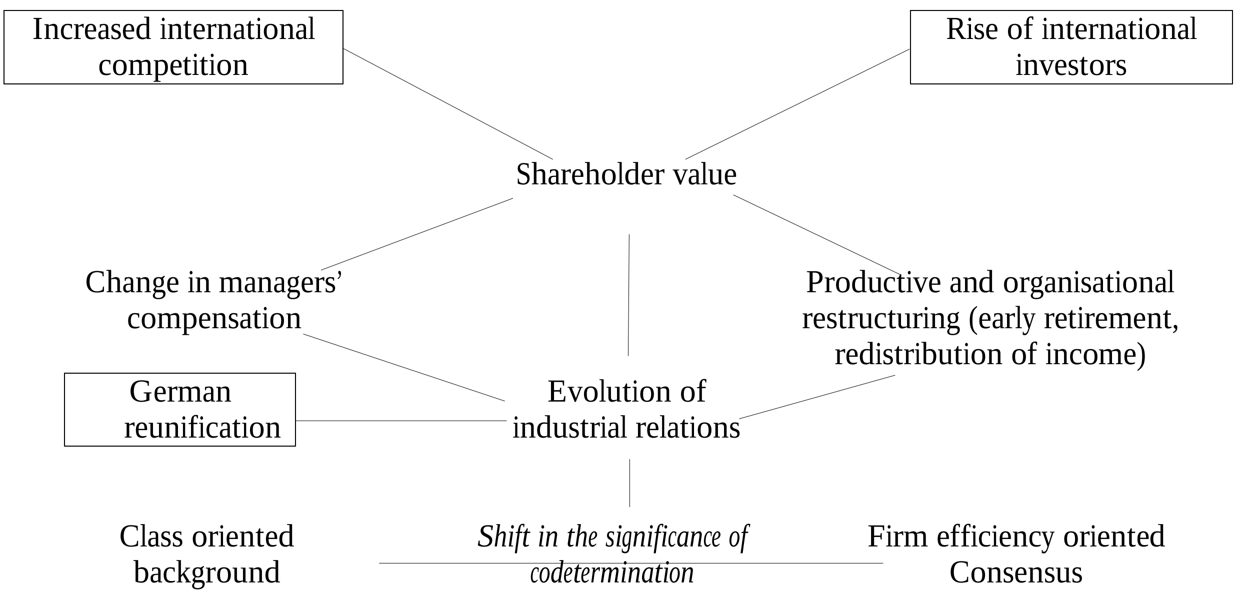
Both internal and external factors have put under stress the German industrial relations that have been so successful in promoting the competitiveness of the economy, as well as social peace (figure 6).

- *The German reunification* has drastically challenged the viability of the institutional configuration of Western länders when applied to Eastern landers. Given the large productivity differentials between them, the collective bargaining of a single industry wage has hurt the viability of most Eastern firms. It has thus provoked the withdrawal of some firms from this crucial component of German industrial relations (Mueller-Jentsch, Sperling, 1995). This is a first move towards the decentralisation of wage bargaining in relation with the need to take into account the quite unequal competitiveness of firms, even when they belong to the same sector. Furthermore, the legacy of the German reunification conditions – mainly the extension to the Eastern länder of all Western Germany economic institutions – is still present in 2005 and partially shapes the reforms of labour law and welfare system.

- *An increased international competition* is the second factor at the origin of institutional and organisational change. Firstly, the competition on product markets has turned more intense in response to the development of international trade. Consequently, the oligopolistic rents traditionally associated to diversified quality production have been eroded (Streeck, 1991). In turn this structural change has affected negatively the capital labour compromise, be it in terms of high wages, employment stability or welfare benefits. A quite essential permissive condition for the German industrial relations has thus be challenged.

- *The rise of international investors* introduces a third factor of structural change. Basically, the financial liberalisation, combined with the multiplication of financial innovations, has been the precondition for the introduction and the diffusion of shareholder value. In this context, the mobility of capital puts a strong constraint on managerial strategies: they face strong incentives to deliver higher rate of return, in line with the standards that prevail in the US. This pressure puts under scrutiny the viability of each national configuration, since the international financial community promotes a *de facto* benchmarking of each form of capitalism. A typical numerical flexibility of labour is therefore assumed to be required in order to sustain shareholder value.

Figure 6 – Financial regime and industrial relations: the complex German evolution since 1989



PERMANENCE AND CHANGES IN CODETERMINATION

Facing these strong and converging pressures, the German industrial relations have significantly changed, but elements of *continuity* and factors of *change* coexist, and this observation was already made by German scholars a few years after the German reunification (Mueller-

Jentsch, Sperling, 1995). The survey of German firms (Höpner, 2001) suggests the resilience of codetermination but its content has changed. Basically, in the Golden Age, codetermination was the complement of collective bargaining at the firm level, within a perspective oriented by the struggle between capital and labour. In the 2000s, the codetermination seems to have become the process according which business reaches a consensus which wage earners in order to sustain the viability and competitiveness of a given firm (see figure 6).

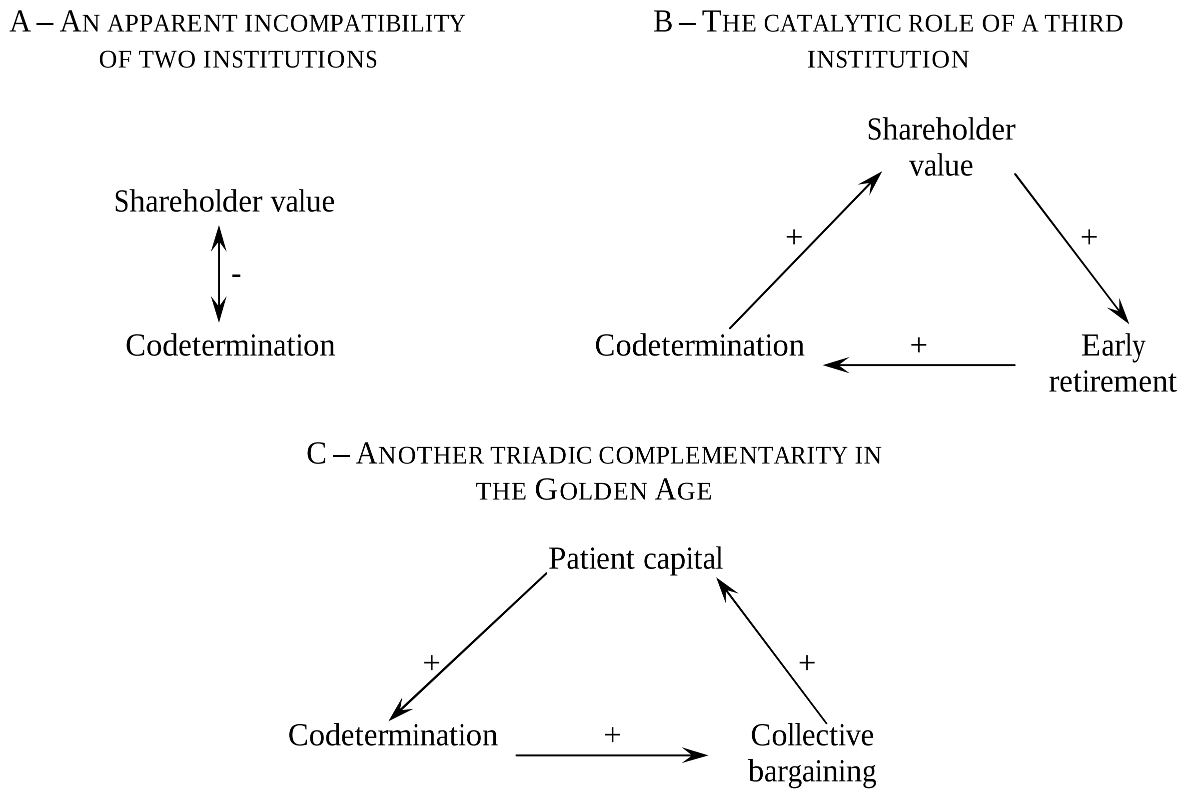
From a theoretical standpoint, this *first interpretation* is built upon a vision that contradicts the hypothesis that the success of the German configuration was directly associated to the tightness of the complementarity between codetermination, work council and collective bargaining. The first complementarity remains, but it *significance* is altered, whereas the second one has been vanishing. An alternative and slightly different explanation would point-out that it is difficult to disentangle *complementarity* from *compatibility* (Boyer, 2005). More generally, the response to unexpected shocks and unprecedented structural changes is up to the *degree of slack* between the components of a given institutional configuration. In retrospect, the German system displays such room for adjustment and reorganisation (Streeck, 2003; 2005). This is the first answer to the paradox mentioned in the introduction: after all Germany, even not similar to typical liberal capitalism, has a lot of built in flexibility. What *external labour market flexibility* delivers to firms in the US is obtained in Germany by the *internal flexibility* that is enhanced by the conjunction of codetermination and work councils.

THE WELFARE STATE AS FACILITATOR OF CORPORATE RESTRUCTURING

In spite of this internal flexibility, most of the German corporations in the manufacturing sector have slimmed down their workforce, thus mimicking the behaviour of the American corporations that follow shareholder value in the permissive context of quite decentralised and individualised industrial relations. A priori, this should have deteriorated the morale and commitment of the workers, due to the threat of loosing their jobs. Similarly, codetermination and work council should have blocked this process of employment reduction, perceived as detrimental to the cohesiveness and interest of the workers. Why such a deadlock did not happen or if it occurred it was only so to a minor extend?

This *second interpretation* stresses that codetermination and shareholder value might well be contradictory in isolation, since the empowerment of workers enters into conflict with shareholder interests (Figure 7A). Nevertheless, if the restructuring of the productive organisation and the reduction of employment are made easier by a generous welfare, shareholder value and codetermination are made compatible by the adjunction of a third component to industrial relations: the nature of the Welfare State (figure 7B). By the way, such a triadic complementarity was already observed in the heyday of German industrial relations, but the content was quite different: the patient capital delivered by the house bank was complementary to the strength of workers at the firm level, via codetermination and work councils and, at the economy wide level, by collective bargaining (figure 7C). At least, these three components were compatible if not complementary. It is probably so for the contemporary configuration described by figure 7B.

Figure 7 – Complementarity among several institutions and not only two



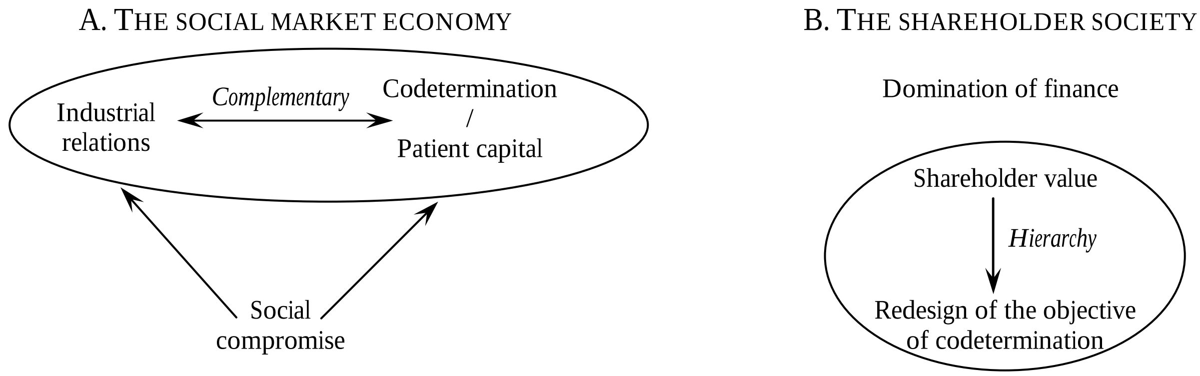
Actually, it is not an easy task to prove the complementarity of a given set of institutions, since one has to select a performance criterion and furthermore to check by formal modelling (Milgrom, Roberts, 1990) or by econometric studies (Ernst, 2001) that this performance is improved by this precise conjunction of institutions. Such an uncertainty, still exacerbated for a real time analysis, is quite difficult to overcome. Therefore this second interpretation is more a provisional hypothesis that a firm conclusion, but it brings and interesting idea in the discussion of the future of German industrial relations. Their evolution cannot be disentangled from the transformation of a series of other institutional forms, such as welfare.

CONTRASTING INSTITUTIONAL HIERARCHY WITH INSTITUTIONAL COMPLEMENTARITY

The notion of complementarity implicitly assumes an equal role for every institution or organisation entering into this relation. According to an evolutionary theorising, the process of co-evolution is a possible mechanism according which largely unexpected complementarity may emerge (Streeck, 2003). Nevertheless, within each historical period and for a given society, some institutional forms might be more important than others (Boyer, Saillard, 2002). A first definition of hierarchy stresses that the internal organisation of institution B is designed in order to be compatible with the requirements of another institution A: A is then defined as hierarchically superior to B. A second definition considers that A is hierarchically superior to B if the evolution of A triggers an endogenous restructuring of B in a direction which benefits to the purpose of A.

According to this distinction, a *third interpretation* of the codetermination/shareholder paradox can be given (figure 8). In the social market economy, whereby Germany is supposed to be the emblematic example, the institutional architecture seems to have been designed in order to introduce a series of checks and balances between various entities pursuing different objectives (Labrousse, Weiss, 2001). Even if the success was not at all warranted *ex ante* (Streeck, 1997a), this innovation turned out to be quite favourable to economic performance and the reduction of social conflicts. By contrast, in a finance-led configuration the international financial regime has the leading role in inducing the redesign of the domestic monetary regime, the nature of competition, the style of economic policy and even the wage labour nexus (Boyer, 2000b). Shareholder value may then be interpreted as a strategy in order to promote the hierarchical superiority of the financial regime over any other economic institutions. Consequently, the objective and the process of codetermination could well be significantly redesigned according to the new imperative of shareholder value. In a sense, the compatibility observed by Martin Höpner would only be transitory since the long term configuration that will emerge from a complete domination of shareholder value is likely to be quite different from the present one. In a sense, a snap shot could not represent the course of action that will result from the unfolding of the full scenario of the financialisation (figure 8).

Figure 8 – A shift in institutional hierarchy?



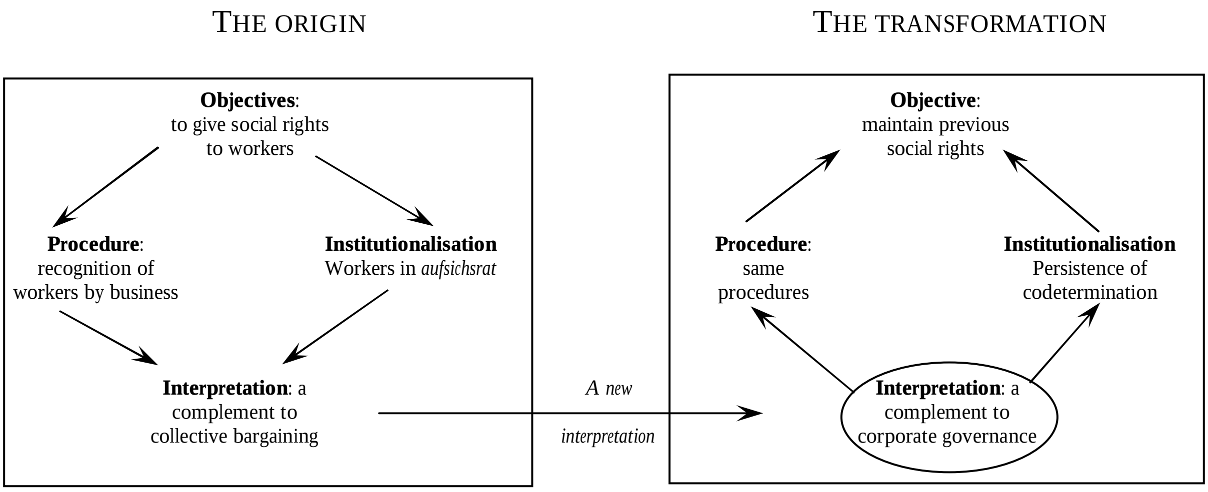
COMPARATIVE HISTORICAL ANALYSIS: THE PROGRESSIVE RECONFIGURATION OF GERMAN INDUSTRIAL RELATIONS AND CORPORATE GOVERNANCE

Few theories are available in order to explain the kind of institutional change that is taking place in contemporary Germany. At one extreme, path dependency analyses forecast a large inertia in institutional change, in response to sunk costs learning by using and the equivalent of increasing returns. At the other extreme, some authors share the vision that only fast and radical reforms can affect institutional configurations. At odds with these theories, the comparative historical analysis (CHA) stresses the variety of mechanisms that induce a series of seemingly marginal changes but that finally end-up into a complete transformation of the institutional architecture (Thelen, 2003; 2004). The basic idea is that institutions – and also organizations – display a significant internal flexibility as soon as one opens the black box of institutions and organisations.

Actually, any institution results from the mix of an objective or a rationale, a given set of procedures, some common references in order to interpret the rule of the game and finally the institutions frequently materialises in an organisation. Consequently, nominally an institution persists but with significant transformations of one or several components. The same objective can call for new procedures that are so successful that they finally change *ex post* the initial objective they are applied to. Alternatively, the organisation in charge of the management of an institution may reorient its activity in order to comply with different objectives. A still more striking change is observed when the objectives and procedures are reinterpreted by a new generation of actors who react to a quite different environment by comparison with the time of the foundation of the institution. These are various forms of *conversion*.

This framework gives a *fourth interpretation* of the paradox under review. The institution of codetermination keeps the same broad objective, i.e. to give a say to wage earners in the managerial decisions of large companies. The same procedures and institutionalisation are maintained but a new interpretation is given. At the origin, the presence of wager earners representation in the *aufsichsrat* was conceived as the complement, at the level of the firm, to the collective bargaining at the industrial level. Nowadays, codetermination is redesigned in order to complement the corporate governance restructuring. The voice of the wage earners is mobilised in order to deliver value to the specific shareholders of the company, it is no more the expression of the solidarity of wage earners across a given industry. Nominally, codetermination would be still operating but its significance and impact would be different (figure 9).

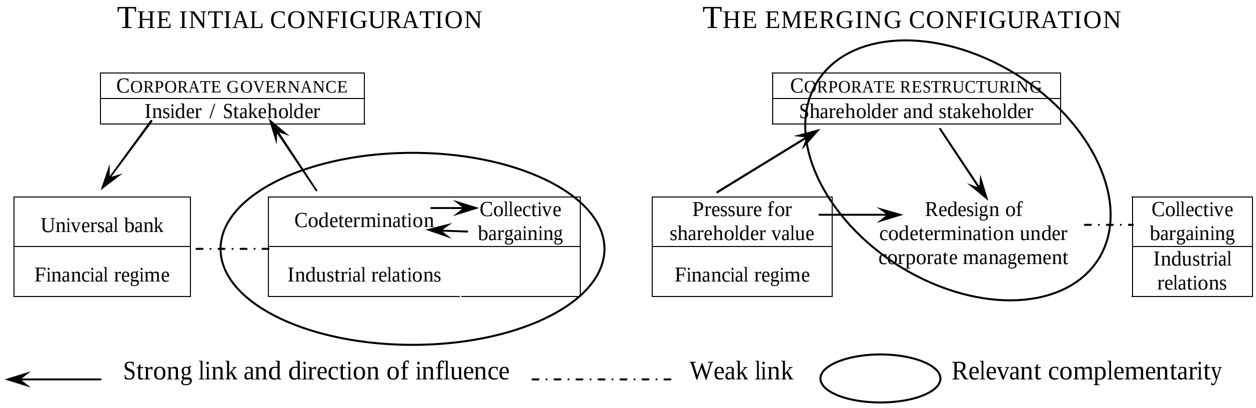
Figure 9 – The conversion of codetermination



CHA proposes a second mechanism in order to understand why a local and partial change, such as the conversion of an institution, may trigger a series of spill-overs by the fact that the conversion induces the severing of some previous links and simultaneously it favours and organises new links with other already existing entities. Thus, the *recombination* of a new institution with elements of an old configuration may be at the origin of a systemic change in the whole institutional architecture. This mechanism has been proved quite important in the transformation of former Soviet type economies after the collapse of the Berlin wall (Stark, 1997).

Under this respect, the initial configuration for codetermination was organising a strong complementarity with collective bargaining. The position of workers entitled them to shape the nature of corporate governance, under the rather permissive role of the house bank. Codetermination was clearly belonging to the sphere of industrial relations. Since the mid-90s, the links between codetermination and the industrial collective bargaining have been weakening, especially in response with the strains caused by German reunification. The initiative of change in codetermination comes from the managers of German corporations that face the challenge of the adoption of shareholder value and more generally value creation. The causality runs then from corporate restructuring to industrial relations. Furthermore, the links with industry wide wage negotiation is weakening. Consequently, codetermination tends to become complementary to the new style for governance (figure 10). Thus, the conjunction of a new interpretation of codetermination and a redesign of the links between the sphere of corporate governance and industrial relations are sufficient to explain the surprising compatibility of co-determination and shareholder value. Under the same labelling, a rather distinct system is probably emerging.

Figure 10 – Codetermination: a de-linking with collective bargaining and a new link with corporate governance

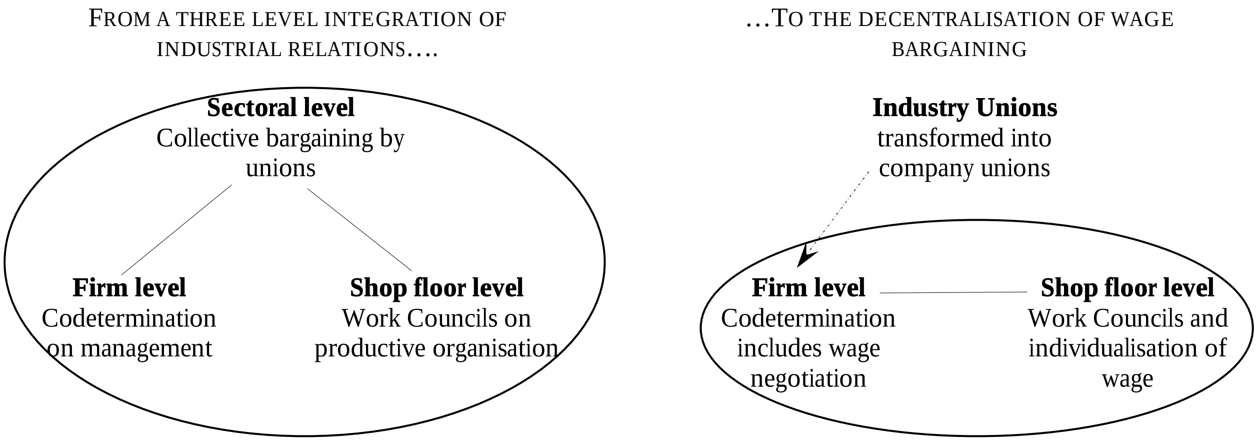


COMPARATIVE INSTITUTIONAL ANALYSIS: TOWARDS A JAPANISATION OF GERMAN INDUSTRIAL RELATIONS?

This new configuration shows some striking similarities with the configuration of Japanese industrial relations since the mid-50s. At this epoch, the industry unions have come to accept a companyist compromise (Yamada, 2000): wage earners were entitled to defend their interests and to confront with managers and entrepreneurs provided their claims were compatible with the survival and later the competitiveness of the firms they were enrolled into (Shimizu, 2000). Since this major turning point, the Nation wide or industry wide workers unions have been declining and the major role of union representatives has been to express voice both in strategic decisions at the company level and in production management at the shop floor level. There is another parallel with the German evolution. In Japan too, the synchronisation of wage hikes was first at the initiative of workers unions in order to trigger a spill-over of wage increases from the best performing firms to the rest of the economy. After the oil shocks and successive re-evaluations of the Yen, the *shunto* persisted as an institution, but at the initiative of firms the wage increases were then set in order to warrant the competitiveness of the less efficient producers (Tsuru, 1992).

Such similarities between the German and Japanese trajectories have already been pointed out by more systematic comparisons of these two forms of non liberal capitalism perceived to be quite distinct from the typical American configuration (Streeck, Yamamura, 2003). This proximity between the emerging German industrial relations and the typical Japanese employment system is important since it points out that Germany could evolve from one set of complementarity between industrial relations and corporate governance to another different nevertheless possibly coherent in the long run. The comparative institutional analysis (CIA) proposes a sophisticated framework in order to analyse the diversity of the links between firm organisations and nation wide institutions (Aoki, 2000; 2001). Basically, the German economy could shift from a three level integration of industrial relations to a company based system, where codetermination and work councils still manage strategic decisions, production at the shop-floor level, but they are also involved in wage determination. This would fit with the general trend brought by internationalisation of production and the process of financialisation: more decentralisation and individualisation of the employment relations. According to this *fifth interpretation*, the contemporary Germany and its futurewould be similar to the Japan of the 70s. The complementarity would have shifted from the national to the firm level (figure 11).

Figure 11 – A major decentralisation in German industrial relations



Thus, the Japanese and German trajectories continue to show some similarities but also dissimilarities both retrospectively and during the contemporary decade. On one side, the evolution of German industrial relations during the 90s shows significant parallelism with the restructuring that took place in the 60s and 70s in Japan. Similarly, both economies do stress the preservation of competitiveness in the redesign of industrial relations and wage formation. On the other side, the welfare system continues to be highly developed and collectively organised at the federal level in Germany, whereas the bulk of welfare is provided by the large corporations in Japan (Theret, 1997). Therefore, at the firm and industry levels, contemporary Germany and the Japanese economy of the Golden Age exhibit clear similarities, but this is not the case for the *régulation* modes at the macroeconomic level (table 1).

Table 1 – Germany and Japan compared: similarities in industrial relations but quite different welfare systems

	60s – 70s	90s
	SIMILARITIES	
Japan	A diffusion of employment stability under the pressure of full employment	Rationalisation in the use of employment stability, given the differentiation of competitiveness sources at the level of industries and firms
Germany	Imposition by law of codetermination	Restriction of the use of codetermination to the specific sectors where it is efficient
	DISSIMILARITIES	
Japan	Mainly a company based, rather paternalist welfare	Aging of population and corporate restructuring call for more public intervention in welfare
Germany	A Bismarckian universal welfare system	Significant recurring tensions in the financing of a generous welfare state call for reforms

SUCCESS AT THE FIRMS' LEVEL BUT MAJOR MACROEOCONOMIC DISEQUILIBRIUM

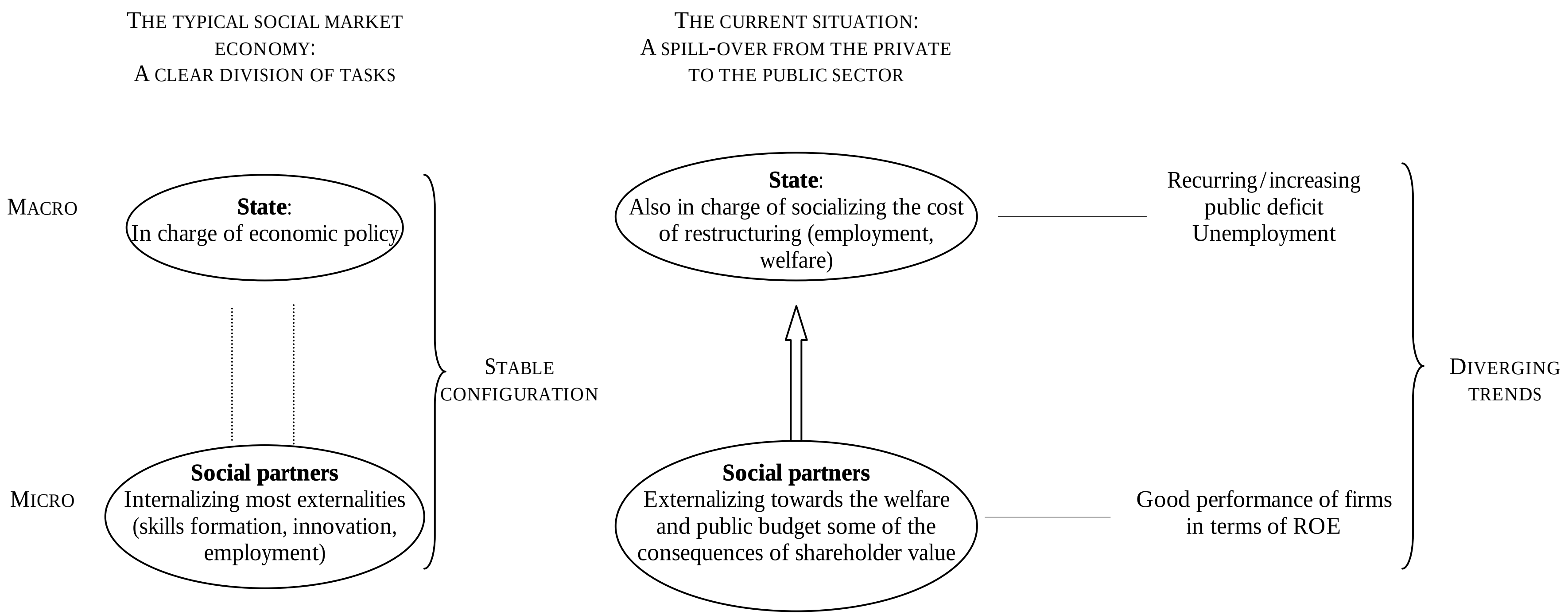
This rather optimistic prognosis can be mitigated by another and *sixth interpretation* derived from *régulation* theory (RT). The observation of the compatibility of two organisations/institutions that were previously supposed to be antagonistic – shareholder value and codetermination – does not necessarily imply that the observation made for the large German companies can be extrapolated at the macro level. Two major reasons could be at the origin of a divergence between the good performances of some large companies and preoccupying macro economic unbalances.

First of all, the listed companies are not really representative of the whole productive system. This brings the issue of *firms heterogeneity* within the same institutional context. May be large German corporations can cope with shareholder values and codetermination but it is not necessarily so for small and medium size firms (SME). Since they do not have access to financial markets and usually benefit less from public subsidies and support (for instance via early retirement), the demography of German firms may be adversely affected. It is especially so if direct finance became the dominant form for financing firms. Furthermore, the strategy deployed by large corporations in order to obtain large and stable rate of returns on equity may imply a generalisation of outsourcing abroad. Given the traditional complementarity between large firms and SME in the sources of competitiveness, such a move would be a noticeable threat for the long term viability of German productive system. The slow growth of the German economy would then question the viability of the whole institutional architecture, induced by the adoption of shareholder value by a fraction of German business.

A more general argument stresses that the severing of the links of corporate governance with collective bargaining that were typical of the so-called social market economy, could bring large *macroeconomic unbalances*. In the Golden Age, the cohesiveness of German corporate governance and industrial relations had the good property of internalising the impact of wage formation on employment. Thus, the central bank and the Ministry of Finance could focus on typical macroeconomic issues concerning for example the trade off between inflation and unemployment. This is no more the case since the early 90s: the costs of reunification and those of corporate restructuring have been externalised to the welfare system and the public budget: the financing of early retirement, the subsidies to firms, the reduction in the taxation of profits, all these measures have had a negative impact upon public finance and the viability of the German welfare (figure 12).

Basically, the slow growth of the German economy, especially noticeable since 2000s, would express this divergence between the methods followed by large companies to restructure and their macroeconomic impacts. One could observe a surprising, even if partial, similarity between the so-called "competitive disinflation" period in France back in the mid-80s and the German trajectory since the mid-90s (Boyer, 2004b). In both cases, the large companies have been able to modernise and become highly competitive, but they have been shifting a part of the related costs to the public sector. This would be the hidden but powerful origin of the permanence of large public deficits. In a sense, the large companies have divorced from the domestic territory since they can not only sell but also produce and invest abroad, thus breaking down the previous complementarity between domestic labour and capital. Rather healthy multinationals prosper,

Figure 12 – Sixth interpretation: from the coherence to the divergence of firm strategies and macroeconomic performance



whereas some citizens perceive a deterioration of their standards of living and ask for more social coverage, at the very moment when the tax base is eroded by the slow growth and the high mobility of capital. This interpretation opens a quite gloomy scenario for the German society.

INSTITUTIONAL CHANGE TAKES TIME: NO PREMATURE CONCLUSION!

A key feature of institutional change has not yet be mentioned and apply to the German case: the change of some major institutions may affect the whole institutional architecture, i.e. the *régulation* mode, but only in the long term. Basically, the equivalent of one generation, thus between two and three decades, is required for the full effectiveness and the complete impact of a radical innovation or the conjunction of a series of more incremental innovations. This is a quite general teaching derived from the empirical research on the French, American and British capitalisms.

- A first example relates to the impact of the labour law that were passed after *Front Populaire* in 1936 and furthermore in the immediate after WWII. It is only in the 60s that the related indexing of nominal wage upon productivity and inflation has implied the emergence of an administrated or monopolitst *régulation* mode allowing the unprecedented accumulation regime based on the synchronisation of mass production and mass consumption (Boyer 1979).

- The impact of the financialisation on the American wage labour nexus follows the same temporal pattern. In 1976, *the ERISA law* codifies the possibility for wage earners to complement the pay as you go pension system by the capitalisation of their contributions to the financing their retirement (Montagne, 2004). During nearly two decades, the funds of this capitalisation system have continuously grown without altering significantly neither the wage labour nexus, nor the source of growth of the American economy. By during the Internet bubble of the 90s, this financialisation has altered the way wage income is formed and the stock of pension funds has reached such a level compared with the flow of contemporary income that *a finance-led growth regime* has finally emerged (Boyer, 2000a).

- The history of *conservative strategies* in the UK exhibit a similar lag between the seminal decisions about the demise of the post-WWII compromise and the effectiveness of a more competitive *régulation* mode. The decisions about rivatisation, decentralisation, reduction and redesign of welfare are taken in the early 80s, but the full impact of these institutional changes is finally observed in the early 2000s. Again, nearly two decades have elapsed between the beginning of the reforms and the complete implementation of their consequences on social stratification, economic specialisation and income distribution….

There is a strong presumption that such a time lag is to be expected when analysing the consequences of shareholder value upon the German wage labour nexus. Actually, the contemporary debate about the demise of the German model of capitalism, implicitly assumes a radical and rapid reconfiguration of industrial relations. The statistical evidence about the coverage of collective agreements as well as the diffusion of fixed term employment in Germany contradicts this hint (table 2). The share of industry-wide collective agreements declined from

Table 2 – The coverage by collective agreement and the share of fixed term employment contracts in Germany

	1996	1997	1998	1999	2000	2001	2002	2003
Industry-wide collective agreements								
West Germany	-	-	68 %	65 %	63 %	63 %	63 %	62 %
East Germany	-	-	50 %	46 %	44 %	44 %	43 %	43 %
Firm-level collective agreements								
West Germany	-	-	8 %	8 %	7 %	8 %	7 %	8 %
East Germany	-	-	13 %	11 %	11 %	12 %	12 %	11 %
Orientation on existing collective agreements								
West Germany	-	-	-	13 %	15 %	15 %	16 %	16 %
East Germany		-	-	22 %	24 %	24 %	23 %	24 %
No collective agreement, no orientation								
West Germany	-	-	-	14 %	15 %	14 %	14 %	14 %
East Germany	-	-	-	21 %	21 %	21 %	22 %	22 %
Fixed term contracts								
West Germany	16.0 %	15.9 %	16.7 %	17.1 %	13.9 %	11.6 %	12.2 %	12.3 %
East Germany	7.2 %	8.0 %	8.6 %	9.2 %	7.8 %	9.2 %	7.4 %	7.7 %

Source: IAB-Betriebspanel, quoted by Ulrich Jürgen & al. (2005, p. 6 and 8).

1998 to 2000 but since then, it remains constant. Firm level agreements only represent 8 % in West Germany and 11-12 % in East Germany. Furthermore, if collective agreements at the industry level are the majority in West Germany, they represent the minority in East Germany. Clearly, the conditions of German reunification has still play a role in the tensions observed within the German industrial relations.

But these statistical series may suggest a false interpretation: the system would be finally quite inert and unchanged. Actually, the retrospective of the nature of the agreements that took place shows that deep structural change are taking place in the bargaining between capital and labour. The opening of company or plant level negotiation is the basis for the so-called opening clauses, according which social partners may decide agreements that are exception and derogation to the conclusion of industry wide bargaining. In 1990 IG-Metal concedes on the reduction to 35 hours. In 1993, social partners agree to introduce hardship clauses and finally in 2004, the opening clause is extended to cover wage and all regulations that previously were decided at the industrial level. This qualitatively transformed institutional context is the origin of the surge of plant level alliances for employment and competitiveness (*betriebliche Bündniss zur beschaftigunssicherung und Wettbewerbsstärkung*). This *de facto* if not *de jure* decentralization and individualisation of industrial relations is logically a drastic challenge for the permanence of the model inherited of the WWII and reinforced in the mid-70s. The logical conclusion is that a structural change in the links between corporate governance and codetermination is taking place since a decade. The prognosis would then be that the process will continue and will drastically redesign the configuration of the social market economy. How long is the long run for institutional change? Quite long indeed! Probably about two or three decades.

In a sense, the sixth and seven interpretations converge in forecasting a definite move out of the post-WWII configuration. By the way, the conclusion is at odds with the optimist prognosis that proposes the variety of capitalisms approach (Hall, Soskice, 2001).

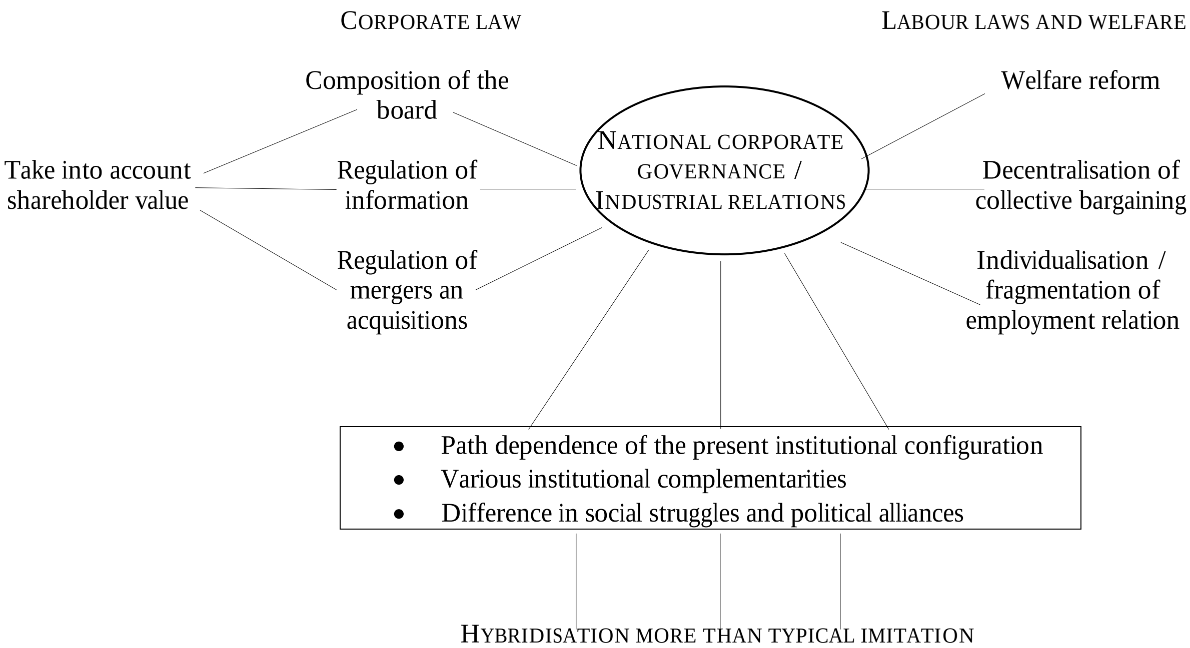
TOWARDS AN HYBRIDIZATION OF THE GERMAN SYSTEM?

Most of the discussions about institutional change deal with two issues. The first one stresses the stability of institutional configurations typical of path dependency mechanisms. The second approach studies the transition from one existing configuration to another, quite different but well known. Frequently the benchmark for such a transition is the more successful country at the time of the comparison. Actually, the literature on productive systems as well as on the diversity of capitalism points out a different pattern of change: various economic systems are submitted to the same pressures, including those associated with foreign competition, but different initial configurations and alternative strategies adopted by firms, collective actors and governments finally generate quite contrasted trajectories (figure 13). Let us review first the common trends and then exhibit the factors of differentiation.

- In many European countries, the evolution of *corporate law* displays significant similarities. The composition of the board of the large quoted companies is redesigned in favour of independent directors. Parliaments do pass new regulations about the disclosure of information and the transparency of stock market, whereas the rules governing merger and acquisition are revised in order to promote more competition on the corporate governance market.

- The *labour law reforms* show similar convergence across a large sample of countries. Previously centralised industrial relations evolve towards a significant decentralisation at the firm or even the plant level. The employment relations experience a noticeable differentiation and individualisation. Last but not least, quite all countries face the need for reforming the financing and organisation of the various components of their Welfare, especially unemployment benefits and pensions.

Figure 13 – A common impulse by shareholder value, but a renewed divergence



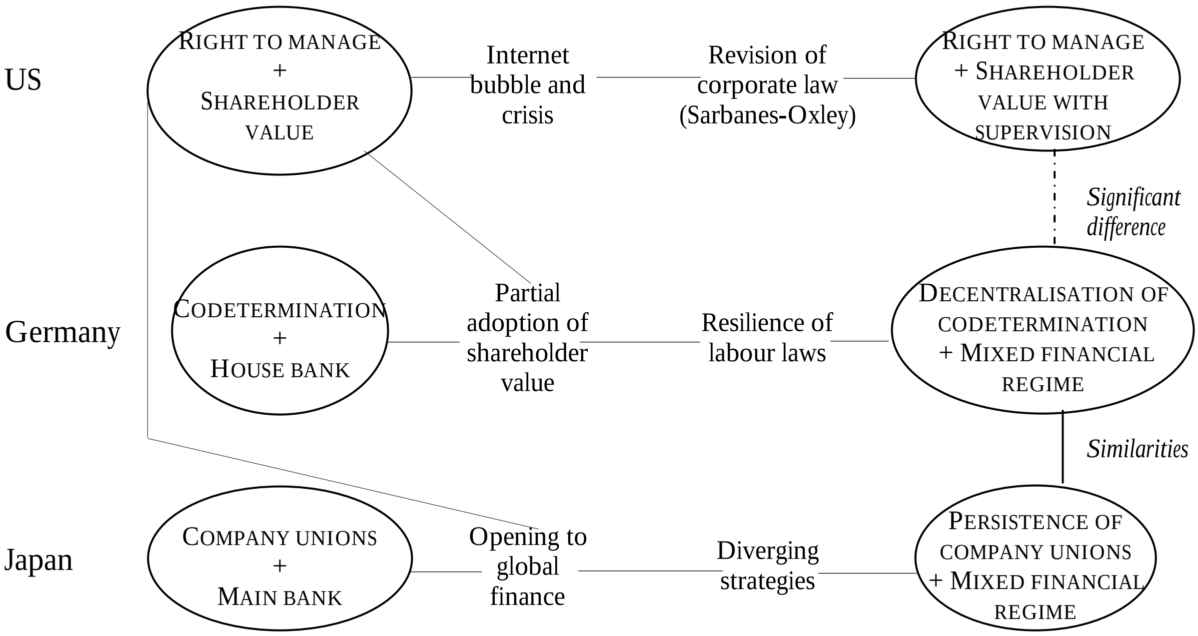
Nevertheless, these factors of change interplay with each domestic configuration and thus three features explain the high likelihood of different trajectories and in some cases diverging patterns. First, the past institutional and technological legacy is a first factor of differentiation and previous studies have recurrently shown that at least four brands of capitalism coexisted during the Golden Age. If typically an identical exogenous change implies similar evolutions within similar *régulation* modes, it is no more the case when idiosyncratic complementarities define different macroeconomic adjustment processes. Furthermore, during periods of structural change, the responsibility of institutional change is related to the nature of social struggles and political alliances. There are strong factors of differentiation of *régulation* modes, even in the era of globalisation.

Therefore, even though firms and governments refer to benchmarking in the design of the organisational and institutional reforms, the probability of the pure replication of a reference model is highly unlikely. This has been observed during the Golden Age when the diffusion of mass-production has been associated with the emergence of growth models and *régulation* modes quite distinctive from the American configuration (Boyer, Saillard, 2002). Since the same finding has been obtained by the analysis and history of productive models (Boyer, Charron, Jürgens, Tolliday, 1998), it is tempting to coin the concept of *hybridization* of institutional configurations.

Clearly in contemporary world, due to the central position occupied by the American economy and the continuous opening of most economies to trade, FDI and portfolio investment, many if not all societies are challenged and induced to adopt some, and ideally all, American institutions. During the last decade, the concern for shareholder value has been introduced in quite all OECD countries, including Germany and Japan. The conventional prognosis derived from economic theory would be that each country has interest in introducing these institutions because they are more efficient: once the social and political resistances are overcome, the various institutional configurations should converge towards a financial market-led form of capitalism. Such a conclusion drastically underestimates the resilience of national configurations that generally exhibit a form of complementarity different from the American one. The initial incompatibility for instance between shareholder value, the nature of financial system and the rights given to workers by labour laws, triggers a process of adaptation, of trial and error, that progressively differentiates the new institutions from their original counterparts.

In the case of Germany, the strength of the legal recognition of workers rights within the firm has not triggered a destruction of codetermination, but induced a redesign of its objectives and content. The decentralisation of industrial relations which take place does not totally erode the power of negotiation of workers, contrary to that happened during the last two decades in the US. Similarly, direct finance does not become the dominant nor exclusive method for financing investments and consequently the financial system continuous to be based both on credit banking for SME and the financing on the stock market for the large firms. Consequently, until now, the German configuration has not converged towards the implicit reference model. Paradoxically the decentralisation of codetermination makes the German industrial relations functionally similar to the company unions that are observed in Japan. If this analysis is correct, the relevant reference for comparisons of German industrial relations and corporate governance should shift from the US to Japan (figure 14).

Figure 14 – The surprising consequences of hybridization: the proximity of Germany with respect to Japan



SOME FACTORS THAT SHAPE THE FUTURE OF CORPORATE GOVERNANCE AND CODETERMINATION

Do the stiffening of competition and the financial globalization restrict the likelihood of hybridization and consequently prevent the differentiation of the links between industrial relations and corporate governance? Actually, the analyses in terms of *institutional competitive advantage* suggest that the internationalisation of economies logically induces a deepening of economic specialisation. The variety of capitalism approach (Hall, Soskice, 2001; Hancké, 1999) points out that not only productive organisations but also innovation systems are differentiated according to the nature of the institutional forms prevailing in each country (figure 15 a et b). Under this respect, it is important to note again that in 2004-2005 the German economy experience a large trade surplus for at least two reasons: first the slow domestic growth reduces imports and is an incentive for producers to shift from the domestic to the international market; second the best performance originates from the sectors such as the car and machine tools industries that still maintain codetermination and work councils (Jürgens, Krzywdzinski, Teipen, 2005). This means that the persistence of these features do not totally hinder the German competitiveness, at odds, with the now common vision according which the German configuration would be totally opposed to the requirements of the world economy.

This remark opens a more general discussion about the forces that govern the restructuring of institutional configurations and by extension the conditions that warrant the medium-long term viability of a new regime that may derive from the process of hybridization previously described.

- First, the world demand does not evolve towards totally new products and conversely, a large and possibly *growing demand* is addressed to the German industries that have maintained codetermination. Such a condition cannot be summarised only by the evolution of relative prices, since the nature of income distribution at the world level also plays a quite important role (Boyer, Freyssenet, 2004).

- This condition is necessary but not sufficient, as evidenced by the macroeconomic situation in Germany in 2005: exports are booming but job creation is sluggish and unemployment high. Basically a second condition states that some *institutional mechanisms* – including markets – redistribute incomes, in order to sustain the existing social compromises that legitimise for the citizens the present organisation of the economy. This is one of the principles at the origin of the successful restructuring of most open, small, social democratic countries (Lundvall, 2002).

- A third condition relates to the nature and speed of *technical change*. If the permanent change in productive paradigms becomes the rule due to an acceleration of the intensity and the frequency of radical innovations, then the German configuration is not necessarily in good condition to maintain its highly institutionalised methods for forging skills, nurturing innovations and distributing the rents associated to incremental innovations. If on the contrary, the present decade experiences a stabilisation of the emerging productive system, then codetermination may do well and even prosper in the new stabilised regime. The links between firms, organisational choices and the degree of macroeconomic uncertainty have already been investigated in order to assess the viability of the Japanese firms and its differences with the American firm (Aoki, 1988, 1994).

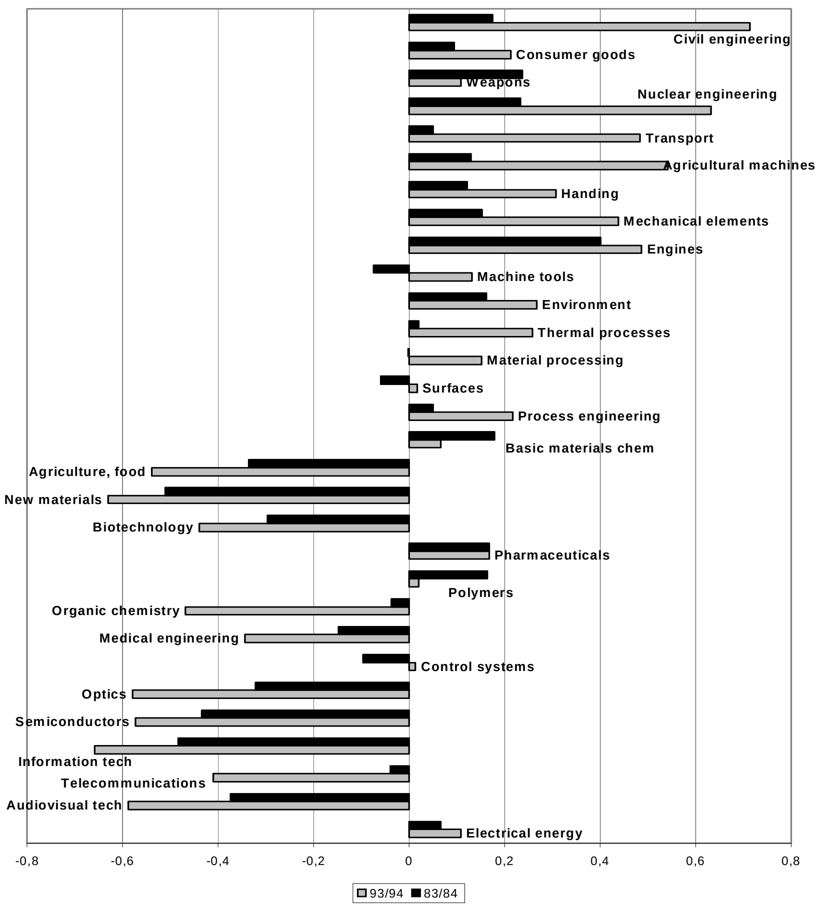
- Long run history, as well as contemporary international comparisons, recurrently shows that the choice about corporate governance is closely related with the bargaining power of shareholders, managers and permanent workers (Freeman, Medoff, 1984). The German codetermination is the expression of a compromise between the interests of capital and labour. Only a sufficient *bargaining power of wage earners unions* can warrant that this German specificity will survive in the new context. Elsewhere the weakness of wage earners organisations has eroded or even destroyed the previous mechanism of cooperation, since voice has been replaced by an exit (Jürgens, Krzywdzinski, Teipen, 2005).

- In a period of flux and uncertainty, the *expectations, representations and beliefs* of the actors might play a crucial role in triggering a possible switch from one institutional configuration to another (Orléan, 2004). If the majority of the business community and the politicians are convinced that the German system is obsolete, even if the empirical evidence contradicts their hypothesis that it has become inefficient, the decision made by strategic actors might trigger a tipping from one regime to another. If by contrast, politicians are still convinced that the German corporate governance and the codetermination can be reformed instead of totally replaced, then the hybridization process may take place at the level of firms and unions.

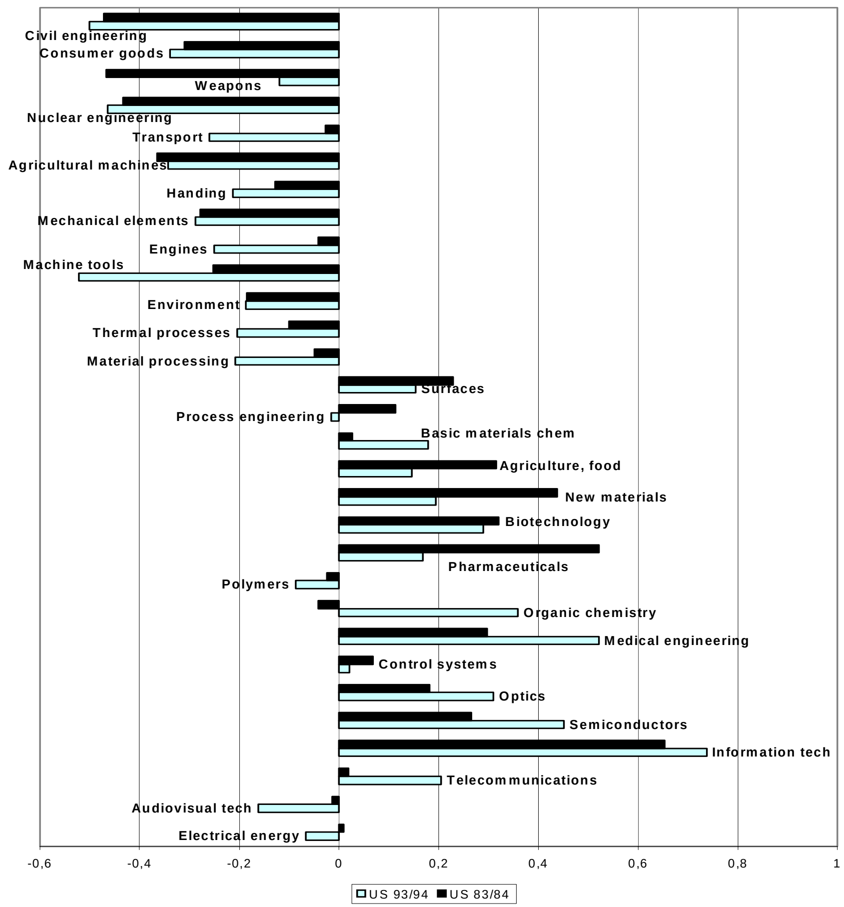
The interplay of these factors opens a large variety of trajectories for the German economy. Nevertheless, the various social science approaches help in drawing a provisional chart for the transformations of the present decade.

Figure 15 – Germany versus United-States: complementarity innovation systems

A - German patent specialisation 83/84 and 93/94



B - US patent specialisation 83/84 and 93/94



Source: Specialisation index of European Patent Office (EPO) patents of German and American origin in relation to the average distribution at the EPO for the periods 1993 to 1994 and 1983 to 1984. (Hancké, 1999, p. 2 and 3).

CONCLUSION

Many authors have pointed out that the institutional complementarity hypothesis (ICH) could explain simultaneously the coherence of a brand of capitalism as well as the coexistence of different configurations, including in the era of globalisation. Another prognosis derived from this analysis stresses that it would be difficult, and basically inefficient, to try to mix the economic institutions belonging to a liberal market economy with the configuration of a coordinated market economy. The finding that the shareholder value principles have been introduced into the German system, without destroying, until 2002 at least, the sophisticated mechanisms of codetermination challenges these interpretations in terms of ICH. The present article has investigated how alternative theories or approaches might explain this paradoxical coexistence of shareholder value with codetermination. It does not pretend to bring new empirical evidence but it proposes simply to suggest a possible test of some alternative hypotheses (table 3).

1. A first result points out that the hypothesis of a *strict institutional complementarity* governing quite all the features of German economy does not fit with the most recent observations. From a theoretical viewpoint, it is quite difficult to distinguish between a typical complementarity and a mere compatibility. For the time being, the introduction by some large German corporations of shareholder value has been *compatible* with a redesign of codetermination.

2. If economies are resilient face to a series of shocks, it is probably because the coupling between the various institutions on one side, and between institutions and organisations on the other side is imperfect. Such a degree of freedom can be mobilised by actors in order to react to innovations and external shocks. The *slack in the coupling of institutions* is probably a key feature of market economies, and an explanation of their resilience.

3. The use of the concept of complementarity, especially in formal modelling, might give the impression that the existence of complementarities is an *ex ante* property that is well known by all the actors who optimise accordingly their behaviour. It has been convincingly shown that the so admired German model of capitalism is not at all the consequence of an *ex ante* clearly perceived technical or economic complementarity. Quite to the contrary the contemporary noticeable competitiveness of the German manufacturing sectors is the *unintended outcome* of a series of innovations and transformations over nearly one century. Such a feature makes especially difficult any prognosis about the long term consequences of the introduction of shareholder value.

4. In the Golden Age of the German economy, the complementarity – or at least the compatibility – between collective bargaining, codetermination at the company and shop floor level and house bank can be interpreted has the consequence of a *social compromise* between economic actors. Since the mid-80s, financial innovation and globalisation have triggered an erosion of this compromise, since the bargaining power of workers and unions has been declining. Consequently, the contemporary coexistence between codetermination and the adoption of some components of shareholder value might be the expression of a shift in the *hierarchy of institutional forms,* and no more of a balanced compromise between equal partners. The redesign of codetermination from a tool at the benefit of the collectivity of wage earners to a device in order to enhance firm specific competitiveness would be the direct consequence of this shift in the hierarchy of institutions.

Table 3 – Codetermination and corporate restructuring in Germany. A survey of alternative hypotheses and progresses

THEORETICAL FRAMEWORK	CORE HYPOTHESIS	PROGNOSIS FOR GERMANY	DEGREE OF LIKELIHOOD
INSTITUTIONAL COMPLEMENTARITY			
o Strict complementarity	1. Codetermination and two-tiers governance structures are strictly complementarity with patient capital	Levelling off for codetermination, at odds with shareholder value	Does not fit with the observation in 2002
o Loose complementarity	2. There is some slack in this complementarity	Possible coexistence of codetermination and corporate restructuring	Significant, at least in the short-medium term
o Triadic complementarity with welfare	3. Early retirement has made compatible shareholder value with codetermination	The slimming down of welfare (Hartz IV) may block the present restructuring of industrial relations	Many evidences of political instability since the 2000s
o Institutional hierarchy	4. From balanced compromise (complementarity) to an asymmetry in bargaining power (hierarchy)	A redesign of codetermination in reaction to the imposition of a new governance mode	Rather probable structural shift
COMPARATIVE HISTORICAL ANALYSIS			
o Conversion of one institution	5. Conversion of the objective of codetermination	Decentralization of German industrial relations	Possible Japonisation of codetermination
o Recombination of institutional arrangements	6. From a complementarity between codetermination and collective bargaining towards a complementarity between codetermination and the financial regime	De-structuring of the previous architecture of industrial relations	Convergence with the previous scenario
RÉGULATION THEORY			
o The micro/ macro link	7. The micro compatibility of two arrangements does not imply the viability of their generalisation at the society wide level	Cumulative discrepancy between the firms' strategies and the coherence of the mode of *régulation*	More and more likely since the German reunification
o The time scale of institutional change	8. Nearly a quarter of century is needed for assessing the impact of an institutional innovation	The jury is still out: codetermination may survive…or not	A prudent prognosis
o Hybridization	9. Shareholder value principles are adapted to the German context and conversely industrial relations are evolving	A new but still different institutional configuration compatible with world competition	In line with the teaching of comparative and institutional analysis

5. The *comparative historical analysis* brings a fresh and interesting analysis of the same process. Basically, the codetermination would have been converted into a quasi new institution governed by a quite different objective: promoting firm competitiveness and no more

extending the control of workers upon the economy, in complement to the strength of collective bargaining at the industry level. This *conversion* entitles a strengthening of the relations of codetermination with an emerging governance model, more favourable to shareholders' interests. The subsequent *recombination* of previous German institutions is potentially sufficient to promote a new institutional configuration, quite different from the typical German social market economy model.

6. The *comparative institutional analysis*, as well as international comparisons, suggests that paradoxically the German institutions would not converge towards a typical liberal market economy but more likely that they would become closer to the Japanese configuration: the industrial relations are decentralised at firms and plants level and the industry-wide collective bargaining is declining at the benefit of an individualisation of the employment relations. Quite a paradox indeed. In the epoch of the American pushed globalisation, the adoption/adaptation of shareholder value would induce a *Japanisation of German industrial relations*. The surprising compatibility of codetermination with shareholder value would be the equivalent of the tentative transposition of mass-production methods by Japanese manufacturers in the 50s. Far from converging towards American Fordism, this strategy triggered an unintended consequence: the emergence of a quite different productive model, usually labelled as Toyotism.

7. The analyses inspired by *régulation* theory deliver rather complementary conclusions. Firstly, the successful transposition by German firms of shareholder principles might be associated with a deterioration of the position of SME that used to play such a determinant role in the manufacturing of German competitiveness. Similarly, the externalisation of the costs associated to the slimming down of the workforce to the welfare system may induce a permanent and large unbalance in the public budget, as well as the resilience of a high unemployment. In other words, the *micro compatibility* between codetermination and shareholder value could be associated with major *macroeconomic unbalances*. Secondly, institutional change is a matter of generation; therefore it would be unwarranted to extrapolate the present compatibility to the next decades. *Institutional change takes time* and, concerning the viability of typical German institutions, the jury is still out about. Thirdly, since pure transposition from one country to another is the exception, the adaptation of shareholder value is setting into motion a complex process of trial and error. It does not necessarily converge towards the reference model that was initially emulated. Given the very incomplete adoption a direct finance and the fact that codetermination still has a strong legal recognition, contemporary Germany appears closer to the Japan of the 60s and 70s than to the contemporary United-States.

When these diverse approaches are taken into account, a rather clear but provisional conclusion emerges: the old German model is probably irreversibly transformed and is evolving towards an unprecedented configuration, with only mild and distant relations to a typical liberal brand of capitalism.

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