Bringing Nuance into the Globalization Debate
Changes in US, Japanese, and German Management, with Special Reference to the Impact of International Finance

Reinoud Bosch

Thesis submitted for assessment with a view to obtaining the degree of Doctor of Political and Social Sciences of the European University Institute

Florence, May 2008
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Abstract

This study presents the results of an application of an extended version of grounded theory to bring nuance into the globalization debate by looking at changes in US, Japanese, and German management, with special reference to the impact of international finance. It starts out by presenting the core of the preconceptions with which I started my research, represented by reconstructions of three perspectives that were highly popular and influential in the financial globalization debate at the end of the 1980s and during the 1990s. Next, well-substantiated, systematized, and synthesized empirical and theoretical material from many different sources is presented with which the three perspectives are compared. On the basis of the findings, the study concludes that the three perspectives cannot reasonably be upheld. More generally, the study indicates different sources of causality that more or less contradict each other and that lead to some kind of transformation. The main channels through which financial globalization is hypothesized to impact on management practices are the possibility of offshore outsourcing, financial deregulation, foreign shareholdings, the way attempts to improve global competitiveness have been affected by international finance, and management practices of MNCs. The pressures resulting from financial globalization are interpreted to be to some extent resisted by domestic power constellations, while for many changes the relation to financial globalization is unclear. In all three countries, a number of ‘neo-liberal’ practices has become more common. But some cultural adaptation appears to have occurred, while certain practices may already have been common in Japan and Germany. In addition, elements of Japanese management have been introduced in the US and Germany while universal banking has been introduced in the US and Japan. For management practices of MNCs, a mixture of home- and host-country practices is found together with some cultural adaptation. A case study of management practices in Japanese MNCs in the US also finds a mixture of home- and host-country practices.
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1 Bringing Nuance into the Globalization Debate

Introduction

Ever since the term was coined by Theodore Levitt (1983), ‘globalization’ has been a highly popular subject in public and scientific debates. During the 1980s and 1990s, the term was defined in various ways to refer to: an alleged convergence of markets in the world (Levitt, 1983); the deregulation of financial markets and the internationalization of capital flows (Michalet, 1989); performing all activities in the business chain everywhere in the world in multinational corporations (Ohmae, 1990); world-wide technological advances, in particular in communication (going back to the ‘global village’ of McLuhan, Fiore, and Agel (1968)); and world-wide regulation and political unification (Ruigrok and Van Tulder, 1995). These different definitions are all useful in their own way, yet they all cover only a part of the globalization process or processes. An encompassing definition is provided by Held et al. (1999), who define globalization as

“a process (or set of processes) which embodies a transformation in the spatial organization of social relations and transactions ... generating transcontinental or interregional flows and networks of activity, interaction, and the exercise of power” (Held et al., 1999: 16, emphasis in the original).

The argument regarding the effects of this process (or set of processes) comes in four variants. The most popular argument sees globalization as leading to convergence. Usually, such convergence is seen to lead to some kind of neo-liberal system (Albert, 1991; Fukuyama, 1992), but other outcomes of convergence have been proposed: e.g. Japanization (Prestowitz, 1988); Brazilianization (Beck, 1999); a network society (Castells, 2000) - whether or not implying a ‘flat’ world (Friedman, 2005); and, most recently, some kind of (future) Chinafication (Fishman, 2005; Prestowitz, 2005). A second type of argument sees continuing divergence. This argument is popular among theorists within the ‘varieties of capitalism’ and the ‘culturalist’ paradigm. Divergence may be seen to imply ongoing diversity (Whitley, 1999; Hofstede, 2001), or the actual drifting apart of different types of capitalism (Hall and Soskice, 2001). A third type of argument is that of ‘hybridization’. According to this argument, Anglo-American practices are being introduced in ‘non-liberal’ economies, thus establishing ‘hybrid’ economic systems (Boyer et al., 1998; Yamamura and Streeck, 2003). A
final argument posits that globalization consists of a process of continuing transformation. The direction of globalization is seen as uncertain, as it is conceived as a historical process replete with contradictions (Held et al., 1999; Sassen, 2006).

As already indicated by the different definitions of globalization, there are many component processes to the overall globalization process. These include: the globalization of politics; military globalization; legal globalization; global trade and global markets; financial globalization; global production networks; global migration; cultural globalization; global communication and global media; and environmental globalization. Most of these processes are supported by the continuing development of transport and communication technologies (Held et al., 1999; Held and McGrew, 2003; Stiglitz, 2006). Thus, the scope of globalization as an overall process is extraordinarily wide, and in any study of globalization a choice needs to be made with regard to the trade-off between scope and depth.

In this study, the choice is made to bring some nuance\(^1\) into the globalization debate by limiting the scope of research to a focus on changes in management in the US, Japan, and Germany, with special reference to the impact of international finance. In other words, the focus is on the effects of financial globalization - defined as the cross-border flow of assets and loans (Held et al., 1999: 191). Financial globalization is a sub-process of economic globalization, which entails the closer economic integration of the world through increased trade, capital flows, global production, and global labor markets (Das, 2004; Sassen, 2006; Stiglitz, 2006). Financial globalization can be distinguished conceptually, therefore, on the one hand, from non-economic globalization - such as political globalization, military globalization, legal globalization, cultural globalization, global communication and global media, and environmental globalization - and, on the other hand, from non-financial economic globalization - including global trade, global goods and labor markets, and operational activities in global production chains. As set out by Held et al. (1999: 191), the cross-border flows of assets and loans - i.e., financial globalization - can be differentiated into several types: foreign direct investment, portfolio equity investment, international bonds, international bank lending, financial derivatives, foreign exchange operations, and development assistance.

Financial globalization - encompassing these different types of flows of assets and loans - has often been seen as one of the most important sub-processes of globalization (Sassen, 2007). The focus on management is in line with Castells’ (2000) argument that much

\(^1\) ‘Nuance’ may be defined as ‘sensibility to, awareness of, or ability to express delicate shadings’ (Merriam-Webster, 1993).
of the impact of globalization in the end becomes visible in management practices. The focus is on changes in management in the US, Japan, and Germany, since what happened in these most powerful economies in the world (at least in the time period under consideration here) and in their MNCs may well have had an important impact on what has happened elsewhere.

In order to bring some nuance into the debate regarding the impact of financial globalization on US, Japanese, and German management practices, a method was needed that would in fact allow me to do so. This logically pointed to the use of grounded theory, as this method was developed in the 1960s by Glaser and Strauss specifically for the purpose of developing more nuanced and/or novel ideas - in the form of novel hypotheses that are compatible with - not representatively tested or verified by - the empirical material that is encountered. To the extent possible, the resulting hypotheses become available for representative quantitative testing to be performed in a future study. The problem for my research was that classical grounded theory procedures do not lend themselves very well for the development of macro-sociological hypotheses, because they do not sufficiently allow for the introduction of existing theories. For this reason, I developed and used an extended version of grounded theory to synthesize all kinds of plausible theories and empirical findings to arrive at sustained hypotheses about the impact of financial globalization on management practices in the US, Japan, and Germany.

To reiterate, the aim of my research has been to develop a set of plausible hypotheses regarding the impact of financial globalization on US, Japanese, and German management practices. The aim has not been to provide a quantitative indication of the strength of this impact, nor a quantitative comparison of the impact of financial globalization to that of other sub-processes or supporting technologies of globalization or domestic factors. The relative impact of other sub-processes of globalization, supporting technologies, and domestic factors rather lies outside the scope of this study. For a potential future representative quantitative study they would need to be brought back into the picture - to the extent that this is feasible. Having said this, while financial globalization can be conceptualized separately from other sub-processes and supporting technologies of globalization and from domestic factors, in practice, the impact of financial globalization is enmeshed in these other sub-processes, supporting technologies, and domestic factors. For instance, part of the impact of foreign direct investment is related to pressures toward international competitiveness for domestic firms, while part of the impact of portfolio investment is related to government regulation or deregulation as well as to ICT (Held et al., 1999; Das, 2004; Sassen, 2006). Clearly, there is
more to the impact of globalization than the effects of financial globalization only, and the hypotheses presented in this study should be seen in this light.

To show the importance of nuance, the study starts with a depiction of three perspectives that were highly popular and influential in the late 1980s and during the 1990s, and that essentially constituted the core of the preconceptions with which I started my research. The huge Japanese foreign direct investment (FDI) flows into the US during the 1980s stirred former Reagan administration advisor Clyde Prestowitz into arguing that the US was in the process of turning into a Japanese colony - with coincident changes in management - in his 1988 bestseller *Trading Places*. Prestowitz’s ideas did not just have a direct impact on US trade policy; his ideas were also largely taken over by Laura Tyson (1992), National Economic Advisor to the Clinton Administration. Even though Prestowitz later withdrew his thoughts concerning Japanese colonization (Reich, 1998), and in fact has recently predicted the spread of Chinese culture in his 2005 bestseller *Three Billion New Capitalists*, the basic claim that FDI may lead to a parent company imposing a certain type of management still stands. The idea of the impact of FDI was combined with the idea of an even stronger impact of international financial markets in Michel Albert’s (1991) *Capitalisme Contre Capitalisme*. Although the main argument of *Capitalisme Contre Capitalisme* is that the ‘Rhénan’ capitalism found in Germany and Japan is turning into the ‘neo-American’ capitalism found in the US because of the functioning of international financial markets, FDI by MNCs with Rhénan management is seen to constitute a counterbalance. *Capitalisme Contre Capitalisme* has been particularly important in launching a debate over the societal foundations for economic performance as well as stimulating a wave of research into different types of capitalism (Berger et al., 1999). Finally, the argument of the OECD, as reconstructed from a number of *OECD Economic Outlooks* and *Economic Surveys* (OECD, 1997abcd, 1998abcd, 1999ab) stresses solely the impact of international financial markets on management - seeing a transmission of US management practices. The *OECD Economic Outlooks* and *Economic Surveys* tend to have a major impact on debates regarding economic policies around the world, thus making it important that the arguments contained in these publications be carefully scrutinized.

To what extent have the claims advanced by *Trading Places*, *Capitalisme Contre Capitalisme*, and the OECD been justified? In order to test and improve on the three perspectives, I first reconstructed them according to the extended version of grounded theory I present in chapter 2. The same method was used to gather, organize, and synthesize plausible empirical and theoretical findings from many different sources regarding management
practices in the US, Japan, and Germany around 1990 and in the early 2000s, and management practices in US, Japanese, and German MNCs. On the basis of survey data made available to me by Haruhiko Kanegae, Hisako Matsuo, and the National Organizations Survey (NOS), I also performed a comparative study of a number of management practices of Japanese MNCs in the US. These findings were compared with the claims of the three perspectives both at a specific and a general level. The gathered material was also used to develop some general hypotheses concerning the impact of international finance on management practices in the US, Japan, and Germany.

The gathered, organized, and synthesized evidence is compatible with the theory that globalization is a process of transformation rather than convergence, divergence, or hybridization. The evidence, in its entirety, is consistent with the hypotheses that financial globalization has impacted on management practices through the possibility of offshore outsourcing, financial deregulation, foreign shareholdings, the way attempts to improve global competitiveness have been affected by international finance, and management practices of MNCs. The pressures resulting from financial globalization can be hypothesized to have been resisted by domestic power constellations, while many changes are found for which the relation to financial globalization was unclear. On the basis of the gathered evidence, the perspectives implicit in Trading Places, Capitalisme Contre Capitalisme, and the OECD Economic Outlooks and Economic Surveys can be said to be caricatural, simplistic, and off the mark.

While these hypotheses can therefore be drawn up, the quantitative strength of the different channels for the impact of financial globalization cannot be determined on the basis of the gathered evidence. For this to become possible, a representative quantitative study would need to be performed on the basis of the established hypotheses, while controlling for other potential causal factors. This would require additional studies drawing up hypotheses regarding the impact of the various other relevant causal factors, including - for instance - international trade, government policies, cultural developments, migration, domestic economic developments, and so on, and so forth. Not only does such an extensive study lie outside the scope of this study, it is an open question if the representative (multi-variate) quantitative study would be possible in the first place. Apart from the need for comprehensiveness in the causal analysis, a decent representative quantitative study requires valid indicators of the phenomena under consideration as well as valid quantitative measures for such indicators. The possibility of performing a representative quantitative study to determine the quantitative strength of the impact of financial globalization may well turn out

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to be a chimera. Of course, *some* encompassing quantitative study could well be performed, controlling for *some* causal factors while using a limited set of quantitative indicators. Providing the results are presented as solely giving an indication of what may be the case, this may well be useful. The choice is made here, however, to perform an encompassing qualitative analysis, establishing plausible hypotheses regarding the impact of financial globalization on management practices in the US, Japan, and Germany. A future nuanced study of the impact of financial globalization could include a study of developments occurring in other countries, in particular those toward which much current offshore outsourcing is directed - such as China, India, and eastern European countries.

**Outline of the Study**

In chapter 2, I present the extended version of grounded theory that I used throughout my research. As I will argue, the aim of using the method is to improve on existing preconceptions by means of an iterative process of selection, contrast, categorization, and synthesis of relevant empirical and (ungrounded) theoretical claims. Connections between elements and categories are elaborated so as to arrive at a systematized depiction of the subject that is being studied. The method was applied to the general management literature in order to discover and elaborate relevant management categories and their elements, and these were subsequently used to structure the analysis of changes in management practices in the US, Japan, and Germany, and their respective MNCs. I focused on the ‘human side’ of management, in particular on human resource management and corporate governance. Specialized fields such as innovation, marketing, and technical operations management were considered outside the scope of the study, as were specialized issues such as discrimination and workplace safety. The main categories that emerged were: work flow; human resource flow; compensation; governance; industrial relations; the labor force; and management systems. All the empirical material in this study is organized according to these categories and their constitutive elements.

In chapter 3, I present my reconstructions of the three popular and influential perspectives on globalization mentioned above that constituted the core of the preconceptions with which I started my research. Theoretical and empirical claims in Prestowitz’s (1988) *Trading Places*, Albert’s (1991) *Capitalisme Contre Capitalisme*, and a number of *OECD Economic Outlooks* and *Economic Surveys* (OECD, 1997abcd, 1998abcd, 1999ab) were
treated as data, after which they were organized and synthesized according to the proposed extended version of grounded theory. What resulted for each perspective was a set of systematized depictions portraying management practices in the US, Japan, and Germany around 1990; a number of causal factors argued to lead to a transmission of management practices from one country to another; and a set of systematized depictions portraying changes in management practices in the US, Japan, and Germany. As mentioned before, Prestowitz’s *Trading Places* argued that the continuing flow of Japanese FDI into the US would lead to the colonization of the US - implying the implementation of Japanese management practices in Japanese subsidiaries in the US - while Albert’s *Capitalisme Contre Capitalisme* instead argued that international financial markets would lead to a transmission of aspects of US management to Japan and Germany - despite a certain countervailing force from MNCs which were seen to use ‘Rhénan’ management (i.e., management as supposedly found in both Japan and Germany). The reconstructed argument implicit in the OECD *Economic Outlooks* and *Economic Surveys* stressed a transmission of US management practices as a result of the impact of international financial markets.

The three perspectives are clear examples of the popular convergence thesis. They highlight two of the main forces of financial globalization: that running through international financial markets, and that caused by FDI by multinational corporations. The perspectives also show how popular and influential ideas regarding convergence change with time, depending on which economy is considered the most competitive. When the Japanese economy was considered the most competitive in the world during the 1980s, the most popular perspective of convergence was that of ‘Japanization’; when the US economy took its place, ‘Americanization’ became the key word. A similar development seems to be occurring currently with the recent interest in the competitiveness of the Chinese economy and its effects (Fishman, 2005; Prestowitz, 2005).

The systematic reconstructions of the three perspectives made them testable. That is, the perspectives could now be confronted with theoretical and empirical findings from different sources in order to judge and improve on their adequacy. In order to do so, I selected, categorized, and synthesized plausible empirical and theoretical findings from many different sources regarding management practices in the US, Japan, and Germany and their respective MNCs - the results of which are presented in chapters 4, 5, 6, and 7, respectively. The chapters show the importance of systemacy and attention to nuance, as many characteristics of management practices were found to differ from or supplement the caricatures implicit in the influential publications of Prestowitz, Albert, and the OECD. Not
only were important nuances found with regard to management in the three countries, clear differences were found between Japanese and German management that are not always acknowledged in popular publications.

Chapters 4 through 6 show that a number of ‘neo-liberal’ practices have become more common in the US, Japan, and Germany, including flatter and more decentralized hierarchies;\(^2\) profit centers; the importance of small firms; outsourcing; an increase in contingent work; the importance of external labor markets; job hopping; individual PRP; stock options; income inequality; institutional shareholdings with an emphasis on shareholder value; venture capital; transparency; a short-term shareholder value orientation; M&A activity; internal goal setting and competition; de-unionization; and decentralized bargaining. But the extent to which these practices have been introduced has varied, and some cultural adaptation is likely to have occurred. Moreover, several practices that were common in Japan and Germany have also become more common in the US, including: an increase in the use of teams; job rotation; lean production; multi-skilling; work/life benefits; internal financing and financing through credit; pressures to ensure long-term shareholder value; universal banking; the use of corporate culture; low strike levels; joint labor-management programs; and a stronger segmentation between a core and a peripheral workforce. In general, quite a few deviations from popular caricatures and popular theories regarding the direction of change appeared.

The main causal channels through which financial globalization was hypothesized to have impacted on management practices were the possibility of offshore outsourcing giving employers the ability to exercise power over employees; the way attempts to improve global competitiveness were affected by international finance, leading to the transfer of practices inspired by Japanese and US, but at times also German management; the increase in foreign share ownership in Japanese and German firms coinciding with the implementation of US-inspired management practices; and financial deregulation resulting from the possibility for offshore financing. These pressures resulting from financial globalization were to some extent supported or resisted by domestic developments and powerstructures, leading to a certain transformation in the implementation of transferred practices. Of particular relevance were the position and characteristics of relevant stakeholders and existing regulations.

Chapter 7 presents systematized findings concerning management in US, Japanese, and German MNCs - preceded by a brief discussion of systematized elements of management

\(^2\) Flatter and more decentralized hierarchies are more compatible with the basic mythical premises of freedom and equal rights of neo-liberalism than are layers of hierarchy.
specific to MNCs, as an addition to the general management categories discussed in chapter 2. The findings indicate that simplistic depictions of management practices of MNCs do not hold. In all cases, there is some kind of mixture of home- and host-country practices together with some cultural adaptation. The extent to which host country practices are used depends on characteristics of power-constellations inside MNCs on the one hand, and on host country characteristics - such as regulation, political pressures, norms, customs, and characteristics of the local workforce - on the other. Overall, German MNCs were found to use host country practices most often, while Japanese MNCs tend to use such practices least - with US MNCs somewhere in between. Obviously, then, a clear distinction should be made between management in US, Japanese, and German MNCs.

Chapter 8 adds a first-hand empirical case study that I performed on the basis of data provided to me by Haruhiko Kanegae, Hisako Matsuo, and the National Organizations Survey (NOS). On the basis of 1998 survey data from 108 Japanese subsidiaries in the US and 95 firms in Japan, and 1996-97 data from 1002 organizations in the US, the study looks at the transmission or local responsiveness of a number of management practices in Japanese MNCs in the US. It finds that management practices in Japanese subsidiaries in the US can be seen to constitute a mixture of practices in Japan and the US.

The study is rounded up in chapter 9 with a discussion of the results. First, on the basis of a conscientious comparison of the systematized empirical and theoretical findings of chapters 5 through 8 with the three reconstructed perspectives, the conclusion is reached that none of the three influential perspectives deserves the label ‘scientific’. Rather, the perspectives are caricatural, simplistic, and empirically deficient. Subsequently, the findings of chapters 5 through 8 are discussed, providing a more accurate picture of changes in management practices in the US, Japan, and Germany, and their respective MNCs. Some implications for the study of globalization are discussed in light of the different channels through which financial globalization was hypothesized to have impacted on management practices, and relevant domestic factors and developments. The overall conclusion is that more attention should be paid to detail and nuance, while simple linear extrapolation should be discarded.
2 The Method Used: An Extended Version of Grounded Theory

Because the purpose of this study is to bring nuance into the globalization debate, a method needed to be used that would in fact allow for such nuance. Rather than simply testing existing hypotheses about the impact of financial globalization, the method needed to permit the development of more nuanced and/or novel ideas. This logically pointed to the use of grounded theory, which was developed precisely for that purpose in the 1960s by Glaser and Strauss at the University of Chicago, Columbia University, and the University of California at Berkeley, and is now arguably the most popular qualitative research methodology in the world3 (Glaser and Strauss, 1967; Glaser, 1978; Strauss, 1987). Rather than seeing science as the simple testing of existing hypotheses, grounded theory focuses explicitly on the development of novel hypotheses which await future testing. While grounded theory therefore appeared the obvious methodology to use, the method has been subject to a number of shortcomings and restrictions. In order to avoid these shortcomings and restrictions, I have made some modifications to grounded theory procedures, leading me to use what may be seen as an extended version of grounded theory.

In the first section of this chapter, I will briefly discuss grounded theory as it was originally conceived, and I will present the modifications that I needed to make. As will be seen, the method suggests the development of categories and their elements, which are then related to each other as the analysis proceeds. Such categories can be derived from empirical material, but they can also be developed from more conceptual and theoretical material. I applied the method to the general management literature in order to develop management categories that are used to structure the analysis of changes in US, Japanese, and German management in subsequent chapters. The resulting management categories and their elements are briefly presented in the second section of this chapter.

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3 Grounded theory procedures have been widely applied in sociology, organization and management studies, education, cultural studies, computer and information science, and nursing. For references see, e.g., Strauss and Corbin (1998); Finch (2002); Clarke (2005); and Bryant and Charmaz (2007). A WorldCat database search on “grounded theory” found 1,719 citations (performed October 10, 2007). In comparison, “rational choice” found 1,140 citations.
An Extended Version of Grounded Theory

In its classical formulation, grounded theory prescribes that a researcher should enter a field of research without any theoretical preconceptions about relevancies in concepts and hypotheses regarding the field of research. The researcher is first to gather all kinds of primary evidence regarding the subject under consideration. This first phase of data collection is followed by a process of ‘open coding’. This entails contrasting different data and categorizing them in a set of preliminary qualitative categories and sub-categories. The focus in the development of categories should be on the perspective of the studied subjects, with the aim of making the eventual theory suited to its supposed uses (Glaser and Strauss, 1967; Glaser, 1978).

After a certain amount of data has been gathered, the process of open coding starts to encompass both additional data collection and a process of ‘theoretical coding’. In theoretical coding, ‘theoretical codes’ are generated that conceptualize how the ‘substantive codes’ - the codes that conceptualize the empirical substance of the area of research - “may relate to each other as hypotheses to be integrated into the theory” (Glaser, 1978: 55).

At some point, open coding is to turn into a synthetic process of ‘selective coding’. In the words of Glaser (1978: 61):

“To selectively code for a core variable ... means that the analyst delimits his coding to only those variables that relate to the core variable in sufficiently significant ways to be used in a parsimonious theory.”

The process of data collection and the different codification processes are to be reiterated - often implying re-categorization and the reconsideration of (causal) relationships - until the categories are considered to be ‘saturated’. As stated by Finch (2003: 220) in his recent suggestion of using grounded theory for developing economic theory:

“Saturation may be indicated by the categorization of additional information, and re-categorization of all information, ceasing to yield surprises in the form of challenges to the emerging coding system.”

The theoretical explanation of the subject under study emerges out of this process of selection, contrast, categorization, synthesis, and interpretation (Strauss, 1987; Finch, 2003).

During the entire process, the continuing collection of data is guided by both the developing theory and the researcher’s general theoretical insight into the area of research, his
or her ‘theoretical sensitivity’. Such theoretical sensitivity may lead to the inclusion of previous theory, but only if the theory can be grounded in the gathered data:

“This theory that exists within a sociologist can be used in generating his specific theory if, after study of the data, the fit and relevance to the data are emergent. A discovered, grounded theory, then, will tend to combine mostly concepts of and hypotheses that have emerged from the data with some existing ones that are clearly useful” (Glaser and Strauss, 1967: 46).

The process through which theory is developed is referred to as ‘theoretical sampling’. The categories and theory that are elicited from the data are used to direct the further collection of data, which subsequently leads to the further elaboration of the categories and the developing theory. This process continues until saturation is reached (Glaser, 1978). Theoretical sampling differs from statistical sampling in that the former is used to elaborate a developing theory, while the latter is used to arrive at a quantitative measure for a category or one of its components (Glaser and Strauss, 1967).

In the course of the research, new hypotheses and theories are continuously worked out and potentially revised on the basis of the data and theoretical sensitivity. The overall emphasis of classical grounded theory lies, therefore, on the generation of theory. Verifying, rather, is seen to constitute the main goal only for existing theories. When saturation has been reached, what is established is a new theory, which is to be seen as a new hypothesis. That is, the researcher is supposed to remain open to novel findings, perspectives, and ideas, leading to a potential reiteration of the entire process. In addition, the hypothesis is now available for straightforward testing and (inevitably imperfect) replication (Glaser and Strauss, 1967; Glaser, 1978; Alvesson and Sköldberg, 2000).

This classical formulation of grounded theory has continued to be championed by Glaser (1992, 1998, 2001, 2002), but Strauss (1987) and Strauss and Corbin (1990, 1998) have suggested a number of changes. In contrast to Glaser, Strauss and Corbin (1998: 50) allow the inclusion of existing theory from the outset, but only if it has been ‘grounded’ in data. Strauss and Corbin (1998: 102) further suggest that during open coding the researcher ask a number of specific questions about the encountered phenomena, whereas Glaser (1992: 43) argues that asking such questions leads to “full, preconceived conceptual description which is an entirely different goal than generating a theory that explains how a basic social problem is processed in an action system.”

This distinction between the two approaches comes most clearly to the fore in Strauss and Corbin’s depiction of ‘axial coding’. While ‘axial coding’ is defined in terms similar to
‘theoretical coding’ (Strauss and Corbin 1998: 123), axial coding prescribes that researchers ask a specific set of questions about their data on the basis of a ‘paradigm’ - a set of characteristics of social phenomena including conditions (causal, intervening, and contextual), actions/interactions (strategic or routine), and consequences (ibid.: 127-35). In contrast, Glaser (1978: 72-81, 1992: 62) suggests that a researcher know a set of ‘theoretical coding families’ in order for these to sensitize the researcher to connections between categories and their properties when they emerge as relevant from the data.

Another significant difference between the versions of grounded theory suggested by Glaser on the one hand, and by Strauss and Corbin on the other lies in the relevance and timing of systematic verification. In the method suggested by Strauss and Corbin, the asking of questions on the basis of the ‘paradigm’ leads to the development of hypotheses, which are subsequently to be tested against incoming data (Strauss and Corbin 1998: 135). As Glaser (1992: 67) points out, this is in line with the ‘standard verificational model of deductive research: to think up hypotheses and then test them, somehow, with data.’ In contrast, Glaser suggests that hypotheses are simply generated as they emerge from the data. While such hypotheses are further developed and potentially modified when additional data is gathered, the systematic verification of such hypotheses is left to verificational studies to be performed at a later stage. Further differences between the two approaches are discussed extensively in Glaser (1992).

Both versions of grounded theory have been criticized for their neglect of the importance of the preconceptions with which researchers begin their research. In practice, it is impossible to shed all preconceptions, particularly those preconceptions that are taken for granted. Secondly, grounded theory does not recognize the importance of the theory-ladeness of empirical ‘data’. Related to this, grounded theory has been criticized for not sufficiently acknowledging the relevance of existing theories - grounded or not - as building blocks for further theory development. These theories may well have been developed by means of quantitative methods. And finally, grounded theory’s focus on the perspective of the studied subjects and the direct practical use of the developed theories has been criticized for limiting the scope of research (Haig, 1995; Danermark et al., [1997] 2002; Alvesson and Sköldberg, 2000; Charmaz, 2000; Hands, 2001; Bryant, 2003; Manicas, 2006).

These problems of grounded theory can be avoided if a number of modifications is made to grounded theory procedures. The extended version of grounded theory that I propose starts with the acknowledgment that it is not possible for a researcher to fully shed his or her theoretical preconceptions while starting a particular analysis. Existing preconceptions will
influence the choice of the research problem as well as the selection and the interpretation of what are seen to constitute ‘data’. If one of the important positive elements of grounded theory is not to be lost, the researcher should nonetheless try to be as open as possible to the findings of his or her research. In other words, the aim should be to improve on one’s preconceptions.

In the gathering of material, the researcher should not be restricted to solely using primary data. That is to say, apart from such data, s/he should also be allowed to use any kind of material that is felt to be sufficiently empirically plausible - including relevant existing theories - grounded or not. Such material may be replaced during subsequent coding processes when more plausible (and potentially better ‘grounded’) material is encountered or developed. This way, the importance of being in accordance with the ‘facts’ is maintained.

In this extended version of grounded theory, open coding implies the categorization of selected empirical and (possibly ‘ungrounded’) theoretical claims by contrasting them with each other and with those preconceptions of which the researcher is aware. This step is both qualitative and quantitative, with the qualitative aspect aiming to improve overview and understanding of the subject matter, while determining the meaning of the different claims and the way in which they relate to each other. The step results in categories consisting of empirical and theoretical claims, which may be organized in one or more sub-categories (which may again consist of sub-categories and so on). The focus in the development of categories does not have to be on the perspective of the studied subjects.

The subsequent processes of theoretical and selective coding consist of the elaboration of qualitative and quantitative connections between claims and categories, while achieving synthesis through discarding claims and categories that appear less relevant or plausible than others. Theoretical sensitivity, theoretical sampling, and the use of sensitizing concepts are important, but so is the use and/or recognition of quantitative techniques. Preconceived questions may be asked, but these should not interfere with a general openness toward the encountered material. The resulting analysis should be understandable, coherent, logically consistent, empirically possible, and adequate with regard to scientific knowledge. It does not have to be understandable to laymen concerned with the area of research and it does not have to provide situational control.

The theoretical and selective coding processes should allow for the continuous inclusion of new data and they should be reiterated until ‘saturation’ is reached. Such ‘saturation’ should never be seen as definite, as new information may appear or causal connections may change. This means that a researcher should be prepared to restart the coding
processes whenever this is deemed necessary (Weber 1988 [1922]; Giddens 1984; Gerhardt 1986; Bourdieu and Wacquant 1992; Drysdale 1996; Alvesson and Sköldberg 2000).

The overall process recognizes the relevance of preconceptions and the theory-ladenness of facts. Theories can be included as building blocks. The emphasis does not by necessity lie on the perspective of studied subjects nor on the practical utility of the resulting hypotheses or theories. This rather depends on the subject under consideration. Rather than simply testing some preconceived hypotheses, the proposed extended version of grounded theory continuously improves on existing preconceptions regarding a subject under consideration. These improvements should be consistent with the empirical and theoretical claims that are encountered, while leading to the development of enhanced hypotheses.

The Management Categories

As mentioned above, I applied the extended version of grounded theory to a wide range of studies of management so as to develop general management categories and their elements which could be used to structure the analysis of changes in US, Japanese, and German management in subsequent chapters. Many management studies were taken into consideration, including, among many others, Barnard ([1938] 1968), Selznick (1957), Mintzberg (1983), Beer et al. (1984), Porter (1985), Morgan (1986), Powell and DiMaggio (1991), March and Simon (1993), Kalleberg, Knoke, Marsden, and Spaeth (1996), Chew (1997), Poole and Warner (1998), Magretta (1999), Marsden (1999), Gómez-Mejía, Balkin, and Cardy (2001), and Gospel and Pendleton (2005). Out of the process - which included the separation of theoretical and empirical claims from normative and speculative ones; their subsequent selection on the basis of their relevance and plausibility; the categorization of selected elements; and the synthesis of elements - seven categories of management appeared: work flow; human resource flow; compensation; governance; industrial relations; the labor force; and management systems. The management categories and their most central sub-categories and elements are summarized below.

To give an indication of how these categories were developed, a useful starting point - in light of the emphasis on the ‘human side’ of management - is Gómez-Mejía, Balkin, and Cardy’s (2001) Managing Human Resources. From the table of contents it is clear that the authors use five main categories: the contexts of human resource management; staffing; employee development; compensation; and governance. The first category is held to include
three sub-categories: work flow management; equal opportunity; and diversity management. Work flow management includes a consideration of organizational structure, the use of teams, and job design - in other words, it includes a look at what Barnard ([1938] 1968) had labelled ‘formal organization’. The discussion of formal organization and its elements has been highly salient in the management literature - from Weber’s ([1922] 1972) discussion of bureaucracy to Mintzberg’s (1983) *Designing Effective Organizations*, and from Taylor’s (1911) *Principles of Scientific Management* to Womack, Jones, and Roos’ (1990) depiction of ‘lean production’. Work flow therefore, in my interpretation, constitutes a main category of management, rather than a sub-category. In addition, a consideration of work flow does not just include a discussion of formal organization, but also a discussion of what Barnard had labelled ‘informal organization’ - the existing personal contacts and relationships inside an organization. As the first main management category I therefore suggest ‘work flow’, with the main sub-categories of formal organization (including formal structure, team work, job characteristics, the production process, and restructuring processes), and informal organization (including groups and networks, corporate culture, and sub-cultures). Gómez-Mejía, Balkin, and Cardy’s sub-categories of equal opportunity and diversity management constitute highly relevant issues, but I have considered these sub-categories specialized issues lying outside the scope of this study.

Gómez-Mejía, Balkin, and Cardy’s second and third main categories, ‘staffing’ and ‘employee development’ are both sub-categories of Beer et al.’s (1984) main category ‘human resource flow’. Because my first main category is concerned with the flow of work through an organization, it is logical to use a second category concerned with the flow of human resources through an organization. I therefore use Beer et al’s category as my second main category ‘human resource flow’ - including the sub-categories of staffing, career development, and training. The elements of these sub-categories appeared in a further process of selection, contrast, categorization, and synthesis of relevant material from the many different sources I consulted; they are summarized below.

The category of ‘compensation’ is relatively self-contained. Beer et al. (1984) used the main category ‘reward systems’ to refer to largely the same issues discussed by Gómez-Mejia, Balkin, and Cardy. But the internal structure of this third main category required quite of bit of organization through the selection of relevant elements and their subsequent contrast and categorization. Apart from the general material I used for his (including, e.g., Sørensen, 1994; and Marsden, 1999), quite a bit of feedback occurred from empirical material, such as that presented by Kalleberg, Knoke, Marsden, and Spaeth (1996), Ichniowski et al. (2000),
Pudelko (2000), Kurdelbusch (2002a), different publications by the Bureau of Labor Statistics, the Japan Institute of Labor, the OECD, Towers Perrin, and many others. The resulting structure and elements of the main category of compensation are summarized below.

Gómez-Mejía, Balkin, and Cardy’s final category, that of ‘governance’, contains the sub-categories of employee relations; employee rights and the management of discipline; working with organized labor; managing workplace safety and health; and international HRM. But employee rights are not just relevant for governance issues - they also exist for other categories (such as dismissal protection and the like). And while working with organized labor may be considered a matter of internal governance in the US, the societal organization of industrial relations in Germany is too important to not consider ‘industrial relations’ a separate main category for purpose of this study. Managing workplace safety and health, while obviously of the highest importance, is again considered a specialized issue lying outside the scope of this study. And the international HRM sub-category is largely concerned with management in MNCs - which I discuss separately in chapter 7 - and with characteristics of labor forces in different countries. What remains is a main category of ‘governance’ - containing employee relations and the management of discipline; a main category of ‘industrial relations’; and a main category dealing with the characteristics of labor forces. These categories now had to be filled in, and for this I turned to other sources.

A first important distinction to be made in ‘governance’ is that between corporate governance and internal governance - where corporate governance is concerned with the relations between different stakeholders in an organization, while internal governance is concerned with internal social control, legitimation, and socialization practices. In order to develop these sub-categories, different elements were selected, contrasted, and categorized from a wide range of studies including, for corporate governance, e.g., Chew (1997), Höpner (2003b), Yamamura and Streeck (2003), and Gospel and Pendleton (2005); for internal social control, e.g., Barnard ([1938] 1968), Mintzberg (1983), March and Simon (1993), Lukes (1995), and Pudelko (2000); for legitimation, e.g., Barnard ([1938] 1968), Selznick (1957), Powell and DiMaggio (1991), and Nohria and Gulati (1994); and for socialization, e.g., Barnard ([1938] 1968), Selznick (1957), McMillan (1989), Lincoln and Kalleberg (1990), Lukes (1995), and Pudelko (2000). The development of the governance categories was quite a puzzle, and occasional recategorization proved necessary. The resulting categories and their elements are summarized below. A similar process was performed for the ‘industrial relations’ category, with elements selected from publications such as McMillan (1989),
An obvious source for the development of the ‘labor force’ main category is Hofstede’s (1980) study of work-related values in different cultures. More recent studies concerned with similar issues include Schwartz (1994, 1999), and Inglehart et al. (1998, 2004). Other sources from which elements of the labor force category were selected included Lincoln and Kalleberg (1990) and Pudelko (2000). The final management category distinguished here is that of ‘management systems’ - referring to different combinations of elements of the other main categories.

Clearly, this depiction of the process by means of which the management categories were developed is highly concise and it does not reveal many of the difficult choices that needed to be made. Also, during the process there was a continuous feedback from the empirical material to the management categories so as to assure consistency. Where the management categories pointed to empirical material that needed to be sought, the empirical material that was encountered at times led to a further elaboration or to a limitation of the scope of the management categories. A full description of this laborious process would unduly increase the length of this text. Instead, I will now provide a brief summary of the resulting main management categories and their relevant elements, as they are used in subsequent chapters for a systematic account of management practices in the US, Japan, and Germany. In those chapters, theories relating elements of the management categories to international finance were included as constitutive components of the categories concerned.

**Work Flow**

The management category of work flow is concerned with the way in which tasks are organized in collective agents through formal and/or informal organization. In systematizing the category of formal organization, a number of relevant sub-categories appeared indicating that an analysis of formal organization includes the study of: the formal structure (i.e. the documented, official relationships among members of an organization (Mintzberg, 1983)); the different types of teams used (cross-functional; cross-hierarchical; self-managed; project teams; QCCs); job characteristics (specialized versus broad; simple versus complex tasks); the production process (mass production; lean production; diversified quality production); and on-going restructuring processes (downsizing; re-engineering; outsourcing).
The informal organization can be defined as an aggregate of personal contacts and interactions and the associated groupings of people (Barnard, [1938] 1968). An analysis of the informal organization includes studying existing groups and networks, the prevalent corporate culture, and existing sub-cultures. An informal organization may be more or less important than the formal organization. It may sustain a formal organization, but it may also undermine the latter.

**Human Resource Flow**

The category of human resource flow refers to the flow of people into, through, and out of an organization. An analysis of this category includes the study of staffing, career development, and training practices. Staffing entails bringing people into a cooperative relationship with a collective agent, and eliciting their services (Barnard, [1938] 1968). An analysis of staffing includes looking at: the staffing system (long-term; up-or-out; in-and-out); types of employment (regular; contingent); working hours; recruitment (internal; external); the selection process and selection criteria; the staffing process for managers; the type of employment contract (specific vs. open-ended; individual vs. collective); and personnel outflow (criteria; impediments; incidence; alternative policies; quits; and tenure levels).

Career development aims to meet skill requirements and career needs. Aspects of career development to be studied include: promotion criteria (formal vs. informal; quantitative vs. qualitative); career paths (specialized vs. general; internal vs. external; slow vs. fast); career planning (short-term vs. long-term; individual vs. group-based; based on organizational or employee needs); and the location of career decisions.

Training activities aim to meet skill requirements, and/or to increase motivation, commitment, performance, and retention, and help employees realize their potential. The sub-categories of the training category and their elements as used in subsequent chapters include: the extent of training; the characteristics of training (firm-specific vs. general, job-specific vs. cross-functional, on- vs. off-the-job, internal vs. external, individual vs. team-oriented, short-vs. long-term); and management training.

**Compensation**

Compensation serves to assure the availability of labor and to achieve motivation and satisfaction. An analysis of compensation in organizations entails looking at: the type of pay

Bosch, Reinoud (2008), Bringing Nuance into the Globalization Debate: Changes in US, Japanese, and German Management, with Special Reference to the Impact of International Finance
European University Institute
10.2870/25906
(job-, qualification-, and/or seniority-based; individual or collective performance-related pay); wage levels; benefits provision; non-financial rewards; managerial pay (including bonuses and stock-based pay); internal vs. external equity; and income differentials (CEOs vs. average manufacturing worker, skilled vs. unskilled workers, core vs. contingent workers, 90-10 differential).

**Governance**

The category of governance is central to the analysis of the impact of international finance on management practices. Changes in ways of financing may or may not lead those with the power to do so to change management practices, and this depends on (changes in) existing legislation, powerstructures between different stakeholders, their aims, strategies, and ways of influencing management. The governance category has the sub-categories of corporate governance, internal social control, legitimation, and socialization. The sub-categories of corporate governance include: legal regulation; financing (internal, equity, credit); shareholders (types of shareholders, concentration, aims, loyalty, turnover); business groups (cross-shareholding, interlocking directorates); the position of different stakeholders, including banks, institutional investors, venture capitalists, employees, and other stakeholders (on the basis of equity holdings; credit provision; board seats; voting rights; co-determination; regulatory powers; business partnerships; informal powers); the influence of external stakeholders on management (through legal regulation; ownership, purchase, or sale of equity; information disclosure; managerial compensation; informal pressures); the influence of the annual general meeting; the influence of the board(s); the relative autonomy of management; and organizational goals, strategies, and policies.

The analysis of internal social control includes looking at the following sub-categories: the internal powercapacity of management; social control through work flow, human resource flow, and compensation practices and policies; the use of force; the use of coercion (goal setting; planning; rule-setting; direct control; allocation; sanctions; norms; and discipline); manipulation (including inducement); the use of authority; internal decision-making (top down vs. bottom-up; formal vs. informal; quantitative vs. qualitative; short-term vs. long-term; individual vs. team-based; innovative vs. incremental; the decision-making process); participation and delegation (extent; method; formal vs. informal); appraisal (frequent vs. infrequent; formal vs. informal; quantitative vs. qualitative; short-term vs. long-term; individual vs. collective; criteria, location of control, purposes, and methods);
communication (formal vs. informal; precise vs. diffuse; extent and methods); conflict and conflict resolution; and the relations between managers and employees (levels of formalization; reciprocity; social distance; legitimacy; common interests; dependency; and cooperation).

Legitimation in collective agents serves to increase authority which contributes to governance and the acquisition of resources. The category of legitimation that resulted from the iterative process of selection, contrast, categorization, and synthesis, and that was used to systematize the discussion in subsequent chapters, indicates that a study of legitimation in and by a collective agent includes looking at legitimation by means of: the choice of a formal organization and policies that are considered legitimate; human resource flow policies increasing legitimacy (internal labor markets; recruitment of top graduates; and legitimate selection, career development, and training policies); compensation policies (on the basis of achievement, merit, effort, need, or the market); social control techniques (through organizational goals; formal and ‘natural’ rules; technology; expertise; participation; accounting procedures; appraisal systems; and paternalism); direct legitimation techniques (the use of discourses, ideologies, theories, myths, beliefs, metaphors, ideas, rituals, and symbols); industrial relations policies; and management systems reconciled with technical needs.

Through socialization policies based on social influence, an organization may aim to shape the values, attitudes, norms, beliefs, loyalties, commitments, and practices of its participants. Relevant sub-categories and their elements indicate the importance of an analysis of: the extent and aims of socialization; the development of corporate culture (including propagated values, philosophies, and ethical guidelines); socialization through work flow, human resource flow (long-term employment, internal labor markets, career development, training), and compensation; socialization through social control techniques (force, coercion, discipline, manipulation, participation, delegation, communication, management-employee relations); direct socialization techniques (initiation, encapsulation, common training, mentoring, propaganda, symbols, rituals, ideologies, social events); the influence of characteristics of the labor force; and the impact of management systems (in particular, corporatist and enterprising systems).
Industrial Relations

The management category of industrial relations refers to the relations between associations of employers and employees. The category as used to structure the discussion in subsequent chapters includes the following sub-categories and elements: employers’ associations (density, power, aims); unions (density, power, aims, effects); the character of industrial relations (collaborative vs. adversarial); legal regulation; bargaining (level, power of actors, scope, distributive vs. integrative, bargaining process and system); agreements (collective, individual); co-determination (supervisory boards, works councils, joint committees); and conflict resolution.

The Labor Force

An analysis of the characteristics of the labor force implies a description of psychological elements using a ‘focus group’ approach, indicating the existing segmentations in the labor force, as well as the characteristic values and cognitions of specific groups of employees. In addition, the loyalties, commitments, and identifications of members of the labor force can be studied, as well as satisfaction and skill levels.

Management Systems

The category of management systems refers to combinations of different management policies and practices. A study of such systems includes having a look at the types of management systems (bureaucratic, post-Fordist, market, high-commitment, other, or a mixture); internal and external influences on management systems; and the relative stability or flexibility of management systems.

Conclusion

In this chapter, I presented the extended version of grounded theory that I used to bring together all kind of empirical and theoretical material relevant to understanding the impact of financial globalization on US, Japanese, and German management. Rather than simply positing preconceived hypotheses and putting these to the test, grounded theory-inspired
methods focus on the *continuous improvement* of hypotheses through continuous comparison with relevant material in a process of selection, contrast, categorization, the distinction of qualitative and quantitative relations between selected elements, synthesis, and theory development. In contrast to classical grounded theory, the extended version allows for the introduction of theory as much as empirical findings into the iterative process of selection, categorization, synthesis, and theory development, thus avoiding the problem of the theory-ladenness of facts. The method acknowledges the importance of preconceptions, existing theories as building blocks, and a wider focus than that of the perspective of studied subjects and direct practical use. The end result - in the form of improved empirical depictions as much as theories - constitutes a set of novel hypotheses available for future testing. I briefly presented the management categories and their elements which resulted from an application of the extended version of grounded theory to the general management literature, and which are used in subsequent chapters to structure the discussion of changes in US, Japanese, and German management.

More specifically, the analysis presented in this study starts with a recognition of the importance of preconceptions. The core of my preconceptions regarding the impact of international finance on US, Japanese, and German management was constituted by three perspectives that were highly influential around 1990 and during the 1990s: those contained within Prestowitz’s (1988) *Trading Places*, Albert’s *Capitalisme Contre Capitalisme* (1991), and the OECD’s (1997abcd, 1998abcd, 1999ab) *Economic Outlooks* and *Economic Surveys*. In the next chapter, I will present the reconstruction of this core of my preconceptions which resulted from an application of the extended version of grounded theory I proposed in this chapter.

The ideas presented in the next chapter, therefore, give an indication of the core of my preconceptions, but in addition they can be seen as preliminary hypotheses to be improved upon. The empirically-based material presented in the chapters that follow constitutes an improvement on the core preconceptions presented in chapter 3 both by giving a view of US, Japanese, and German management that is empirically supported, and by its improvement on the preconceived hypotheses. The final interpretations constitute enhanced hypotheses available for testing and further theory improvement.
3 The Core of my Preconceptions: Three Popular and Influential Perspectives around 1990 and during the 1990s on Changes in US, Japanese, and German Management Caused by International Finance

As indicated in the previous chapter, the extended version of grounded theory I used for purpose of this study starts by acknowledging existing preconceptions, and then sets out to improve on such preconceptions by means of a process of selection, categorization, and synthesis of relevant material. But it is not easy to determine the precise preconceptions one holds about any particular subject. Rather than trying to determine the exact preconceptions I held about the impact of financial globalization on changes in US, Japanese, and German management, I decided to reconstruct three perspectives that I felt constituted the core of the preconceptions with which I started my research - the perspectives implicit in Clyde Prestowitz’s (1988) Trading Places, Michel Albert’s (1991) Capitalisme Contre Capitalisme, and the Economic Survey and Economic Outlook series published by the OECD. Reconstructing these perspectives had the additional advantage that a number of preliminary hypotheses could be drawn up on which my research has aimed to improve. In effect, then, this core of my preconceptions constituted the starting point of my research, influencing my initial choice of data and theoretical claims during the open coding of the actual research. In line with the required openness of the extended version of grounded theory, I subsequently set out to try to improve on these preconceptions by also collecting other kinds of data and theories.

It is important to emphasize that the impact of financial globalization on management practices in the US, Japan, and Germany is not the main subject of the publications discussed in this chapter. Rather, the perspectives regarding such an impact are implicit. It is precisely because of this implicit nature that the perspectives can be said to have constituted the core of my preconceptions. One consequence of the implicit nature of the perspectives is that they may appear somewhat limited in scope. The discussion of causal processes in particular may come across as underdeveloped, but this is because the publications do not have the impact of financial globalization on management practices as their main subject matter. It is nonetheless of the highest importance to reconstruct these influential perspectives, precisely because they carry their message about the impact of financial globalization implicitly. While the
publications do not have the impact of financial globalization as their primary subject matter, they nonetheless bring across a message about such an impact. And this message may influence the opinions of readers who may not always be aware that their opinion is tainted in this manner. This makes it all the more important that these implicit arguments are brought out into the open, put to the test, and improved upon.

The three perspectives presented in this chapter all find a process of convergence, although they differ in the modalities of such convergence. Besides from giving a good impression of popular opinion held at the time regarding the impact of international finance on management practices, the perspectives are also of particular interest because they are concerned with two of the main ways in which international finance impacts on management practices - through foreign direct investment (FDI) and through international financial markets - and because they provide particularly clear-cut, though overly simplistic, analyses of such impacts.

During the late 1980s, it was fashionable to argue that the world awaited a process of Japanization resulting from the impact of FDI. The huge Japanese FDI flows into the US during the decade even stirred Clyde Prestowitz into arguing that the US was in the process of turning into a Japanese colony - with coincident changes in management - in his influential 1988 book *Trading Places*. In combination with Prestowitz’s direct impact on trade policy due to his position as an advisor to the Reagan administration, *Trading Places* contributed to a change in opinion regarding US trade policy with Japan in the direction of managed trade - a position that was largely taken over by the Clinton administration (Tyson, 1992). Even though Prestowitz later withdrew his thoughts concerning Japanese colonization (Reich, 1998), the claim that FDI may lead a parent company to impose a certain type of management still stands as an important research question in the study of globalization. In fact, Prestowitz has recently reinvigorated this type of argument in his 2005 book *Three Billion New Capitalists*, in which he now argues that there will be a transmission of Chinese culture. In light of his influential position in US politics, *Three Billion New Capitalists* may well have an impact similar to that of *Trading Places*. This makes it all the more interesting to put the accuracy of *Trading Places* to the test.

Where *Trading Places* emphasized the impact of FDI as the main causal process, in the beginning of the 1990s, popular perspectives started to emphasize the effects of international financial markets instead. Thus, in his 1991 book *Capitalisme Contre*
Capitalisme, Michel Albert combined the ideas of the impact of FDI with that of international financial markets. Albert’s argument was that the ‘Rhénan’ capitalism found in Germany and Japan was turning into the ‘neo-American’ capitalism found in the US partly because of the functioning of international financial markets, even though FDI by MNCs characterized by a Rhénan type of management was seen to form a counterbalance.\(^5\) Michel Albert’s book has been seen as constituting the starting point of the extensive research program into ‘types of capitalism’,\(^6\) with a considerable impact on political debates.

During the 1990s, the importance of the impact of FDI by MNCs largely disappeared from popular perspectives, with a number of OECD Economic Surveys and Economic Outlooks (1997ab, cde, 1998abcd, 1999ab) stressing solely the impact of international financial markets on management - seeing a transmission of US management practices. Apart from its influence in academia and applied research, the subject matter of the OECD Economic Surveys and Economic Outlooks often ends up on the front page of newspapers, with a coincident influence on popular opinion and policy making. This makes it of utmost importance to put the OECD perspective to the test.

I reconstructed the three perspectives according to the extended version of grounded theory proposed in the previous chapter in order to present a systematic picture of the core of the preconceptions with which I started my research. This entailed that I interpreted relevant theoretical and empirical claims in the different texts as data, after which I ordered them into categories by means of contrast. Next, two systematic ‘snapshots’ in time were constructed through synthesis - one before the posited changes, and one after - including the causal processes seen to influence the direction of social change. Both the ‘snapshots’ and the causal processes will be put to the test and improved upon in subsequent chapters.

The constructed depictions are organized on the basis of the management categories as presented in the previous chapter - starting, where present, with aspects of the work flow category, followed by the categories of human resource flow, compensation, governance, industrial relations, and the labor force, and ending with the management systems category. I stayed as close as possible to the original text - using direct quotes whenever feasible - in order not to make any unjustified claims about the content of the publications.

\(^5\) In a later publication, Albert (2001) reiterated this view.
Clyde Prestowitz’s *Trading Places*

As one of the most influential publications of the late 1980s concerned with US-Japanese economic relations, Clyde Prestowitz’s *Trading Places* implicitly contains an analysis of the impact of international finance on management in the US - through the impact of Japanese FDI. According to *Trading Places*, the chronic current account deficit of the US and the chronic current account surplus of Japan led to a large annual flow of Japanese capital into the US. The acquisition of US assets by the Japanese was seen to lead to a process of colonization of the US, entailing a transmission of Japanese management to the US. This implicit perspective is most clearly revealed in a subsection of the last chapter of his book, entitled “A Colony-in-the-Making: The United States”. In that section, Prestowitz discusses the modalities of Japanese direct investment in the US concluding that the US was in the process of being colonized by Japan.\(^7\) According to Prestowitz, “industrial structures reflect the values of those who build them”.\(^8\) As such, several elements of the Japanese industrial structure were thought to be transferred to the US, including elements of Japanese management. While Japanese FDI into the US had already been extensive since the middle of the 1980s, in his book Prestowitz expected enormous additional Japanese investment in the US for twenty years more, meaning that a further colonization of the US by Japan could take place.\(^9\)

*Trading Places: Management in the US around 1990*

*Trading Places* does not discuss work flow practices in US management. The discussion of human resource flow practices is limited to two assertions concerning staffing: the hiring of a new employee is seen to constitute a specific contractual obligation only; and it is considered common to hire an executive from the outside for a key management position. As for compensation practices, it is asserted that top executives may pay themselves enormous bonuses while demanding wage concessions from workers.\(^10\)

In corporate governance, equity is seen as the source of capital for firms. But as the savings rate in the US is low, there is thought to be a lack of capital - causing investors to demand a high short-term return. Because the SEC requires the quarterly reporting of profits,

\(^7\) Prestowitz, 1988: 309-11  
\(^8\) Prestowitz, 1989: 79  
\(^9\) Prestowitz, 1988: 325  
\(^10\) Prestowitz, 1988: 325
investors are able to judge the short-term performance of companies.\textsuperscript{11} As a result of this, *Trading Places* argues, as soon as a firm’s profits sag below expectations, share prices drop, and thus its vulnerability to a takeover increases. Thus, firms are under strong pressures for short-term financial performance, and in effect, firms focus on profit and return on investment. Firms are thought to be operated primarily for the short-term financial benefit of shareholders.\textsuperscript{12} Venture capital is thought to encourage bright engineers to desert their companies. This is seen to create a proliferation of small companies without financial staying power, and to rob stronger companies of some of their best talent.\textsuperscript{13}

In internal social control practices, managers are seen to openly reject responsibility for the actions of subordinates. Industrial relations are characterized as adversarial, with unions being industry-wide in scope. The labor force is thought to consist of independent and individualistic workers, with many arrogant, greedy, and narrow managers.\textsuperscript{14}

*Trading Places: Management in Japan around 1990*

The discussion of work flow practices in Japanese management is limited to the informal organization, which is seen as highly important. In hiring a new employee, a firm is seen to adopt a new member into the family. A personal obligation is felt to be created, together with a long-term emotional commitment between the employee and the firm. In return for the devotion of the new employee to the well-being of the firm, the firm is seen not just to provide financial and material support, but an identity and emotional support as well.\textsuperscript{15} Establishing and maintaining good personal relations with colleagues is thought to constitute an overriding priority. A group orientation is claimed to exist that comes with an emotional dependence on the group, and with a high value placed on harmony within the group. People are thought to have the same obligations to and derive the same support from group members as from family members. Without group backing, the individual is thought to be insignificant. Personal ties are seen as far more important than contracts or professional obligations.\textsuperscript{16}

In human resource flow practices in large firms, a norm is found that lifetime employment be provided - making it profitable for firms to invest in training. The existing job

\textsuperscript{10}Prestowitz, 1988: 91, 153, 190
\textsuperscript{11}Prestowitz, 1989: 76-7, 1988: 168, 208-10, 312
\textsuperscript{12}Prestowitz, 1989: 77, 1988: 167, 179, 194, 208, 210, 212, 327
\textsuperscript{13}Prestowitz, 1988: 210
\textsuperscript{14}Prestowitz, 1988: 154-5, 190, 194, 213
\textsuperscript{15}Prestowitz, 1988: 153-4
\textsuperscript{16}Prestowitz, 1988: 83-8, 156
security comes with work-rule flexibility. Top executives and directors are chosen primarily from people within the company. For a company to hire an executive from the outside for a key management position is considered very strange and is close to impossible. The promotion system is found to be based on seniority. This is argued to minimize competition among executives, and to cause turnover of employees to be low because leaving a firm for another means starting at the bottom of a new group. Compensation is found to be by seniority and bonuses. In hard times, managers are seen to reduce their own pay before requesting concessions from workers. In small firms, lifetime guarantees are not offered and wages are lower.17

In corporate governance, the debt level of firms is seen to be high. As the savings rate is high as well, the Tokyo Stock Exchange is thought not to demand high returns from firms. This is also argued to be an effect of the keiretsu system, in which most shares are held in related hands and never trade. Apart from this, only semi-annual reporting of profits is required, and this is thought to reduce short-term pressures.18 The long-term holding of shares by companies within the keiretsu or by other friendly companies is thought to make it unusual for companies to be sold. Because of this, a drop in earnings does not result in takeover attempts. Managers have the time and resources to achieve objectives deemed necessary for long-term survival. As a result, profit is considered less important than market-share as a strategic goal for a company.19 Acquisitions and mergers must be unanimously approved, making it even less likely that a company be merged or acquired. Hostile takeovers are seen as impossible. The company is not run for the benefit of shareholders; instead, its real purpose is claimed to be survival.20 Firms in Japan are thought to be run to give purpose to the lives of those it employs.21

In internal social control, the Japanese firm is seen to have a somewhat authoritarian and undemocratic nature. The authority of the superior is coupled to the total dedication expected from the subordinate.22 Japanese groups are found to have an authoritarian and hierarchical structure, stressing the importance of an assigned place for everyone. The difference between members and strangers is emphasized, and the group tends to expel intruders. Because the only position open to newcomers in an established hierarchy is at the bottom, there is argued to be no room for an outsider for whom a higher rank may be more

17 Prestowitz, 1988: 91, 154-5, 165, 328
20 Prestowitz, 1988: 155-6
21 Prestowitz, 1988: 156
appropriate. Such a person threatens harmony, the ultimate value of the group, and therefore tends to be rejected.\textsuperscript{23} In achieving and maintaining group harmony, the stress is seen to be on external pressure, such as conformity, group ethics, and close human ties. ‘Group ethics’ refers to the feeling that if some members of the group are doing something, the others cannot be expected to refrain from doing it as well. Constant watching what others are doing is necessary to make sure that one’s behavior is acceptable, as harmony requires sensitivity to the needs of others.\textsuperscript{24} Social control is also seen to be maintained through inducement. Thus, without the backing of the company, it is usually very difficult to obtain a home mortgage; membership in a golf club is beyond the reach of most Japanese without company help; and vacations in the mountains are often tied to the use of company villas. In return for giving an employee such leverage in society, the firm expects obedience. Managers are expected to set the example, to support subordinates, and to assume responsibility for the firm.\textsuperscript{25}

In its socialization efforts, the typical firm is seen to attempt to imitate a household group. The firm goes through great pains to create an identification of individual with corporate interests. In large firms, compensation by seniority and bonuses is thought to create an identity of interest between the firm and the employee. Companies encourage the martial arts and send employees to Zen-meditation courses to sharpen their discipline. Employees make long hours to maintain close personal ties, much time being spent on socializing with fellow employees to maintain group morale and status in the group. In order to achieve the latter, it is deemed necessary to demonstrate total loyalty to personal duty.\textsuperscript{26}

In industrial relations, the existing company unions are considered more malleable than industrywide unions, and they create a cooperative basis for labor-management relationships.\textsuperscript{27} The labor force in Japan is seen as characterized by stability, dedication, and a cooperative and flexible attitude. Workers are thought to identify with and work for the organization rather than for themselves. They can be called upon to deliver a level of performance possible only in times of crisis in the West.\textsuperscript{28} Managers are considered to be risk-averse; the emphasis on conformity limits entrepreneurial efforts. At the same time, overall management is felt to be dynamic, although there is no real risk taking by

\textsuperscript{22} Prestowitz, 1988: 88, 155  
\textsuperscript{23} Prestowitz, 1988: 87-8, 90  
\textsuperscript{24} Prestowitz, 1988: 84-6  
\textsuperscript{25} Prestowitz, 1988: 155  
\textsuperscript{26} Prestowitz, 1988: 83, 88, 92, 154-5  
\textsuperscript{27} Prestowitz, 1988: 17, 82, 126-7, 154, 194  
\textsuperscript{28} Prestowitz, 1988: 17, 154-6, 1989: 71
businessmen as a result of government policies. These policies make it easy for businessmen to think long-term.\textsuperscript{29} Altogether, the management system is seen to minimize confrontation.\textsuperscript{30}

\textbf{The Dynamics of Japanese Colonization}

According to \textit{Trading Places}, the US is in the process of being colonized by Japan as a result of Japanese FDI. These capital flows are primarily a result of the trade imbalance between the US and Japan, with the US having a chronic deficit and Japan a chronic surplus. The trade surplus of Japan is part of a huge current account surplus, which entails a capital outflow to the rest of the world - and, in particular, to the US.

\textit{Japanese FDI to the US}

\textit{Trading Places} argues that the trade imbalance between the US and Japan comes with surpluses on the Japanese current account, reaching more than $90 billion annually. This $90 billion a year is in the hands of Japanese industry and financial institutions, which invest it around the world. In particular, the liquidity resulting from Japan’s huge trade surpluses and high rate of savings, together with the drop in the value of the dollar, has led to the acquisition of US assets by Japanese investors. The annual flow of Japanese capital into the US is in the order of $70 billion. In 1988, Japanese companies spent about $10 billion acquiring over 80 US companies. In addition, they spent $4 to $6 billion on new plants while investment in US real estate hit close to $17 billion. In 1989, Japan became the second largest foreign direct investor in the US behind the UK. At the time of writing of \textit{Trading Places}, 10\% of the US manufacturing base was seen to be controlled by Japanese producers, Japanese banks accounted for over 10\% of US bank assets, and Japanese firms had bought into Goldman Sachs, Shearson Lehman, PaineWebber, and Wasserstein Perella.\textsuperscript{31}

\textit{Colonization Through Japanese Foreign Direct Investment}

According to \textit{Trading Places}, the acquisition of US assets by the Japanese has led to a process of colonization of the US; Prestowitz actually labels a sub-section: “a colony-in-the-making:

\begin{note}
\textsuperscript{29} Prestowitz, 1988: 17, 91, 131, 208
\textsuperscript{30} Prestowitz, 1988: 154
\end{note}
the United States”. Japanese FDI is seen to entail the transmission of a specific industrial structure reflecting Japanese values. The traditional Japanese way of financing by debt is thought to be transferred to the US as well. As an example of the transmission of management practices, Prestowitz notes that Japanese firms in the US provide secure jobs to a young workforce without affiliation to the industry-wide unions.\footnote{Prestowitz, 1988: 308-9, 1989: 76, 79}

\textit{A Discussion of the Perspective of Trading Places}

Prestowitz’s analysis of the impact of Japanese FDI into the US is straightforward, but - in line with the general convergence argument - it is also one-sided. The claim that Japanese subsidiaries in the US implement Japanese management practices presupposes that such subsidiaries actually set out to implement such practices and, if so, that they do not encounter counter-forces that impede them from doing so. Moreover, the idea that Japanese investments in the US will turn the US into a Japanese colony requires a level of Japanese FDI that overwhelms domestic investment as well as that by MNCs from other countries. To test and improve on the argument of \textit{Trading Places}, then, the relevant empirical questions are:

1) How accurate is Prestowitz’s depiction of US and Japanese management?  
2) How extensive is Japanese FDI in the US in terms of relative employment?  
3) To what extent is management in Japanese subsidiaries in the US in fact similar to management in Japan?

\textbf{Michel Albert’s Capitalisme Contre Capitalisme}

Michel Albert’s \textit{Capitalisme Contre Capitalisme} is one of the most influential publications of the early 1990s concerned with the future political-economic structure of the European Union. In his book, Albert contrasts two types of capitalism, a ‘neo-American’ variant, found in the US, and a ‘Rhénan’ variant, found in Japan and Germany (among other countries). He argues that neo-American capitalism - and with this neo-American management practices - is gaining ground in Japan and Germany. The principal and most powerful vector of this transmission process is thought to be the globalization of financial markets. Some counterbalance is argued
to arise from the characteristics of multinationals, and the US current account deficit with concurrent flows of Japanese and German capital into the US.

*Management in Neo-American Capitalism around 1990*

*Capitalisme Contre Capitalisme* does not discuss work flow practices in neo-American capitalism. According to its depiction of human resource flow practices, employment in neo-American capitalism is precarious, flexible, and individual, and the workforce is unstable. As mobility is valued, the change of job and firm is seen as a criterion of individual dynamism and excellence. In compensation practices, salaries are found to be individual, flexible, and precarious as well. Employees are thought to be paid according to their marginal productivity, while the income of directors is seen to be closely connected to the success of the firm. Income differences between directors and employees are found to be large. In industrial relations, labor unions have always refused social partnership, participation, and co-responsibility, confining themselves to a purely ‘business’ comportment.33

In corporate governance, the leading role in finance is seen to be played by the stock market. Shareholders are thought to take the most immediately profitable course of action, demanding maximal short-term profits. Institutional investors in particular seek to optimize the short-term return on their portfolio. Because shareholders are disloyal, firms attempt to pay them ‘competitive’ dividends. According to *Capitalisme Contre Capitalisme*, everything is done to maximize short-term profits in order to be able to present satisfactory results each trimester at Wall Street. Takeovers, buyouts, and mergers are popular, many of them aimed at dismembering the acquired company by selling its divisions in order to increase its share prices. For a CEO, sometimes a ‘neat transaction’ is seen necessary to satisfy his ego, to enhance the reputation of the firm, or to avoid that management is judged cowardly or conservative by its personnel. The threat of takeovers forces managers to dedicate much time and energy to defense strategies. A high share price constitutes the best means to protect a firm against a hostile takeover. Overall, firms are seen as tied to projects with quick profits, and entrepreneurs as reticent to take industrial risks. The frantic dash for profit is thought to impede the continuous management of a stable workforce. Training by firms is seen as uneconomic, because its long-term returns come with short-term costs.34

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33 Albert, 1991: 95, 97, 135, 137, 225, 267, 272
34 Albert, 1991: 19, 81-95
Management in Rhénan Capitalism around 1990

In its human resource flow practices, the Rhénan firm is seen to have an obligation to provide for employment security and professional education. The career structures and the promotion system are found to favor qualification and seniority. Thus, in order to advance in the hierarchy, it is considered most productive to increase one’s level of education and to be loyal. Slow and orderly career plans are offered to staff members. An effort is made to promote all employees within the framework of a policy of career planning, which aims at ensuring social harmony and economic efficiency. In compensation practices, salaries are thought to be relatively fixed. They are seen as based on factors not connected to the productivity of the employee - such as qualifications, seniority, and tables determined in collective agreements on a national scale. Income differences between directors and employees are found to be relatively small.

In corporate governance, the leading role in finance is thought to be played by powerful banks. Many firms have their own bank, and banks are often important shareholders. Conversely, large industrial groups are often the main shareholders of banks. These cross-shareholdings create a financial-industrial network, which is found to be both stable and relatively closed. As a result, bankers are concerned with the long-term development of firms, and banks take long-term risks to support industrial projects. Institutional investors are seen to form a stable entity of shareholders, and hostile takeovers practically do not exist. Another result of the preeminent role of the banks, as argued by Capitalisme Contre Capitalisme, is that Rhénan economies are protected against direct investments from abroad. The stability of the firm’s main shareholders is a factor of security and peace for its managers, who do not live under the threat of a hostile takeover or a restructuring operation imposed from the outside. They can dedicate themselves fully to the management of the firm. Meanwhile, the hard core of the shareholders fulfills the role of controller and countervailing power. It can sanction inefficient managers and thus indirectly protect small shareholders.

The power of the shareholders is thought to be balanced by that of management, which is consensually coopted by the firm’s banks and its personnel. Responsibilities are seen as so widely shared that there is joint management involving all interested parties - shareholders, employers, staff, and trade unions - in decision making. The stability which results is felt to

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36 Albert, 1991: 15, 97, 122
38 Albert, 1991: 128-9, 203
promote the preference for the long term in the management of the firm. A priority aim is making the firm a community uniting capital and labor. The firm should be protected and, reversely, it should protect its members. In effect, a strong (collective) sense of belonging is seen to make of the firm a true community of interests. In internal control practices, management methods are thought to make an appeal to the participation and intelligence of everyone. They demand that a minimal consensus be the rule, and that everyone involved in production be consulted and listened to. In industrial relations, the powerful labor unions are seen to have opted for integration in and competitive collaboration with the firm. At the same time, they are thought to take account of the idea of collective responsibility.

The Transmission of Neo-American Capitalism

According to Capitalisme Contre Capitalisme, neo-American capitalism is gaining ground in the world. The principal and most powerful ‘vector’ of the transmission of neo-American capitalism is seen to be the globalization of financial markets. As a result of this process, a number of neo-American management practices are thought to have been transmitted to Japan and Germany. This, despite the existence of countervailing factors: the characteristics of multinationals, and the US current account deficit with the concurrent flow of Japanese and German capital into the US.

The Globalization of Financial Markets

The commercial and industrial internationalization of the economy has given rise to gigantic international financial flows. By 1991, the daily volume of transactions on the foreign exchange market had reached almost $900 billion. Capital is invested on all the financial markets of the world simultaneously. Financial intermediaries have had to develop global networks to cover the three main financial poles: the US, Japan, and Europe. According to Capitalisme Contre Capitalisme, in order to remain in the running, the different financial exchanges have relaxed their regulations and removed barriers.
The globalization of financial markets, so the argument goes, carries with it the logic of the ‘pure’ market: a market without constraint or police, with its abundance of innovations but also with its risks of crash and its dubious transactions. These characteristics make the globalization of financial markets the principal and most powerful vector of the transmission of neo-American capitalism. As such, it is seen to have affected the economic cultures of Rhénan countries.\(^{45}\)

**Changes in Japanese and German Management**

According to *Capitalisme Contre Capitalisme*, in Japanese and German firms, the hierarchical human resource flow structure based on seniority and with its extensive formalization is sometimes judged cumbersome and paralyzing. Young staff members are thought to prefer the management of success stories ‘à l’américaine’ rather than the slow German and Japanese career plans. Numerous are seen to be the young Japanese graduates who no longer accept the obligation to wait for fifteen years to become manager and another fifteen years to reach the position of senior management. The tradition in compensation practices of the hierarchy of salaries within narrow limits is found to have been called into question as well. Real conflicts are seen to oppose young talents, eager to be rewarded, with an ageing senior management, refusing to give up its prerogatives. The young German and Japanese graduates of American universities are thought to be impatient with the hierarchy of remunerations based on seniority and qualification. They demand higher salaries more quickly, as well as faster careers. The managers of the new generation are seen to want to make a fortune and become famous.\(^{46}\)

In German corporate governance, the traditional role of the banks is found to have begun to diminish. On the one hand, firms are less loyal to their usual banker, as they are seduced by foreign banks with enticing offers, and tempted by the advantages of the financial market. On the other hand, the large banks have launched themselves onto the new international markets. The power of shareholders is thought to have increased relative to that of managers. Small shareholders are seen to have become interested in the chance of making a fortune by betting on the right horse. In the future, unless a strengthening of the network of European financial institutions takes place, firms are expected to be treated like merchandises.

\(^{45}\) Albert, 1991: 214-5

\(^{46}\) Albert, 1991: 15-6, 202, 221
Meanwhile, the system of board of directors and supervisory board is blamed for its inertia and sluggishness.\(^{47}\)

In industrial relations, the power of labor unions is seen to have been called into question. The labor movement as well as collective negotiation procedures have declined in importance. The majority of the Japanese labor force is thought less and less willing to accept the traditional way of life, which includes work and saving. Instead, the wish to enjoy the present is seen to have made its appearance. The discovery of hedonism is found to have affected the total dedication of the Japanese to the firm, and the younger generation demands longer holidays. In Germany, labor unions have aimed at a reduction of the working week.\(^{48}\)

**The Characteristics of Multinationals**

A first countervailing factor to the transmission of the neo-American type of capitalism discerned by *Capitalisme Contre Capitalisme* is constituted by the characteristics of multinationals. Because multinationals are listed on the stock market, they are thought to be dependent on the financial market. As a result, the argument goes, they do not risk becoming paralyzed by excessively large staffs, nor by a decline in employee motivation. At the same time, however, they are felt not to be subject to the whims of the financial market: their capital is always widely distributed; no one shareholder ever possesses a sufficient part to have a particular power. And the financial size of the large multinationals is thought to be such that they are protected against hostile takeovers. That is, as long as they remain profitable and their dividends go on rising. Thus stimulated by the normal demands of the market, but insensitive to its arbitrary agitations, the multinationals can - and have to - dedicate all their efforts to the development of their own long-term strategies.\(^{49}\)

The largest US multinationals are seen to have a long-term focus because they have developed by internal growth. For their development on all continents, these firms are thought to have been obliged to recruit employees in numerous countries, and to form their personnel with a corporate culture in mind. That is why, according to *Capitalisme Contre Capitalisme*, they have been forced to assure their personnel of a real career and provide it with a permanent training. In order to constitute and consolidate their multinational staffs, they have had to bet on stability, profit sharing, and even co-responsibility. As a result of these factors,

\(^{47}\) Albert, 1991: 202, 204-6, 221, 280  
\(^{48}\) Albert, 1991: 196-7, 200-1  
\(^{49}\) Albert, 1991: 238-9
the large US multinationals are seen to belong to the Rhénan model rather than to the neo-American model. This is even more the case for European multinationals, which are seen as characterized by similar traits.\(^{50}\)

*The US Current Account Deficit and the Concurrent Flow of Japanese and German Capital into the US*

A second countervailing factor to the transmission of neo-American capitalism discerned by *Capitalisme Contre Capitalisme* is the US current account deficit with the concurrent flow of Japanese and German capital into the US. Since 1985, in order to remedy the staggering US current account deficit, US monetary policy allowed the dollar to depreciate. The regular depreciation of the dollar since that time up to the writing of *Capitalisme Contre Capitalisme* had, however, not resulted in an improvement of the current account. What had happened, in contrast, was that the mark and the yen had reached the informal status of strong currencies.\(^{51}\) According to *Capitalisme Contre Capitalisme*, a strong currency allows to buy cheaply abroad. The Japanese did no hesitate to do so, and the Germans had similar purchasing capabilities. While FDI by US firms in 1988 was still three times the amount of Japanese FDI, the change over twenty years was remarkable. Disposing of very high levels of savings, the Japanese and the Germans financed their own investments. In effect, according to *Capitalisme Contre Capitalisme*, in their foreign direct investment policy, Rhénan firms set up their subsidiaries according to their own culture, under their own control.\(^{52}\)

*A Discussion of the Perspective of Capitalisme Contre Capitalisme*

The argument of *Capitalisme Contre Capitalisme* is the most complete of the three perspectives discussed in this chapter, as it analyzes both the impact of international financial markets and that of multinational corporations. The impact of international financial markets is thought to occur primarily through a cultural mechanism - in the sense that Japanese and German employees are seen to want to imitate US practices. The impact of multinational corporations is linked to foreign direct investment - as in the case of Prestowitz’s argument. Albert extends Prestowitz’s argument by pointing to the characteristics of US and Rhénan

\(^{50}\) Albert, 1991: 134, 237  
\(^{51}\) Albert, 1991: 149, 155-6  
\(^{52}\) Albert, 1991: 16, 41, 49, 152-3, 166
multinationals. He also discusses how these multinationals are relatively independent from international financial markets.

To test and improve on the argument of *Capitalisme Contre Capitalisme*, the relevant empirical questions are:

1) How accurate is Albert’s depiction of US, Japanese, and German management?
2) Does the impact of international financial markets lead to a transmission of neo-American management practices and, if so, to what extent?
3) What are the characteristics of management in multinationals, and what is their relative import?

**The OECD Economic Outlooks and Economic Surveys**

The perspective of the OECD on the impact of international finance on management practices in the US, Japan, and Germany was reconstructed from six *OECD Economic Surveys* of the US, Japan, and Germany, and four *OECD Economic Outlooks* published in 1997, 1998, and 1999. In this case, relevant normative claims had to be included in the selection and categorization process as it would have been impossible otherwise to determine what the OECD expected to happen. While the OECD argues that in both Japan and Germany pressures on international financial markets will lead to deregulation, there are few non-normative statements in the OECD texts that indicate what such deregulation is thought to entail. But there are many statements regarding what such deregulation should entail, and these statements were selected and categorized so as to approximate the OECD argument on changes in management practices resulting from the pressures on international financial markets.

As in the previous reconstructions, the order of discussion of the management categories and their sub-categories and elements as presented in chapter 2 was retained. Thus, in the description of management in the different countries, elements of work flow - when present in the OECD texts - are discussed first, followed by elements regarding human resource flow, compensation, governance, industrial relations, the labor force, and management systems. In the description of changes in management practices caused by international finance, the causal relationship describing the impact of international finance is discussed first, followed by the ordered discussion of other management categories.
According to the OECD, pressures on international financial markets will lead to a transmission of US management practices to Japan and Germany.

**The OECD: Management in the US in the 1990s**

According to the OECD, in US human resource flow, little formal regulation of labor contracts and light-handed employment protection legislation facilitate the adjustment of labor inputs. Job insecurity is high. Job turnover due to firm births and terminations is high, but this is thought to be offset by low rates of job turnover in existing firms. While the average and median job tenure statistics are relatively low, the percentage of the work-force who have held their present job for five years or less is found not to be significantly higher in the US than in other OECD countries.\(^{53}\) There is found to be much on-the-job training of workers. Employee compensation is flexible. This is reinforced by the use of performance-based pay and the offering of employee stock options.\(^{54}\)

In corporate governance, a relatively high level of retained earnings has meant ample internal funds. Market capitalization is high, and share ownership is widespread, but banks hold virtually no shares. For banks, legal restrictions limit their engagement in investment banking. Private equity is a major source of corporate finance for enterprises not quoted on a stock exchange.\(^{55}\) Much non-venture private equity has been used to provide funds for the expansion of medium-sized private firms, leveraged buy-outs, and investments in firms in financial distress. Small-scale start-ups are typically financed through own funds and loans of various forms.\(^{56}\) Venture private equity has been important as a source of funding for innovative ventures. The venture capitalists monitor and advise the companies in which they invest and participate in their management, ensuring that the interests of third-party investors are well served. They also recruit staff and replace the CEO if they feel it would improve the firm’s performance. And they have easy access to exit mechanisms by which they can ‘cash-in’ their mature investments, among others through initial public offerings on second-tier markets.\(^{57}\)

In industrial relations, union membership is low, and there is much decentralized wage formation with limited union presence. The resistance of employers to give in to wage

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\(^{53}\) OECD, 1997b: 36, 89, 153, 168, 1999a: 27

\(^{54}\) OECD, 1997b: 168


\(^{56}\) OECD, 1997b: 160-1, 171-2

\(^{57}\) OECD, 1997b: 12, 161-4, 172
demands is strong, forcing employees to moderate their claims. Strike activity is low. The US labor force is thought to be highly mobile and flexible and there is seen to be a ready availability of skilled labor.\textsuperscript{58} According to the OECD,

\begin{quote}
“[t]he strong performance of the US economy is underpinned by a high level of entrepreneurial activity. In its broadest sense, this reflects the capacity of Americans to seize new opportunities which in turn lead to the most productive allocation of resources across the economy as a whole. This is often attributed to American drive and energy and attitudes towards risk-taking. It is impossible to establish whether Americans are inherently different in these respects or whether entrepreneurial spirit exists everywhere.”\textsuperscript{59}
\end{quote}

Entrepreneurship - defined as “the dynamic process of identifying economic opportunities and acting upon them by developing, producing and selling goods and services”\textsuperscript{60} - is seen to be pervasive, respectable, and admired. There is no stigma attached to failure, nor is failure of a business automatically assumed to be the owner’s fault.\textsuperscript{61}

\textit{The OECD: Management in Japan in the 1990s}

In Japanese work flow practices, there is found to be a close and flexible cooperation among related departments. Job rotation leads to the acquirement of firm-specific skills.\textsuperscript{62} In human resource flow practices, there is claimed to have been a general commitment to lifetime employment. Companies are seen to favor long-term employment as it facilitates long-term investment in training and contributes to maintaining employee loyalty to the firm. Apart from this, firing costs are high. Firms are thought to have mainly adjusted employment by reducing their hiring rather than by laying off employees.\textsuperscript{63} In career development, a majority of the members of the board of directors is seen to have been promoted from the inside. Compensation arrangements are considered to be seniority-based.\textsuperscript{64}

In corporate governance, strong long-term relations are seen to exist between firms and their main banks through the dependence of firms on bank loans rather than equity markets. In addition, financial institutions hold securities issued by their corporate customers. As such, apart from being the principle lender, the main bank is also the key institutional

\begin{footnotes}
\item[58] OECD, 1997b: 12, 15, 36, 168, 1997d: 30-1, 1999a: 27, 1999b: 17
\item[59] OECD, 1997b: 11-2
\item[60] OECD, 1997b: 151
\item[61] OECD, 1997b: 151, 159-60
\item[62] OECD, 1998c: 171
\item[64] OECD, 1998a: 16, 144, 167
\end{footnotes}
shareholder. Intermediated borrowings are higher than in the US, but lower than in Germany. Reversely, the share of securities in corporate finance is higher than in Germany, but lower than in the US. On the stock market, cross-shareholding in Japanese business groups, or keiretsu, has resulted in only 20% to 40% of shares of keiretsu companies being actively traded. The size of the venture capital stock is small.

Much power is given to insiders. It is the main bank which holds and exerts primary control over managers. This is thought to have resulted in a preference for continuity over change and to have been an impediment to calculated risk-taking. Sanctions through the market for corporate control have been extremely limited, and direct incentives for managers to enhance shareholder value have been low. The board of directors is felt not to have been able to function as an impartial monitor of the performance of senior corporate executives who themselves are board members and appoint other directors. With directorship considered a reward for dedication to a company, the board has grown in size, and is not seen as an effective body for making strategic decisions. Directors tend to favor continuity over change, which contributes to managerial aversion to calculated risk-taking.

Japanese business dynamism is found waning. The Japanese corporate system is thought to be poorly adapted to the exploitation of new business opportunities. The labor forces of large companies are seen as inherently conservative, and it is thought to be difficult for employees who volunteer for in-house ventures to obtain any positive recognition in the event of failure.

The OECD: Management in Germany in the 1990s

According to the OECD, in Germany, regulatory systems have inhibited entrepreneurship. In result, in human resource flow practices, the reallocation of manpower resources in response to industrial restructuring has been difficult. Employment regulations relating to hiring and dismissals are seen as restrictive, and wage differentiation as deficient.

In corporate governance, the universal banks are allowed to hold and deal in securities. They can offer a wide range of services, including the underwriting of stocks and investment banking. Overall, banks are seen to play a major role in corporate governance. More

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65 OECD, 1998c: 53, 58, 163
66 OECD, 1998c: 168-9
67 OECD, 1998c: 16, 163-4, 167, 179
68 OECD, 1998a: 151, 170, 177
69 OECD, 1997a: 118, 1998b: 103
generally, insiders or ‘stakeholders’ are thought to have traditionally dominated the control of large enterprises.\textsuperscript{70} A lack of venture capital has been seen as inhibiting corporate dynamism. But a New Market segment at the Frankfurt Stock Exchange has favored medium-sized technology-oriented firms.\textsuperscript{71}

In industrial relations, bargaining by employers and employees is seen as based on the need to preserve the equality of bargaining power. General branch agreements are found to dominate. Wage agreements with flexibility in working hours, the organization of shifts, and rates of pay are associated with commitments to secure existing employment. These opening clauses in branch agreements are felt to be restricted in scope and in cases other than working time need to be referred back to the social partners. It is the social partners who are seen to be responsible for implementing the degree of wage flexibility. The collective agreements can only be altered in the workers’ favor.\textsuperscript{72}

\textit{The Transmission of an ‘Entrepreneurial Climate’}

According to the OECD, pressures on international financial markets lead to the transmission of an ‘entrepreneurial climate’ to Japan and Germany.

\textit{Deregulation in Japan}

The improved access to international financial markets is thought likely to force deregulation in Japan to prevent financial activities from moving to overseas markets. In addition, some currency and equity gains on financial markets are seen to have eroded because foreign investors have perceived a lack of permanent solutions being proposed to confront the challenges facing the economy. In order to convince investors that the economic situation is being handled appropriately, a rapid easing of the regulatory burden is thought to be required. Altogether, substantial deregulation is considered inevitable. Such reforms are thought to lead to a future which will involve a larger role for individuals and their personal creativity, responsibility, and risk-taking.\textsuperscript{73}

In the first place, given the greater opportunities to conduct financial business overseas, prompt implementation of the ‘Big Bang’ reform program is considered necessary

\footnotesize{\textsuperscript{70} OECD, 1998b: 119, 1999a: 197-8  
\textsuperscript{71} OECD, 1998b: 118-9  
\textsuperscript{72} OECD, 1997a: 36, 120-1, 123, 133, 137, 1998b: 11, 103-4, 113  
\textsuperscript{73} OECD, 1997c: 86, 1998a: 44, 47-8, 1998c: 19, 178}
to maintain the competitiveness of Tokyo as a financial center. The Big Bang deregulation plan has liberalized foreign exchange transactions, cross-border capital transactions, the opening of bank accounts abroad, and interest-rates. The segmentation among financial intermediaries has been reduced. Banks have been given the possibility to diversify their activity, in particular on equity markets. They, and other lending institutions, will also be allowed to issue corporate bonds. In addition, the introduction of new financial products has been allowed. Limits, conditions, and restrictions for the issuance of bonds and commercial paper have been removed, allowing additional firms to use these instruments. Measures to ease financing constraints for small and medium-sized companies have been taken. Equities may be traded off exchanges, and terms for the sales of privately-placed bonds on the secondary market have been eased.74

At company level, needed reforms are thought to include the evolution of business arrangements towards those which promote flexibility and accountability. Deregulation is deemed necessary to restore business dynamism. Measures to increase labor mobility and employment flexibility are thought to be needed. Impediments to inter-company labor mobility should be reduced, and the trend toward increased turnover in labor markets should be facilitated.75

Reforms in Germany

In Germany, the elimination of currency risk in cross-border financial transactions as a result of the creation of EMU is thought to lead to the end of the segmentation of EU capital markets and unleash the development of broad and deep Europe-wide securities markets. As such, the advent of the Euro is seen to have placed great pressure on German institutions, requiring increased flexibility and adaptation. This is thought to include the necessity to encourage an entrepreneurial climate through the cutting of excessive regulation in financial markets and the simplification of the regulatory system. In order to lift impediments to entrepreneurial activity resulting from the operation of financial markets, the development of venture capital markets needs to be fostered, and regulatory barriers to new activities should be reduced.76

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According to the OECD, with regard to human resource flow, regulations underpinning inflexible working practices need to be reformed to ease employment security provisions and to increase working time flexibility. Part-time work needs to be facilitated, and the possibility for renewing fixed-term contracts needs to be liberalized. Dismissal protection needs to be relaxed so as to encourage new hiring by reducing the uncertainty and costs of dismissal.  

In the wage determination system, the role of works councils as contracting parties could be strengthened in enterprises not subject to collective agreements. In general, moves towards greater flexibility in bargaining procedures and in wage bargains should, according to the OECD, be supported. Greater wage differentiation is felt necessary, in part by the greater use of opening clauses in wage contracts, which would delegate greater decision making to the enterprise level. Finally, the validity period for wage contracts for employers which have left the employers’ association could be reduced.

A Discussion of the OECD Perspective

The reconstructed perspective shows that the OECD expects pressures on international financial markets to lead to a transmission of US management practices to Japan and Germany. Deregulation is thought to encourage an entrepreneurial climate by increasing labor mobility and employment flexibility - as is the case in the US. In addition, in Germany, deregulation should encourage greater wage differentiation by delegating greater decision making to the enterprise level. These changes are based on the idea that (many different) investors on international financial markets will remove their investments from the Japanese and German financial markets unless the respective governments implement deregulation, and that the governments will in fact deregulate, leading to a change in management practices. The fact that this analysis is based on a single psychological and a single political theory does not necessarily mean that it is incorrect. In order to determine whether deregulation has actually taken place leading to the supposed one-dimensional changes in management, the ideas of the OECD need to be contrasted with empirical findings. This will be done in subsequent chapters.

The relevant empirical questions are:

(1) How accurate is the OECD depiction of US, Japanese, and German management?
(2) Does the impact of international financial markets lead to a transmission of US management practices and, if so, to what extent?
(3) Is the OECD correct in ignoring the characteristics and import of management in multinationals?

Similarities and Differences Between the Three Perspectives

The depictions of US management in the three perspectives are essentially similar, although the wording is different. The OECD emphasizes the normative acceptability of entrepreneurship, and the way in which little regulation and light-handed legislation facilitates the adjustment of labor inputs. Employees are forced to moderate their wage demands because of the strong resistance from employers. This adversarial and uncooperative relationship between employers and employees is also stressed by Prestowitz and Albert. But where the OECD mentions the facilitation of the adjustment of labor inputs, Albert writes that the continuous management of a stable workforce is impeded by a frantic dash for profit.

With regard to Japanese management, similarities exist between the OECD publications and Trading Places, although Prestowitz’s analysis is much more elaborate. The OECD finds that normative rules and inside promotion lead to a lack of entrepreneurialism. The OECD also argues that long-term employment contributes to maintaining employee loyalty to the firm. Similarly, Prestowitz describes how the emphasis on conformity limits entrepreneurial efforts. He also mentions the personal obligation with a long-term emotional commitment between the employee and the firm. Albert’s depiction of Rhénan firms would appear to be more concerned with German than with Japanese management.

The depictions of German management in the OECD publications and Capitalisme Contre Capitalisme have rather different foci. The OECD points to regulatory systems that are thought to have inhibited entrepreneurship. Employment regulations and general branch agreements are seen as restrictive and wage differentiation as deficient, making the reallocation of manpower difficult. The discussion of German management in Capitalisme Contre Capitalisme rather stresses how the sharing of responsibilities indicating joint management by employers and employees, and the consensual cooptation of management by personnel have resulted in stability promoting the preference for the long term.
In their causal analysis, while all three perspectives see a process of convergence, there are important differences. In the analysis of *Trading Places*, the impact of international finance is thought to occur through Japanese FDI into the US - leading to the implementation of Japanese management practices. *Capitalisme Contre Capitalisme* rather argues that it is the globalization of financial markets which has affected the economic cultures in Japan and Germany, leading to the transmission of a number of *neo-American* management practices. This process is thought to be somewhat counteracted by MNCs, which are seen to implement Rhénan management practices. Finally, according to the OECD, pressures from investors on international financial markets will lead to a process of deregulation in Japan and Germany entailing the transmission of a US-style ‘entrepreneurial climate’.

Overall, the three perspectives are good examples of the popular convergence thesis. In addition, the perspectives highlight two of the main forces that are at play in financial globalization: that caused by international financial markets and that caused by FDI. The perspectives also show how the predicted outcome of the alleged convergence process depends on changing judgments of relative power through time: when the Japanese economy was considered the strongest in the world in popular perspectives, the outcome of convergence was seen to be ‘Japanization’; when the US economy took its place, the outcome became ‘Americanization’. And, indeed, with the recent shift in focus to the strength of the Chinese economy, the idea of at least some impact of Chinese practices in globalization has recently been voiced (Fishman, 2005; Prestowitz, 2005).

This, then, concludes the systematized depiction of the core of the at times contradictory preconceptions with which I started my research. In improving on these preconceptions, the main overall empirical questions are:

1) To what extent are the depictions of US, Japanese, and German management practices accurate?
2) Does the impact of international financial markets lead to a transmission of US management practices and, if so, to what extent?
3) What are the characteristics of management in multinationals, and what is their relative import?
4) Are there other relevant factors related to international finance impacting on US, Japanese, and German management?
In the following chapters, I will present the ‘state of saturation’ that was reached after applying the extended version of grounded theory described in the previous chapter to all kinds of empirical and theoretical material. In chapters 4 through 6, I will present systematized depictions of changes in management in the US, Japan, and Germany, which includes a comparison with the three perspectives discussed in this chapter. Chapters 7 and 8 are concerned with management practices in multinational corporations.
4 Changes in US Management Between 1990 and the Early 2000s

One striking aspect of the core of the preconceptions with which I started my research - as portrayed in the previous chapter - is that none of the three perspectives expects any changes in US management due to financial globalization. The impact of international financial markets is seen rather to result in a transfer of US management practices to Japan and Germany, while foreign direct investment is thought to have an impact on management practices of foreign multinationals in the US only, rather than on US management itself.

In this chapter, I present the results from my application of the extended version of grounded theory described in chapter 2 to the study of changes in US management and their possible relation to financial globalization. More concretely, I present systematized depictions based on all kinds of empirical and theoretical findings regarding changes in US management between around 1990 and the early 2000s, while interpreting the findings in terms of the impact of financial globalization. This way, hypotheses are drawn up regarding the impact of international finance that appear plausible in light of the encountered material. While not strictly required according to grounded theory prescriptions, substantiation for the hypotheses is provided in the form of supporting studies.

Much material was taken into consideration and much was discarded during synthesis. The discussion presents only the material that survived the entire process up to the ‘point of saturation’ reached at the time of writing. The systematic format presents the data and theories using the management categories of work flow, human resource flow, compensation, governance, industrial relations, the labor force, and management systems - as set out in chapter 2. For each category, a depiction is given, first, of the situation around 1990 (roughly 1988-1994), followed by an indication of changes for the specific category up to the early 2000s (based on material from roughly 1995-2005). The findings form the basis for the hypotheses that are drawn up regarding the impact of financial globalization for each main sub-category. Next, the findings and hypotheses are compared to the three perspectives discussed in the previous chapter, as well as to the convergence, divergence, hybridization, and transformation theories of globalization.

Priority was given to primary evidence or material using primary evidence, such as the studies based on the 1991 National Organizations Survey (NOS) (Kalleberg, Knoke, Marsden, 79 As stated in chapter 1, an analysis of the potential impact of the many other causal factors that play a role in the overall globalization process lies outside the scope of this study.
and Spaeth, 1996). A second source of material was derived from studies which were themselves not based on primary evidence, but referred to such evidence. Finally, material was used in which such references were lacking but which appeared plausible. In cases in which such material was contradicted by primary evidence, the latter was used in the construction of the depictions and the first was discarded.

Unfortunately, in some cases, a certain ‘patchiness’ of the systematized depictions proved hard to avoid. But at the very least, the depictions as presented here are less patchy than many other studies in the field when their empirical and theoretical substantiation is considered, even if such studies may seem less patchy because of the way they are presented. In addition, the extended version of grounded theory presented in chapter 2 acknowledges that it is always possible to improve on the presented systematized depictions.

The question may be raised if one can legitimately speak of ‘US’ management. What about internal diversity? To respond to this question, Weber’s ([1922] 1988) discussion of the multifariousness of being should be recalled. Yes, there is diversity. In fact, diversity is such that not one management practice will be exactly the same as any other, and besides, management practices change over time; in other words, there is no end to diversity. This is why Weber stressed the importance of a selection made by the social scientist. While in reality there is no such thing as ‘US’ management, it is still possible to construct images representing such management by describing the most common practices that appear similar on the basis of national and cross-sectional samples. In fact, according to Weber, if the aim is to understand anything about the world around us, it is inevitable to construct such images. As for making a distinction between different countries, Hall and Soskice (2001) have argued that a focus on the national level is justified by the fact that many of the institutional factors conditioning the behavior of firms have remained nation-specific.

The resulting findings indicate that several nuances need to be made to the three popular perspectives discussed in the previous chapter. A number of forces and counter-forces can be interpreted to exist. The most important channel of financial globalization is hypothesized to have been the possibility of offshore outsourcing, which can be seen to have increased the power of management to implement desired management techniques. Another channel is that running through global competitiveness, leading to the partial implementation and adaptation of Japanese (and, in the case of banking, German) management practices. This channel is closely related to financial globalization, as the Japanese management techniques concerned were first implemented in subsidiaries of Japanese MNCs in the US established by means of FDI - only after which they were introduced more widely into US management in
general (Kenney and Florida, 1993; Abo, 1994; Florida, Jenkins, and Smith, 1998; Nakamura, Sakakibara, and Schroeder, 1998; Liker, Fruin, and Adler, 1999), and the changes in banking can be hypothesized to have been inspired by the German system of universal banking (Calomiris, 1995; Saunders and Walter, 1996; Robinson, 2002; Board of Governors of the Federal Reserve System, 2003). Other potential causes of changes in US management practices were found to have been either unconvincing or outside the scope of this study (such as the impact of technological change). Because these potential causal factors did therefore not survive the iterative process of selection and synthesis, the discussion of these factors is limited. Counterforces to the impact of financial globalization were interpreted to consist in the characteristics of the labor force, existing practices, power-constellations, and specific ways in which power was exercised. As indicated in chapter 2, these interpretations should be seen as novel hypotheses which are open to future testing. Quite a few changes in US management appeared unrelated to the impact of financial globalization. It is important to discuss such changes as these give an impression of the limitations to the scope of the impact of globalization.

Altogether, the only general theory of globalization that can be said to be consistent with the encountered material is the transformation theory. The convergence, divergence, and hybridization theories all prove to be in contradiction to the encountered material at one point or another. The causal factors that are interpreted to exist provide an essential specification of how financial globalization leads to the transformation of US management practices.

**Work Flow in the US**

**Formal Organization in the US around 1990**

In US management around 1990, formal organization mostly consisted of bureaucratic structures with high levels of operative decentralization and formalization. In their 1991 National Organizations Survey, Kalleberg, Marsden, Knoke, and Spaeth (1996) found three types of such bureaucratic structures. A ‘non-union bureaucracy’ (24%) and a ‘unionized bureaucracy’ (19%) were found in organizations with more than 1,000 employees and 50 years in age on average. These structures had low concentrations of managers, high levels of decentralization and vertical and horizontal differentiation, and extensive formalization. A ‘branch bureaucracy’ (26%) was found in organizations with 65 employees and 40 years of
age on average. It combined a low concentration of managers with very high centralization, a short hierarchy, minimal departmentalization, and extensive formalization. Someone above the establishment head - at another location - was involved in most decisions. The remaining non-bureaucratic firms (31%) were both small and young (20 employees and 25 years on average), with a high concentration of managers, centralized decision-making, little vertical and horizontal elaboration, and little formalization. In the overall sample, the level of departmentalization was low: typically, there were separate units for only about two functions. The number of employees was rather equally split between large and small firms: in the early 1990s, the 100 largest manufacturing firms provided 42% of domestic employment (Ruigrok and Van Tulder, 1995), while the relative share of employment in firms with less than 50 employees was somewhat over 40% (Tilly and Tilly, 1994).

While team work did not exist for the majority of employees, it was nonetheless quite widespread. According to Osterman’s 1992 survey, 40.5% of firms had more than 50% of their employees in teams, while 27.4% had more than 50% of their employees in QCCs (Osterman, 2000). The classification of jobs occurred in terms of work posts, with each worker accountable for one post. Jobs were specialized and simple, with detailed job descriptions. Job complexity increased with hierarchical level (Lincoln and Kalleberg, 1990; Hollingsworth and Streeck, 1994; Marsden, 1999; Pudelko, 2000). The use of job rotation was relatively limited. Osterman’s 1992 survey found that only 26.6% of firms had job rotation for 50% or more of their employees (Osterman, 2000).

The organization of the production process was in line with the principles of mass production (Marsden, 1999; Jürgens, 2003), but firms had started to introduce lean production methods (Fairris and Tohyama, 2002).

Changes in Formal Organization in the US up to the Early 2000s

During the 1990s, organizational structures in the US became flatter as companies decentralized and reduced the number of levels. Firms were subdivided into small, closed, autonomous, and task-oriented Strategic Business Units (SBUs) managed by middle management as profit centers. The responsibility of functional layers was reduced (Kalleberg, Knoke, Marsden, and Spaeth, 1996; Aoki and Dinc, 1997; Malone and Laubacher, [1998] 1999; Pot, 2000; Pudelko, 2000; Gómez-Mejía, Balkin, and Cardy, 2001). Meanwhile, the relative importance of small firms increased. In the late 1990s, only one in ten employees was employed by a Fortune 500 company (Malone and Laubacher [1998] 1999), while the relative
share of employment in establishments with 50 workers or less had increased to 50% (Askenazy, 2001).

Team work has become the basic unit in many organizations. Osterman’s 1997 survey found that 38.5% of firms had more than 50% of employees in teams, and 57.7% had more than 50% of employees in QCCs (Osterman, 2000).

Marsden (1999) finds an enduring influence of the work post system in job classifications. But according to other scholars, greater job flexibility has been created through job banding, which has made jobs broader and more ambiguous (Kalleberg and Schmidt, 1996; Aoki and Dinc, 1997; Gómez-Mejia, Balkin, and Cardy, 2001; Osterman et al., 2001). In addition, Osterman’s 1997 survey found that 55.5% of establishments had introduced job rotation (Osterman, 2000). Yet according to Pudelko (2000), job enrichment and enlargement have been limited. And Batt, Colvin, and Keefe (2002) argue that some employers have in fact simplified jobs. While it is therefore unclear whether jobs have become broader or not, job rotation appears to have become more widespread.

In the production process, a further move toward lean production has taken place (Jürgens, 2003). The extent of outsourcing has increased (Burke, Epstein and Choi, 2004; Bronfenbrenner and Luce, 2004). But the exact level of offshore outsourcing is difficult to determine. Estimates for the early 2000s have ranged from less than 1% to 8% of yearly total job loss in the US (National Academy of Public Administration, 2006).

**Interpretation of the Impact of Financial Globalization on Formal Organization in the US and a Comparison to the Three Perspectives and the Theories of Globalization**

In considering these changes, the introduction of team work, job rotation, and lean production appears to have been inspired by Japanese management practices with the aim to improve global competitiveness. This interpretation is held, for instance, by Beer (2003), and finds support in meta-empirical studies such as Kwon (2004, 2005, 2007) and Branch (2006). A number of grounds exists for this interpretation: (i) these practices indeed resemble Japanese management practices that have been seen to have provided Japanese firms with considerable competitive strength during the 1980s; (ii) during the 1980s and early 1990s there was an extensive discussion of Japanese management practices in popular management literature in the US - a primary example being Womack, Jones, and Roos’s (1990) *The Machine That Changed the World*, which linked Japanese management techniques to high productivity; (iii) there has been an extensive literature on high-commitment/high-performance management
systems, which - on the basis of empirical findings - are related to Japanese management systems (e.g. Jacoby, Nason, and Saguchi, 2004; Jacoby, 2005b).

In probing deeper, empirical studies have found that team work, job rotation, and lean production were first introduced into the US by Japanese MNCs through FDI - only after which they were introduced more widely into US management under the impact of competitive pressures (Kenney and Florida, 1993; Abo, 1994; Florida, Jenkins, and Smith, 1998; Nakamura, Sakakibara, and Schroeder, 1998; Liker, Fruin, and Adler, 1999). On this basis, the following hypothesis about the impact of financial globalization on formal organization in the US can be drawn up: FDI by Japanese MNCs into the US has impacted on the way in which US management has attempted to improve its global competitiveness, and this is expressed in the implementation of certain Japanese management practices.

Other causes for these changed practices may exist which lie outside the scope of this study, such as the impact of technical change (e.g., Bresnahan, Brynjolfsson, and Hitt, 2002). While hard to disentangle from the inspiration by Japanese management techniques, there is no reason to believe that such causes counteract the specific impact of Japanese FDI on attempts to improve global competitiveness interpreted here; they largely seem to work in the same direction (while they may explain some additional changes, such as the increase in decentralization).

A second hypothesized channel for the impact of financial globalization is the increase in offshore outsourcing, which may occur through foreign direct investment as well as through international trade, and which is facilitated by technical change. Empirical studies provide support for the relevance of this channel (e.g. Bronfenbrenner and Luce, 2004; Mann, 2005), as do insights from organization and management theory (Levy, 2005). The effects of offshore outsourcing will be discussed below.

Table 4.1. summarizes the final synthesis (‘saturation’) of those changes in formal organization in the US that can be plausibly related to the impact of financial globalization.

How do these findings compare to the three perspectives that were presented in chapter 3, and what do they indicate regarding the plausibility of the convergence, divergence, hybridization, and transformation theories of globalization? As can be seen from the discussion in chapter 3, none of the three perspectives present any analysis of the impact of financial globalization on formal organization in the US. In light of the important changes that have occurred - as indicated by the findings presented here - this is a major shortcoming. As far as the overall theories of globalization are concerned, the implementation of a number of
Elements of formal organization

<table>
<thead>
<tr>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of teams</td>
<td>No team work for majority of employees</td>
<td>Team work has become standard</td>
<td>FDI by Japanese MNCs into the US has impacted on the way in which US management has attempted to improve its global competitiveness</td>
</tr>
<tr>
<td>Job characteristics</td>
<td>Job rotation not common</td>
<td>Job rotation widespread</td>
<td>Ibid.</td>
</tr>
<tr>
<td>Production process</td>
<td>Mass production, introduction of lean production</td>
<td>Further introduction of lean production</td>
<td>Ibid.</td>
</tr>
<tr>
<td>Restructuring process</td>
<td>Increase in (offshore) outsourcing</td>
<td>Possibility of offshore outsourcing</td>
<td>Bronfenbrenner and Luce (2004); Levy (2005); Mann (2005).</td>
</tr>
</tbody>
</table>

Table 4.1 Relevant changes in formal organization in the US and hypothesized causes related to financial globalization.

Japanese management practices implies that divergence cannot be considered a plausible theory. In contrast, the convergence as well as the hybridization (in a Japanese sense) and the transformation theories are all consistent with the encountered material. As no material was encountered indicating the way in which the increase in offshore outsourcing has affected formal organization in the US, no judgment can be reached regarding the plausibility of the different theories of globalization in this regard. The argument is summarized in table 4.2.

**Informal Organization in the US around 1990**

For non-managerial employees in US organizations around 1990, the informal organization was relatively unimportant. Employment relations were started only to enhance self-interests, and obligations were determined solely by the employment contract. But the management group did constitute an informal community, tied together by mutual interest, obligations, the sharing of risks, and after-hours socializing (Lincoln and Kalleberg, 1990; Dore, [1996] 1997, 2000).
Changes in formal organization up to the early 2000s

<table>
<thead>
<tr>
<th>Team work has become standard</th>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job rotation widespread</td>
<td>FDI by Japanese MNCs into the US has impacted on the way in which US management has attempted to improve its global competitiveness</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, ‘Japanese’ hybridization, or transformation</td>
</tr>
<tr>
<td>Further introduction of lean production</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in (offshore) outsourcing</td>
<td>Possibility of offshore outsourcing</td>
<td></td>
<td></td>
<td>No judgment</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.2 A comparison of changes in formal organization in the US and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.

Changes in Informal Organization in the US up to the Early 2000s

It has proven difficult to find good material on changes in the informal organization in the US. In light of the expansion of downsizing to the management group (see below), it seems likely that the sense of community among managers has decreased. At the same time, the intensification of socialization efforts discussed below may have increased the importance of the informal organization somewhat.

Human Resource Flow in the US

Staffing in the US around 1990

In US staffing practices, up to and including the 1990s, managers and white-collar workers could count on long-term employment, while for blue-collar workers there was an in-and-out system dependent on performance (Marsden, 1999; Pudelko, 2000). Part-time employment (less than 35 hours a week) constituted 14.1% of total employment in 1990 (OECD, 2005), while the relative proportion of temporary and contract work in the same year was estimated at 2% (Castells, 2000). Additional working time flexibility was achieved through the use of
Flexible hours, which were found in use for 60.2% of employees in the 1991 NOS (Knoke, 1996). Average hours worked per person per year in 1990 were 1,861 (OECD, 2005).

Recruitment was both internal and external. More than half of the firms surveyed by the 1991 NOS filled vacancies for non-supervisory positions with current employees, while 72.3% did so for managerial and administrative ranks (Kalleberg, Marsden, Knoke, and Spaeth, 1996). High school graduates were recruited for lower level positions and university graduates for managerial positions. The external labor market was used to recruit experienced employees. Contacts with universities and external contacts of employees played an important role. Selection criteria included qualifications, presentation and technical ability, and work experience. Managers often entered the firm from the outside, recruited via headhunters. Employment contracts were highly specific: no obligations were expected beyond the contractual agreement (Tilly and Tilly, 1994; Dore, 2000; Pudelko, 2000; Aoki, 2001; Huo, Huang, and Napier, 2002; Jackson, 2003).

In the regulation of personnel outflow, the doctrine of employment at will in principle allowed an employer to dismiss an employee at any time for any reason. But a rightful discharge did require proof of guilt and absence of discrimination, and legal prohibitions existed against dismissals undertaken to prevent employees from receiving retirement benefits or to join a union, and on the basis of contractual obligations. When the workforce was unionized, layoff decisions were usually based on seniority. When the workforce was nonunion, layoffs were often based on performance or on a combination of performance and seniority (Springer and Springer, 1990; Wheeler, 1998; Gómez-Mejía, Balkin, and Cardy, 2001; Grossman, 2002).

Dismissals were performed quickly when deemed necessary. The OECD (1997e) reports a yearly layoff rate for 1991-92 of 3.1% of total employment (based on BLS data). While mostly blue-collar workers were dismissed, between 1987 and 1991 more than 85% of the Fortune 1,000 corporations had also started to downsize their white-collar staff (Lewin and Johnston, 2000). Apart from using dismissals, companies also increased the outflow of personnel by offering early retirement or lump-sum payments (Gómez-Mejía, Balkin, and Cardy 2001). The quit rate was relatively low: for 1991-2, the OECD (1997e) reported a quit rate of 0.9%.\(^{80}\) Job tenure was short: for 1991, the OECD (1993) reported a median tenure of 3.0 years, with an average tenure of 6.7 years.\(^{81}\)

\(^{80}\) Compared to 1.3% in Japan in 1987-88 (OECD, 1997e).

\(^{81}\) Compared to an average tenure of 10.4 years in Germany in 1990 (OECD, 1993).
Changes in Staffing in the US up to the Early 2000s

Changes in US staffing practices have made employment even less secure, also for managers and white-collar workers (Kalleberg and Schmidt, 1996; Ichniowski et al., 2000; Gómez-Mejía, Balkin, and Cardy, 2001). This is largely due to the increase in downsizing discussed below. The level of part-time employment has remained fairly stable at a slightly lower level than the 14.1% of 1990, as shown in figure 4.1. At the same time, there has been a large increase in temporary and contract employment (Kalleberg and Schmidt, 1996; Gómez-Mejía, Balkin, and Cardy, 2001; Lautsch, 2002). But at 4% of the workforce in 2001, the temp market is still the smallest in the OECD (OECD, 2003). This is seen to have been caused by the relative flexibility of regular employment (Peck and Theodore, 2002).

![Part-time employment graph](image)


Average annual working hours of the average employee have dropped compared to 1990 (when they stood at 1,861 hours), as shown in figure 4.2. At the same time, Feldman (2002) found that the number of hours worked by managerial and professional employees had grown, reaching 50 or more hours per week.

As for recruitment practices, in a 2001 survey of 145 listed firms, Jacoby (2005b) found that 59% of firms gave priority to internal recruitment over external recruitment for non-supervisory employees, and 41% for managerial personnel. Thus, there still seems to be importance attached to internal labor markets. In selection, potential and ‘fit’ with production teams have become more important, while work experience is no longer as highly valued (Von Glinow, Drost, and Teagarden, 2002; Houseman, Kalleberg, and Erickcek, 2003). At the
same time, concerns for attracting and retaining employees with technology-related skills have increased (Osterman et al., 2001; Bresnahan, Brynjolfsson, and Hitt, 2002).

Employment at will has been curbed somewhat further, to the extent that many states have established laws allowing employees to sue employers for wrongful discharge. A promise of job security can generate a wrongful discharge claim, as can firing an employee with more than 5 years of service, good performance ratings, and service awards. Whistleblower laws have come into force which prohibit dismissals upon denunciation of illegal behavior of superiors and co-workers. If a discharge is judged unlawful, grave sanctions can follow. While wrongful discharge claims used to be rare, the 1990s and early 2000s saw a surge in litigation (Wheeler, 1998; Pudelko, 2000; Estlund, 2002; Grossman, 2002; HR Briefing, 2003a; Eger, 2004).

During the 1990s, the extent of downsizing increased. Figure 4.3 shows that according to BLS data, the annual layoffs and discharges rate in the early 2000s has been hovering

Figure 4.3 Annual layoffs and discharges rate in the US (%), 2001-2005 (the number of layoffs and discharges during the entire year as a percent of annual average employment). Source: Bureau of Labor Statistics (2006a).
around 15% - as compared to the 3.1% for 1991-92. Positions of tens of thousands of managerial, professional, administrative, and technical employees were eliminated - employees that could previously count on long-term employment. But it was still blue-collar workers who bore the brunt of displacement (Kalleberg, Knoke, Marsden, and Spaeth, 1996; Pudelko, 2000; O’Sullivan, 2000).

The incidence of downsizing has been related to the possibility of offshore outsourcing. Burke, Epstein, and Choi (2004) found a strong relation between high levels of offshore outsourcing and high rates of job losses for the period 1997-2002, while Levine (2004) reports estimates of net job loss due to offshore outsourcing ranging between 3% to 10%. Bronfenbrenner and Luce (2004) and the Government Accountability Office (2004, 2005) also report a relation between offshore outsourcing and layoffs. Importantly, high rates of job losses due to offshoring need not imply a loss in net employment levels; they may rather imply a higher job turnover rate - which is a change in staffing practices.

A 2001 SHRM survey found that notwithstanding the high dismissal rate, alternative policies were also used. According to the survey, 49% of the 572 surveyed HR professionals used employment freezes, 21% did not renew contract workers, 20% encouraged employees to take vacations, and 63% of respondents used attrition (HR Focus, 2002c). A 2002 WorldatWork study found that 19% of surveyed firms had implemented hiring freezes and 10% pay freezes (HR Focus, 2002b). And some companies have restricted benefits to limit the need for layoffs (Kennedy, 2003).

The late 1990s saw an increase in voluntary quits (Prahalad, 1997; Gómez-Mejia, Balkin, and Cardy, 2001). Figure 4.4 shows that the annual quit rate during the early 2000s largely exceeded 20% - a figure that is much higher than the 0.9% reported by the OECD for

![Annual quit rate](image)

**Figure 4.4** Annual quit rate in the US (%), 2001-2005 (the number of quits as a percent of annual average employment). Source: Bureau of Labor Statistics (2006a).
1991-92 (which is also based on BLS data). Nonetheless, as shown in figure 4.5, the BLS reports an increase of median tenure levels to 4.0 years in 2006 - as compared to 3.0 years reported by the OECD for 1991 (which is similarly based on CPS data). This indicates that there exists a segmentation between employees with increased turnover and employees with (relatively) steady employment.

**Interpretation of the Impact of Financial Globalization on Staffing Practices in the US and a Comparison to the Three Perspectives and the Theories of Globalization**

One clear interpretation of the impact of financial globalization on US staffing practices is that running through the possibility of offshore outsourcing, which was found to have increased rates of job losses. The increased importance of ‘fit’ with work teams may be interpreted to be consistent with the hypothesis that FDI by Japanese MNCs into the US has impacted on the way in which US management has attempted to improve its global competitiveness - expressed in the implementation of certain Japanese management practices. This interpretation is supported by, e.g., Kenney and Florida (1993), Abo (1994), Florida, Jenkins, and Smith (1998), Nakamura, Sakakibara, and Schroeder (1998), Liker, Fruin, and Adler (1999), Jacoby, Nason, and Saguchi (2004), and Branch (2006). Again, other causes may exist - less related to financial globalization and hard to disentangle - but these seem to work largely in the same direction (on the impact of technical change, see, e.g. Bresnahan, Brynjolfsson, and Hitt, 2002; Mann and Kirkegaard, 2006). The changes in staffing practices for which causes related to financial globalization could be hypothesized are summarized in table 4.3.
### Table 4.3 Relevant changes in staffing practices in US management and hypothesized causes related to financial globalization.

Comparing the findings presented here to the three perspectives presented in chapter 3, the statement in *Trading Places* that the hiring of new employees in the US only constitutes a contractual obligation is supported by the findings. The claim that it is common to hire executives from the outside is also supported, but *Trading Places* does not recognize the importance of internal labor markets in the selection of managers. The claims in *Capitalisme Contre Capitalisme* that employment in the US is precarious, flexible, individual, and unstable is to some extent supported, but the book neglects the importance of employment stability for managers and white-collar workers up to the 1990s as well as the relative importance of internal labor markets. Most claims in the OECD *Economic Outlooks* and *Economic Surveys* are supported, but the material presented here also indicates that job turnover in the US was high in general. It may well be that the percentage of the workforce that held its job for five years or less was not significantly higher in the US than in other OECD countries, but if so, its turnover rate was higher than in Japan and Germany - which would explain the much lower tenure levels in the US than in those countries. As was the case for US work flow practices, none of the three perspectives discusses the two channels for the impact of financial globalization that have here been hypothesized to exist - in the form of the
impact of FDI by Japanese MNCs into the US on the way in which US management has attempted to improve its global competitiveness - expressed in the implementation of certain Japanese management practices - and the possibility of offshore outsourcing.

What do the findings indicate regarding the plausibility of the convergence, divergence, hybridization, and transformation theories of globalization? As chapters 5 and 6 will show, the huge increase in the layoff rate in the US is not matched by the limited increase in the layoff rates in Japan and Germany, indicating that the convergence theory is not consistent with the findings presented here. At the same time, the divergence theory is contradicted by the finding of an increased importance of ‘fit’ with production teams, which can be interpreted to have been inspired by Japanese management techniques. In light of the huge increase in the layoff rate, ‘Japanese’ hybridization does not seem to be an accurate characterization of the changes in US staffing practices either. The only theory consistent with the findings reported here is the transformation theory. The argument is summarized in table 4.4.

<table>
<thead>
<tr>
<th>Changes in staffing practices up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment less secure, also for managers and white-collar workers</td>
<td>Possibility of offshore outsourcing</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
</tr>
<tr>
<td>Potential and ‘fit’ with production teams more important; work experience no longer as highly valued</td>
<td>FDI by Japanese MNCs into the US has impacted on the way in which US management has attempted to improve its global competitiveness</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yearly layoff rate increased to 15% (BLS data) Offshore outsourcing related to high rates of job losses</td>
<td>Possibility of offshore outsourcing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4.4  A comparison of changes in staffing practices in the US and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.

Career Development in the US around 1990

Career development practices in the US around 1990 were focused solely on professional and managerial personnel. Formal criteria for promotion included educational credentials, general
skills, formal job training, individual achievement according to job related and scientific standards, assumed potential, and fit with corporate culture (Knoke and Kalleberg, 1996; Pudelko, 2000; Gómez-Mejia, Balkin, and Cardy, 2001; Hall and Soskice, 2001). In practice, seniority also played an important role. In his 1992 survey, Osterman (1994) found seniority promotion for core occupations in 30.3% of the organizations in his sample. For managers, a frequent change of firms gave the impression of mobility and flexibility, and this was conducive to their careers. Informal networks and the ability to command the loyalty of others also increased their promotion chances (Tilly and Tilly, 1994; Marsden, 1999; Pudelko, 2000).

There were two typical career paths. Most blue-collar, white-collar clerical, and technical workers were hired for dead-end production jobs, and contingent workers often lacked the prospect of advancement towards core functions. The other career path consisted of extensive hierarchically-arranged job ladders for managers. Managerial careers were specialized - often in business administration. While internal promotion was important, middle and upper middle managers also often moved from firm to firm (‘job hopping’) to advance their careers. Promotion could be fast, but there was the risk of layoff in the case of failure. Career planning was short-term and oriented at individual employees. It was dictated by organizational needs, not by those of employees. The occupational superior had a strong influence in promotion decisions (Lincoln and Kalleberg, 1990; Springer and Springer, 1990; Bahrami, [1992] 1998; Martinelli, 1994; Tilly and Tilly, 1994; Marsden, 1999; Ichniowski et al., 2000; O’Sullivan, 2000; Pudelko, 2000; Gómez-Mejía, Balkin, and Cardy, 2001).

Changes in Career Development in the US up to the Early 2000s

Career development practices in US organizations have changed to the extent that there no longer exists a strict hierarchy of jobs from which a career path can easily be constructed. Decentralization has led to stronger lateral movements, i.e. employees change to different units without a connected promotion. Coincident with this, an increasing number of workers has started to see job hopping as an acceptable way to advance their careers. While managers can no longer depend on their employers to plan their careers for them, at the same time many organizations have started to allow employees an active role in planning and implementing their career (Cappelli, 1999; Pudelko, 2000; Gómez-Mejía, Balkin, and Cardy, 2001; Osterman et al., 2001).
Interpretation of the Impact of Financial Globalization on Career Development in the US and a Comparison to the Three Perspectives and the Theories of Globalization

While one could hypothesize several causes for the changes in career development practices in the US related to financial globalization, it is difficult to arrive at an overall plausible interpretation supported by the empirical and theoretical material that was encountered. As such, no judgment can be reached concerning the plausibility of the different theories of globalization. Of the three perspectives, only *Capitalisme Contre Capitalisme* addresses career development practices in the US. Its claim that a change of job and firm is considered positively is to some extent supported.

Training in the US around 1990

According to the 1991 NOS, US establishments on average trained 63.8% of their workforce, with average training expenditure per employee reaching $392 (Knoke and Kalleberg, 1996). This is seen to constitute a relatively limited amount of training when compared to Japan and Germany (Pudelko, 2000). Training was firm- and job-specific, on- and off-the-job, internal as well as external, aimed at individuals, and with a short-term orientation (Springer and Springer, 1990; Knoke and Kalleberg, 1996; Marsden, 1999; Pudelko, 2000). In 1991, only 8% of new employees received introductory training (Useem, 1996). There was also a lack of vocational training, because firms had no guarantee that other firms would not poach their apprentices (Pieper, 1990; Pudelko, 2000; Gómez-Mejía, Balkin, and Cardy, 2001; Hall and Soskice, 2001). Overall, most training consisted of further training (Finegold and Keltner, 2001).

Training efforts were concentrated on management and occupational specialists. The 1993 Organization of Work in American Business survey found that 51% of professional and technical workers, but only 27% of core blue-collar workers, received formal off-the-job training (Knoke and Ishio, 1996).

Changes in Training in the US up to the Early 2000s

In a survey of 276 US organizations, ASTD (2005) found that organizations in 2002 trained an average of 79% of employees. Average training expenditure per employee stood at $826. While not strictly comparable to the findings of the NOS, within reason these figures do
indicate an increase in training expenses compared to 1991 (as the ASTD aims at representative surveys as much as the 1991 NOS). Firms have started to train workers to become multi-skilled and to work in teams (Finegold and Keltner, 2001; Gómez-Mejia, Balkin, and Cardy, 2001). But training has remained limited to skills needed to perform narrow tasks. Both on- and off-the-job training have increased, and a growing number of very large firms has established corporate universities (Pudelko, 2000; Finegold and Keltner, 2001; Jürgens, 2003). Increased use is made of job rotation, informal learning in teams, and mentor programs (Berg et al., 2000; Pudelko, 2000).

Training for highly educated personnel has increased considerably (Lazonick and O’Sullivan, 2000). Management training has started to aim at cross-functional skills, and the ability to support teamwork and to transform corporate culture (Finegold and Keltner, 2001; Gómez-Mejía, Balkin, and Cardy, 2001).

**Interpretation of the Impact of Financial Globalization on Training Practices in the US and a Comparison to the Three Perspectives and the Theories of Globalization**

Table 4.5 presents the final synthesis of the changes in training practices in US management relevant from the perspective of financial globalization. These changes can again be interpreted to be consistent with the hypothesis that FDI by Japanese MNCs has impacted on the way in which US management has attempted to improve its global competitiveness - expressed in the implementation of certain Japanese management practices. This is substantiated by, e.g., Kenney and Florida (1993), Abo (1994), Florida, Jenkins, and Smith (1998), Nakamura, Sakakibara, and Schroeder (1998), Liker, Fruin, and Adler (1999), Jacoby, Nason, and Saguchi (2004), Kwon (2004, 2007), and Jacoby (2005a). Other causes of changes in training practices - less related to financial globalization - may exist, such as the impact of technical change. There is no reason to believe, however, that such causes counteract the impact of attempts to improve global competitiveness; rather they seem to work in the same direction (see, e.g., Bresnahan, Brynjolfsson, and Hitt, 2002).

Of the three perspectives presented in the previous chapter, only the OECD Economic Surveys and Economic Outlooks contain a statement concerning training practices in US management. In contrast to what is claimed, training efforts and expenses - though increasing - appear to have been relatively limited. None of the three perspectives discusses the two channels for the impact of financial globalization that have here been hypothesized to exist -


<table>
<thead>
<tr>
<th>Elements of training practices</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training characteristics</td>
<td>Job-specific, aimed at individuals</td>
<td>Employees trained to become multi-skilled (in narrow tasks) and to work in teams Corporate universities established by growing number of very large firms. Increased use of job rotation, informal learning in teams, and mentor programs.</td>
<td>Ibid.</td>
<td>Ibid.</td>
</tr>
<tr>
<td>Management training</td>
<td>Has started to aim at cross-functional skills, and the ability to support team work and to transform corporate culture</td>
<td></td>
<td>Ibid.</td>
<td>Ibid.</td>
</tr>
</tbody>
</table>

**Table 4.5** Relevant changes in training practices in US management and hypothesized causes related to financial globalization.

In the form of the impact of Japanese FDI on the way in which US management has attempted to improve its global competitiveness, and the possibility of offshore outsourcing. Of the general theories of globalization, only the divergence theory can be said to be inconsistent with the findings presented here. The findings are consistent with the convergence, the ‘Japanese’ hybridization, and the transformation theories. The argument is summarized in table 4.6.

**Compensation in the US**

**Compensation in the US around 1990**

In compensation practices in most US firms around 1990, the largest element of total...
Changes in training practices up to the early 2000s

<table>
<thead>
<tr>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparent increase: for 2002, ASTD (2005) finds that 79% of employees are trained with average training expenditure per employee at $826</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, ‘Japanese’ hybridization, or transformation</td>
</tr>
<tr>
<td>Increase in training for highly educated personnel</td>
<td>FDI by Japanese MNCs into the US has impacted on the way in which US management has attempted to improve its global competitiveness</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
</tr>
<tr>
<td>Employees trained to become multi-skilled (in narrow tasks) and to work in teams</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate universities established by growing number of very large firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased use of job rotation, informal learning in teams, and mentor programs</td>
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<td></td>
<td></td>
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<tr>
<td>Management training has started to aim at cross-functional skills, and the ability to support team work and to transform corporate culture</td>
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</tbody>
</table>

Table 4.6  A comparison of changes in training practices in the US and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.

compensation was fixed regular pay based on job evaluation, market surveys, education, experience, seniority, and performance. Job complexity had a large impact on pay levels, and entry-level positions could provide high earnings (Lincoln and Kalleberg, 1990; Kalleberg and Van Buren, 1996; Ichniowski et al., 2000; Gómez-Mejía, Balkin, and Cardy, 2001). According to a 1990 survey, 51% of the 1,000 largest firms also had pay-for-skill somewhere in their organization (Lawler et al., 1995). Increases in earnings as a result of seniority were estimated at about 2.6% in 1991 (Ohtake, 1998).

PRP-plans came into widespread use in the 1980s, when they were used to cut costs by freezing base salaries and pegging a larger portion of salary increases to profits (Dzamba, 2001). Individual PRP was the most widely used system, found in 47% of firms by a 1988 Hay Group survey (Ichino, 1990). Piece-rate incentive systems for production employees and merit salary increases or bonus plans for salaried employees were the dominant means of paying for performance. Around 1990, about 20% of blue-collar workers were in piece-rate systems (Sørensen, 1994). The 1988 Hay Group survey also found that small group incentives
were used by 18% of surveyed firms; 10% had gain sharing plans; 29% had profit sharing plans; and 24% provided lump sum bonuses (Ichino, 1990). In a sample of 275 publicly listed firms at the end of the 1980s, 40% of firms were found to have provided employee stock option programs. On average, 39.1% of employees participated (Kruse, 1996). Hall and Murphy (2003) estimated the total worth of options granted by S&P 500 firms in 1992 at $11 billion, with the average amount granted per firm at $22 million.

Figure 4.6 shows that (exchange-rate corrected) wage levels in the early 1990s were relatively low compared to Japan and Germany. Wage cuts to maximize profits were considered legitimate, and frequent pay adjustments were normal (Springer and Springer, 1990; Pudelko, 2000; Gómez-Mejía, Balkin, and Cardy, 2001). Lowly skilled temps received lower wages than core workers, but highly skilled temps could receive higher wages to avoid wage increases for core workers (Houseman, Kalleberg, and Erickcek, 2003).

![Figure 4.6](image)

**Figure 4.6** Indexes of hourly direct pay for production workers in manufacturing (exchange-rate corrected) in the US, Japan, and Germany, 1988-1994 (Index, US=100.0). Source: Bureau of Labor Statistics (ftp://ftp.bls.gov/pub/special.requests/ForeignLabor/ichccsuppt06.txt).

Benefit packages were limited, constituting around 38% of compensation, with about one-third of the benefits legally required (Springer and Springer, 1990). A survey of medium and large private establishments by the Bureau of Labor Statistics (1991) reports that in 1991, around 80% of employees participated in employer-provided health care plans; 78% of employees had access to retirement benefits; paid vacations were available to 92% of employees; and 94% of employees had access to life insurance. Short- and long-term disability benefits were available to 45% and 40% of employees respectively. Lincoln and Kalleberg (1990) found that companies frequently permitted employees to purchase items at a discount. Company-sponsored clubs, parties, athletic events, and workplace happenings were commonplace. The cafetaria benefits package was popular. White-collar workers tended to
fare better than blue-collar workers, while part-time employees received few benefits (Springer and Springer, 1990; Storey and Sisson, [1993] 1998; Knoke, 1996). In many cases, contingent workers lacked basic health insurance and pension provisions (O’Sullivan, 2000).

Total CEO compensation consisted of fixed pay, bonuses, and stock-based compensation. PRP in the form of bonuses and stock tied to annual operating results and shareholder value aimed to provide CEOs with incentives to increase shareholder value (O’Byrne, 1997). Business Week (May 4, 1992) reports average total 1991 CEO compensation in large firms at $2.5 million, of which fixed pay and bonuses constituted $1.1 million, and stock-based pay $1.4 million. Typical CEO benefits in a large firm included a company car or car allowance; club membership dues; financial counseling; physical exams; home or laptop computer; retirement benefits; and supplemental health, life, and disability insurance (Den Uyl and Kopacz, 2002).

External equity in compensation was important because high achievers had the option to change to another firm with higher salaries. In fact, most firms paid certain groups above market while covering the costs by paying other groups below market - on the basis of each group’s importance to the firm. Internal equity was defined in terms of achievement, and it was pursued through the exact recording of job demands (Pudelko, 2000; Gómez-Mejía, Balkin, and Cardy, 2001).

Income inequality was huge. According to Towers Perrin (2000), in 1991, total CEO pay was 25.8 times higher than that of an average manufacturing employee. On the basis of a different sample, Business Week (May 4, 1992) reports total 1991 CEO compensation at 104 times that of the average worker. The OECD (2004a) reports that the 90-10 percentile ratio for the gross earnings of full-time employees was 4.23 in 1985-89. Income differences between skilled and unskilled workers were high as well. The strong differences in income were accepted because they were seen as a result of free competition, so that equalization attempts were hardly valued. In fact, in economic difficulties, the wages of workers were cut first rather than those of managers (Pudelko, 2000).

Changes in Compensation in the US up to the Early 2000s

Despite changes in compensation practices, the traditional job-centered pay system is still predominant. But most organizations have adopted job banding with only a few broad pay grades. Pay differences within bands and between bands can be considerable. To a limited extent traditional compensation has given way to skill-based pay, as used in particular by
many new and small businesses (Dzamba, 2001; Gómez-Mejía, Balkin, and Cardy, 2001; Gross and Haberman, 2002).

Stock-based compensation became common in the 1990s. In a 2001 survey of 145 US firms, Jacoby (2005b) found that options were provided by 97% of surveyed firms. The provision of stock options as a percentage of compensation increased from 0.8% in 1995 to 2.5% in 1999 (Mehran and Tracy, 2001). Hall and Murphy (2003) estimated an increase in the total worth of options granted by S&P 500 firms from $11 billion in 1992 to $119 billion in 2000. After this peak in 2000, the provision of stock options fell back to $71 billion in 2002. The development of the average value of options granted per firm as found by Hall and Murphy is shown in figure 4.7.

![Average value of options granted per firm](image)

**Figure 4.7** Average value of options granted per S&P 500 firm, 1992-2002 ($ mln). Source: Hall and Murphy (2003).

The drop in stock option provision continued in 2003. A survey in that year by Deloitte of 165 S&P 500 companies found that stock option provision had been further reduced, with 33% of respondents making across-the-board reductions in option grants, while 17% had eliminated stock options altogether. The main reasons mentioned were the new legal requirement to expense options at the time of the grant and the difficulty in getting more stock issued.82

According to the OECD (2004b), real wage growth was 0.8% for 1990-94, 2.0% for 1995-99, and 1.3% for 2000-2002. This finding of positive real wage growth - instead of the oft proclaimed fall in real wages (e.g. O’Sullivan, 2000) - together with the increase in income differences discussed below, is consistent with the finding that it was mostly lowly skilled workers who experienced real wage declines (Howell, 2002; IMF, 2007).

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82 [www.deloitte.com/dtt/cda/doc/content/Long-Term%20Incentive%20Practices%20Synopsis.pdf](http://www.deloitte.com/dtt/cda/doc/content/Long-Term%20Incentive%20Practices%20Synopsis.pdf)
A relative increase in (nominal, exchange-rate corrected) wages appears from figure 4.8, which demonstrates an increase in wage levels in particular compared to Japanese levels.

![Figure 4.8](image-url)

**Figure 4.8** Indexes of hourly direct pay for production workers in manufacturing (exchange-rate corrected) in the US, Japan and Germany, 1995-2005 (Index, US=100.0). Source: Bureau of Labor Statistics (ftp://ftp.bls.gov/pub/special.requests/ForeignLabor/ichccsuppt06.txt).

For 2002, an SHRM survey found that the provision of benefits had decreased to 30% of compensation (*HR Briefing*, 2002). The Bureau of Labor Statistics (2004) also found reductions. It reports that in 2004, 69% of workers in private industry had access to employersponsored medical care plans and 59% had access to retirement benefits (down from 80% and 78%, respectively, in 1991). Paid vacations were available to 77% of employees, while 51% of workers had access to life insurance (down from 92% and 94%). Short- and long-term disability benefits were available to 39% and 30% respectively (down from 45% and 40%). In contrast to these reductions, since 1995 there has been a dramatic increase in the number of employers who offer work/life benefits (Tratt, 2000; Lockwood, 2003). A 2000 survey of 456 employers by Bright Horizons Family Solutions and William M. Mercer found that 71% offered these benefits to secure retention, employee morale, recruitment, productivity, commitment, and performance (*HR Focus*, 2001a).

CEO pay increased considerably during the 1990s. Figure 4.9 shows that average total annual CEO compensation in large firms hovered around $10 million in the early 2000s - up from $2.5 million in 1991. The trend for overall CEO compensation was for it to be less in the form of fixed pay and more in the form of variable pay (bonus and long-term income) (Gómez-Mejía, Balkin, and Cardy, 2001). A Watson Wyatt proxy analysis found that the average value of stock options granted to CEOs at large companies decreased from $10.2...
million in 2001 to about $4.5 million in 2004.\footnote{www.watsonwyatt.com/news/press.asp?ID=13234; \url{http://www.watsonwyatt.com/news/press.asp?ID=14776}} CEO bonuses and stock-based pay have been found to have borne little relation with share performance (Bebchuk and Fried, 2004; Erturk et al., 2005; O'Byrne and Young, 2006).

**Figure 4.9** Average total annual CEO compensation in large firms in the US, 2000-2004.  
Source: Business Week Annual Executive Compensation Surveys (April 16, 2001; April 15, 2002; April 21, 2003; April 19, 2004; April 18, 2005).

Income differences between top managers and workers have increased considerably. For 2001, Towers Perrin (2001) reports total CEO pay at 41.3 times that of an average manufacturing employee (up from 25.8 in 1991). For 2003, on the basis of a different survey, Business Week (April 19, 2004) finds average CEO pay to be more than 200 times that of the average worker (up from 104 in 1991). The OECD (2004a) reports that the 90-10 percentile ratio for the gross earnings of full-time employees increased to 4.64 in 2000-01 (up from 4.23 in 1985-89).

**Interpretation of the Impact of Financial Globalization on US Compensation Practices and a Comparison to the Three Perspectives and the Theories of Globalization**

The most relevant changes in US compensation practices from the perspective of the impact of financial globalization are summarized in table 4.7. If one interprets the data, it may be hypothesized that the possibility of offshore outsourcing has played a causal role in changes in compensation practices - as this has increased the power of management over employees (Levy, 2005; Freeman, 2006). In support of this interpretation, Levine (2004) reported to Congress that offshore outsourcing was found to have depressed the relative wages of lowly skilled workers. Some empirical support for this idea was also provided by Anderson, Tang,
Elements of compensation practices | Around 1990 | Changes up to the early 2000s | Hypothesized cause | Studies supporting the hypothesis
---|---|---|---|---
Managerial pay | CEO compensation in 1991 at $2.5 million | Considerable increase in CEO compensation, reaching around $10 million in the early 2000s | Possibility of offshore outsourcing, increasing the power of management | 
Income differentials | CEO compensation compared to average worker in 1991 at 25.8 (Towers Perrin) or 104 (Business Week) 90-10 percentile ratio for gross earnings at 4.23 in 1985-89 | Increase in CEO compensation compared to average worker to 41.3 (Towers Perrin, 2001) or more than 200 (Business Week, 2003) Increase in 90-10 percentile ratio for gross earnings to 4.64 in 2000-2001 | Possibility of offshore outsourcing, increasing the power of management | Levine (2004); Levy (2005); Anderson, Tang, and Wood (2006); Freeman (2006). |

Table 4.7 Relevant changes in compensation practices in US management and hypothesized causes related to financial globalization.

and Wood (2006). A recent econometric analysis by the IMF also found an impact of offshore outsourcing on wage levels, but mainly on those of skilled workers (IMF, 2007). In light of these results, as indicated in table 4.7, the possibility of offshore outsourcing has been hypothesized to have been a causal force in the increase in CEO compensation as well as in the increase in income differences. The introduction of work/life benefits is in line with the hypothesis that FDI by Japanese MNCs has impacted on the way in which US management has attempted to improve its global competitiveness - expressed in the implementation of certain Japanese management practices. This hypothesis is supported by Kenney and Florida (1993), Abo (1994), Osterman (1995), Florida, Jenkins, and Smith (1998), Nakamura, Sakakibara, and Schroeder (1998), and Liker, Fruin, and Adler (1999).

As with changes in other US management practices, other causes may be interpreted to exist, such as a more general impact of international trade (besides issues of competitiveness) or the impact of technical change (e.g. Krugman, 1994; Bound and Johnson, 1995; IMF, 2007). Some have questioned the effect of these factors on compensation (Howell, 2002); in any case, there is no reason to believe that such causes - whether or not they can be indicated -
counteract the causes interpreted here (Anderson, Tang, and Wood, 2006; Mann and Kirkegaard, 2006; IMF, 2007).

Comparing the findings to the three perspectives, the idea in Trading Places that top executives may pay themselves enormous bonuses while wages of workers stay behind is confirmed by the findings. In line with Capitalisme Contre Capitalisme, income differences between directors and employees were large indeed. But the latter publication does not acknowledge that fixed regular pay accounted for about 67% of pay in 1992-94, and that much compensation in the US was based on job evaluation, competence, and seniority. In line with Capitalisme Contre Capitalisme, individual PRP did exist in 47% of firms – which was high by international standards. But the occasional existence of collective PRP is not mentioned. And the connection between the income of directors and the success of the firm has been questioned - in contrast to the book’s claim. The OECD publications also do not mention the presence of fixed regular pay as an important part of compensation. The hypothesized causes of changes related to financial globalization - the inspiration by Japanese management practices, and the possibility of offshore outsourcing - are again not mentioned by any of the three perspectives.

The implementation of Japanese-style work/life benefits contradicts the divergence theory of globalization. At the same time, the huge increase in CEO compensation and income differentials is not matched by developments in Japan and Germany, and so the convergence and ‘Japanese’ hybridization theories cannot be upheld either. Only the transformation theory is consistent with the findings reported here. The argument is summarized in table 4.8.

**Governance in the US**

**Corporate Governance in the US around 1990**

In corporate governance practices in the US around 1990, internal funding was the most important source of funding - as demonstrated in table 4.9. Credit was more important than equity financing in all years except 1991-92. At the same time, the debt/equity ratio was relatively low. The drop in the debt/equity ratio in the early 1990s was mainly due to the increase in the market value of equities rather than to new equity issues. The amount of venture capital stood at about $2.3 billion in 1991 (Bottazzi and Da Rin, 2002).
Changes in compensation practices up to the early 2000s

Table 4.8 A comparison of changes in compensation practices in the US and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.

<table>
<thead>
<tr>
<th>Changes in compensation practices up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction of work/life benefits</td>
<td>FDI by Japanese MNCs into the US has impacted on the way in which US management has attempted to improve its global competitiveness</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
</tr>
<tr>
<td>Considerable increase in CEO compensation, reaching around $10 million in the early 2000s</td>
<td>Possibility of offshore outsourcing, increasing the power of management</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
</tr>
<tr>
<td>Increase in CEO compensation compared to average worker to 41.3 (Towers Perrin, 2001) or more than 200 (Business Week, 2003)</td>
<td>Possibility of offshore outsourcing, increasing the power of management</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
</tr>
<tr>
<td>Increase in 90-10 percentile ratio for gross earnings to 4.64 in 2000-2001</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Shareholdings in large firms were widely dispersed among individual, financial, and institutional investors, without any person or group capable of exercising a dominant interest (Tricker, 1990). Legal rules made it hard for a single shareholder to own a large stake in a single company, or for a group of shareholders to act together. Tax rules discouraged corporate crossholdings, while active shareholders risked anti-trust entanglements. No

Table 4.9 Sources of funds for non-farm, non-financial corporate business and debt/equity ratios in the US, 1988-94. Source: Board of Governors of the Federal Reserve System (2005a). Calculations are mine.

<table>
<thead>
<tr>
<th>Year</th>
<th>Internal Funding ($Sbn)</th>
<th>External Funding ($Sbn)</th>
<th>Internal/Total Funding (%)</th>
<th>Credit Outstanding ($Sbn)</th>
<th>Market Value of Equities ($Sbn)</th>
<th>Debt/Equity Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>new equity</td>
<td>credit</td>
<td>other¹</td>
<td>Internal/Total Funding (%)</td>
<td>Credit Outstanding ($Sbn)</td>
<td>Market Value of Equities ($Sbn)</td>
</tr>
<tr>
<td>1988</td>
<td>424.9</td>
<td>-129.5</td>
<td>222.9</td>
<td>350.3</td>
<td>48.9</td>
<td>2,234.2</td>
</tr>
<tr>
<td>1989</td>
<td>411.5</td>
<td>-124.2</td>
<td>159.9</td>
<td>311.7</td>
<td>54.2</td>
<td>2,401.1</td>
</tr>
<tr>
<td>1990</td>
<td>426.1</td>
<td>-63.0</td>
<td>133.8</td>
<td>112.7</td>
<td>69.9</td>
<td>2,533.1</td>
</tr>
<tr>
<td>1991</td>
<td>439.6</td>
<td>18.3</td>
<td>-53.7</td>
<td>102.5</td>
<td>86.6</td>
<td>2,477.3</td>
</tr>
<tr>
<td>1992</td>
<td>457.6</td>
<td>27.0</td>
<td>24.1</td>
<td>110.2</td>
<td>73.9</td>
<td>2,502.9</td>
</tr>
<tr>
<td>1993</td>
<td>499.5</td>
<td>21.3</td>
<td>34.4</td>
<td>162.2</td>
<td>69.6</td>
<td>2,549.8</td>
</tr>
<tr>
<td>1994</td>
<td>554.6</td>
<td>-44.9</td>
<td>126.5</td>
<td>160.0</td>
<td>69.7</td>
<td>2,682.9</td>
</tr>
</tbody>
</table>

¹Trade payables, taxes payable, foreign direct investment in US, pension fund contribution payables, and other

Bosch, Reinoud (2008), Bringing Nuance into the Globalization Debate: Changes in US, Japanese, and German Management, with Special Reference to the Impact of International Finance European University Institute

10.2870/25906
shareholder could cross the trigger percentage for a firm’s poison pill, often only 10-15%, without managerial approval (Chew, 1997). As table 4.10 shows, households constituted the largest category of shareholders. Pension and mutual funds often acted as agents for households (Mizruchi and Brewster Stearns, 1994). Shareholders invested in large companies for appreciation in the value of shares. They had no loyalty to the firm, and shares were actively traded (Hollingsworth, 1995; Chew, 1997). Average share turnover in 1988 on the NYSE was 55% (NYSE, 2004).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Households</td>
<td>51.5</td>
<td>50.9</td>
<td>50.1</td>
<td>51.9</td>
<td>52.7</td>
<td>51.2</td>
<td>48.8</td>
</tr>
<tr>
<td>Non-financial corporations</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Banks¹</td>
<td>5.9</td>
<td>5.8</td>
<td>5.7</td>
<td>5.1</td>
<td>4.3</td>
<td>3.1</td>
<td>2.9</td>
</tr>
<tr>
<td>Insurance firms/Pension funds</td>
<td>28.7</td>
<td>29.8</td>
<td>29.5</td>
<td>28.7</td>
<td>28.7</td>
<td>29.1</td>
<td>29.8</td>
</tr>
<tr>
<td>Mutual funds²</td>
<td>7.0</td>
<td>7.4</td>
<td>7.3</td>
<td>7.1</td>
<td>8.1</td>
<td>10.5</td>
<td>12.1</td>
</tr>
<tr>
<td>Government</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Foreign</td>
<td>7.0</td>
<td>7.2</td>
<td>6.9</td>
<td>6.2</td>
<td>6.1</td>
<td>5.9</td>
<td>6.3</td>
</tr>
</tbody>
</table>

Table 4.10 Corporate equity holders in the US, 1988-94 (%). Source: Board of Governors of the Federal Reserve System (2005a). Calculations are mine.

Collaboration between firms was limited (Whitley, 1999). Davis, Yoo, and Baker (2003) did find that in 1990, each director of the Fortune 1,000 firms could reach every other director on average through 4.3 intermediaries, while each board could contact every other board in 3.5 steps. And networks of firms existed in Silicon Valley, the defense industry, and some other sectors (Hollingsworth, 1996; Kalleberg, 2001). But the existence of networks does not need to imply collaboration.

The many creditors of large firms did not hold substantial stakes in firms. They were kept small by interstate banking restrictions. In addition, under the Glass-Steagall provision, financial institutions were not allowed to own and operate non-financial companies (Mizruchi and Brewster Stearns, 1994; Hollingsworth, 1995; Black, 1997; Vitols, 2003). Nonetheless, Scott and Meyer (1991) pointed to the importance of financial-industrial networks. These consisted of conglomerates, interlocking directorates, joint ventures, and patterns of banking loans and stock ownership. Densely interlocked groups centered around the largest regional banks were connected to the larger money market banks by bridging links created by the largest insurance companies. Control of capital flows enabled banks to constrain the actions of nonfinancial corporations and to some extent centralized decision making (Granovetter, 1973).
In addition, commercial banks appeared to have had governance powers in small US firms (Aoki, 2001).

Institutional investors - insurance firms, pension funds, and mutual funds - typically owned shares in many firms, but few of them held 5% stakes, and almost none 10% (Chew, 1997). The Glass-Steagall Act limited their size and influence, discouraged them from acting together, and obstructed oversight of corporate managers and intervention. In response, most institutional investors invested in firms solely to achieve financial gains from share-price appreciation and dividends (Mizruchi and Brewster Stearns, 1994; Chew, 1997; Whitley, 1999). Venture-capital companies often participated actively on corporate boards, exerting strong influence over management. Their investment was short-term, leading to an emphasis on the rapid achievement of profits (Chew, 1997; Hall and Soskice, 2001).

Shareholders in large firms delegated considerable power to management subject to financial performance constraints. If shareholders were dissatisfied, they resorted to exit. This could stimulate restructuring and management changes. Public disclosure was extensive, including the provision of quarterly reports of profits and losses. The use of US General Accepted Accounting Practices (US-GAAP) hampered the building and dissolvement of silent reserves (Hollingsworth, 1995; Chew, 1997; Whitley, 1999; Turner, Wever, and Fichter, 2001; Höpner, 2003b; Jackson, 2003).

Mergers and acquisitions were common, as shown in table 4.11. According to Dore (2000), takeovers were triggered by a premium between the perceived value of a firm and its existing market value. Thus, a falling share price increased the threat of a takeover, which increased the probability that management would be replaced. This led to a preoccupation of managers with keeping up short-term profit levels, dividends, and share prices. This is seen by Dore to have led managers to downsize their workforces. The threat of takeovers has also been argued to result in a lack of long-term investments that depressed current earnings - such

<table>
<thead>
<tr>
<th>Year</th>
<th>Deals</th>
<th>Value ($Bln)</th>
<th>Share of market value of equities (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>2,258</td>
<td>246.9</td>
<td>9.7</td>
</tr>
<tr>
<td>1989</td>
<td>2,366</td>
<td>221.1</td>
<td>7.0</td>
</tr>
<tr>
<td>1990</td>
<td>2,074</td>
<td>108.2</td>
<td>3.7</td>
</tr>
<tr>
<td>1991</td>
<td>1,877</td>
<td>71.2</td>
<td>1.8</td>
</tr>
<tr>
<td>1992</td>
<td>2,574</td>
<td>96.7</td>
<td>2.2</td>
</tr>
<tr>
<td>1993</td>
<td>2,663</td>
<td>176.4</td>
<td>3.6</td>
</tr>
<tr>
<td>1994</td>
<td>2,997</td>
<td>226.7</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Table 4.11 M&A Activity in the US, 1988-94. Sources: Mergerstat; Board of Governors of the Federal Reserve System (2005a). Calculations are mine.
as investments in training and career development (Franks and Mayer, 1990). But empirical studies of the effects of dismissals on share prices have reported mixed results (Godkin, Valentine, and St. Pierre, 2002; Rigby, 2002). And according to Shleifer and Vishny (1997), corporate planning horizon and willingness to invest were only marginally affected by takeovers. Chew (1997) noted that research had attested the willingness of investors to respond positively to announcements of long-term projects. And Blanchard et al. (1990) found that managers appeared to ignore market valuation whenever that valuation differed from their perceptions of fundamentals. More generally, investors decisions to buy, hold, or sell stock would seem to be based - among other factors - on the difference between reported and expected results; the explanation provided by management; expectations for the future; and the interpretation of the psychology of the stock market (Soros, 1994). Thus, a shareholder-value orientation does not necessarily have to coincide with a short-term focus.

Yet, US managers were found to be more concerned than Japanese managers with current movements in share prices. Forms of investment were favored for which returns were measurable. This led to underinvestment in intangible assets, where returns were difficult to measure. This is seen as one reason why there was underinvestment in employee training (Chew, 1997).

According to Bebchuk and Fried (2004), managerial concern with share prices more likely resulted from the linkage of their salary to stock options than from the threat of takeovers. Such linkage does not necessarily imply a shareholder-value orientation, as a 1992 analysis of options granted to the CEOs of 1,000 large companies found that more than 95% were granted with an exercise price equal to the company’s stock price on the date of the grant, and as stock price rises were found to be largely due to industry and general market trends and thus unrelated to managers’ own contribution to shareholder value (Bebchuk and Fried, ibid.). Thus, while managers have a share value orientation, because of the exercise price of the options they do not necessarily have a shareholder value orientation. In order for managers to have had a shareholder orientation, the exercise price of the options should have been high enough to achieve the rate of return desired by shareholders. In any case, the connection of managerial salary to financial performance on a quarterly basis through shares and stock options has been argued to have stimulated short-term business strategies (Turner, Wever, and Fichter, 2001). According to Jacoby (2005b), the orientation of managers at their own income rather than shareholder value also explains at least some of the job cuts that were undertaken.
The annual general meeting (AGM) gave shareholders the legal right to appoint and
dismiss the directors of the board, and to make decisions about key matters such as mergers.
In the vast majority of firms, one share commanded one vote, although some use was made of
limited voting shares. In case of alleged mismanagement, shareholders could start proxy
fights or class action shareholder suits. But SEC proxy regulations limited communication
between shareholders owning 5% or more of the stock, impeding effective action by
shareholders (Chew, 1997; Phan and Yoshikawa, 2000; Salacuse, 2003).

The board of directors usually had 13 or 14 members - one-third insiders and two-
thirds outsiders. Outside members consisted of executives of other companies, academics, and
politicians. Their task was to supervise and advise inside management, which performed day-
to-day management. The job of the overall board was to hire, fire, monitor, and compensate
the CEO; to approve important transactions; and to provide counsel. The CEO was the
chairman of the board and the most powerful director, with a term of 5 to 10 years. Many
outside directors directly owned their loyalty to the CEO who chose them (Chew, 1997;
Fiegener et al., 2000; Hambrick and Jackson, 2000; Pudelko, 2000; Salacuse, 2003).
According to Dierickx (2003), board members were often afraid to offend the CEO, so that
they refrained from inquiry and evaluation. In their turn, few CEOs accepted the monitoring
and criticism of the board. Because the CEO determined the agenda and the information given
to the board, the ability of board members to monitor and evaluate the CEO and the
company’s strategy was limited. In addition, most board members lacked the expertise to
evaluate the company’s business and strategy. As a result of this, boards tended to go along
with CEO compensation schemes. Norms reflecting behavior under prosperity made it
difficult for the board to respond early to failure (Chew, 1997; Jacoby, 2005a). Interlocking
directorates further enhanced the possibilities for self-serving behavior by directors (Grabke-
Rundell and Gomez-Mejia, 2002).

Overall, in their survey of 1,100 directors of S&P 400 companies, Lorsch and Maclver
(1989) found that the most important stakeholders in the firm were the shareholders, then
came the customers, and finally the employees. Managers were found to have had broad
autonomy subject to pressures from shareholders.84 40% of US managers surveyed by
Hampden-Turner and Trompenaars (1993) felt that the only real goal of a corporation was
making profit. Some authors have seen this to imply an emphasis on short-term profits and
investor returns (e.g., Whitley, 1999; Allen and Gale, 2002). In contrast, for 95 Fortune 500

84 These conclusions were supported by the outcome of the 1990-92 research project on ‘Capital Choices’ at the
companies in 1988, Hill and Snell found that in owner-controlled firms long-term profitability strategies were pursued, while firm enlargement and diversification strategies were preferred in management-controlled firms (Grabke-Rundell and Gomez-Mejia, 2002). In any case, according to Lazonick and O’Sullivan (2000), many corporations were predisposed to shedding labor and selling assets to meet financial obligations and push up the value of stock. Dividend payments, share buybacks, and rates of return were high compared to Japan and Germany. For 1980-89, Lazonick and O’Sullivan (2000) report a pay-out ratio of 49.3%. For 1989, O’Sullivan (2000) reports a buyback rate of 21.4% of profits.

**Changes in Corporate Governance in the US up to the Early 2000s**

Table 4.12 shows that internal financing and financing through credit remained important sources of funding up to the early 2000s. In contrast, new equity issues played a negative role (i.e. shares were bought back). At the same time, the market value of equities increased between 1995-99, leading to a drop in the debt/equity ratio. This drop was reversed in subsequent years. Venture capital came to play an important role in financing during the 1990s, increasing from $2.3 billion in 1991 to $100.6 billion in 2000 (Bottazzi and Da Rin, 2002). But it fell back to $21.7 billion in 2005.\(^85\)

Table 4.13 shows a clear shift in share ownership from single households to mutual

---

<table>
<thead>
<tr>
<th>Year</th>
<th>Internal Funding ($bln)</th>
<th>External Funding ($bln)</th>
<th>Internal/Total Funding (%)</th>
<th>Credit Outstanding ($bln)</th>
<th>Market Value of Equities ($bln)</th>
<th>Debt/Equity Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>605.9</td>
<td>-58.3</td>
<td>227.1</td>
<td>222.1</td>
<td>60.8</td>
<td>2,909.6</td>
</tr>
<tr>
<td>1996</td>
<td>666.9</td>
<td>-47.3</td>
<td>182.8</td>
<td>263.1</td>
<td>62.6</td>
<td>3,092.3</td>
</tr>
<tr>
<td>1997</td>
<td>719.5</td>
<td>-77.4</td>
<td>291.8</td>
<td>69.1</td>
<td>71.7</td>
<td>3,382.3</td>
</tr>
<tr>
<td>1998</td>
<td>689.5</td>
<td>-215.5</td>
<td>395.9</td>
<td>435.6</td>
<td>52.8</td>
<td>3,778.3</td>
</tr>
<tr>
<td>1999</td>
<td>741.6</td>
<td>-110.4</td>
<td>370.2</td>
<td>727.7</td>
<td>42.9</td>
<td>4,185.7</td>
</tr>
<tr>
<td>2000</td>
<td>734.0</td>
<td>-118.2</td>
<td>350.5</td>
<td>1,005.1</td>
<td>37.2</td>
<td>4,536.2</td>
</tr>
<tr>
<td>2001</td>
<td>755.0</td>
<td>-48.1</td>
<td>221.4</td>
<td>-78.0</td>
<td>88.8</td>
<td>4,758.4</td>
</tr>
<tr>
<td>2002</td>
<td>811.3</td>
<td>-41.6</td>
<td>25.0</td>
<td>101.4</td>
<td>90.5</td>
<td>4,783.4</td>
</tr>
<tr>
<td>2003</td>
<td>875.7</td>
<td>-57.8</td>
<td>84.7</td>
<td>-13.5</td>
<td>98.5</td>
<td>4,890.3</td>
</tr>
<tr>
<td>2004</td>
<td>939.3</td>
<td>-141.1</td>
<td>174.5</td>
<td>345.4</td>
<td>71.3</td>
<td>5,064.8</td>
</tr>
<tr>
<td>2005</td>
<td>1,018.9</td>
<td>-366.0</td>
<td>289.3</td>
<td>232.6</td>
<td>86.7</td>
<td>5,354.1</td>
</tr>
</tbody>
</table>

\(^85\) Trade payables, taxes payable, foreign direct investment in US, pension fund contribution payables, and other

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83 Bosch, Reinoud (2008), Bringing Nuance into the Globalization Debate: Changes in US, Japanese, and German Management, with Special Reference to the Impact of International Finance
European University Institute
10.2870/25906
### Table 4.13 Corporate equity holders in the US, 1995-2005 (%). Source: Board of Governors of the Federal Reserve System (2005b) and www.federalreserve.gov/RELEASES/Z1/current. Calculations are mine.

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Households</td>
<td>48.6</td>
<td>47.2</td>
<td>47.2</td>
<td>45.8</td>
<td>47.0</td>
<td>44.3</td>
<td>43.9</td>
<td>42.0</td>
<td>39.8</td>
<td>36.8</td>
<td>33.5</td>
</tr>
<tr>
<td>Non-financial corporations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks¹</td>
<td>2.9</td>
<td>2.8</td>
<td>2.9</td>
<td>2.5</td>
<td>2.3</td>
<td>2.2</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Insurance firms/Pension funds</td>
<td>28.7</td>
<td>27.9</td>
<td>26.1</td>
<td>26.1</td>
<td>23.9</td>
<td>24.3</td>
<td>25.2</td>
<td>25.7</td>
<td>26.2</td>
<td>26.8</td>
<td>27.2</td>
</tr>
<tr>
<td>Mutual funds²</td>
<td>13.0</td>
<td>15.1</td>
<td>16.0</td>
<td>16.9</td>
<td>18.0</td>
<td>19.3</td>
<td>19.8</td>
<td>20.1</td>
<td>21.5</td>
<td>23.7</td>
<td>25.9</td>
</tr>
<tr>
<td>Government</td>
<td>0.3</td>
<td>0.5</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.7</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Foreign</td>
<td>6.5</td>
<td>6.5</td>
<td>7.2</td>
<td>8.0</td>
<td>8.3</td>
<td>9.3</td>
<td>10.3</td>
<td>11.2</td>
<td>11.7</td>
<td>11.9</td>
<td>12.7</td>
</tr>
</tbody>
</table>

¹ Commercial banks and savings institutions; for 1995-2000 also bank personal trusts and estates
² Includes closed-end funds, exchange-traded funds, brokers and dealers

Funds - implying a more professional management of shares. Shareholdings have remained dispersed. In a 1997 sample of the 250 largest firms, 95% of all shareholdings were smaller than 5% (Windolf, 2002). Average share turnover for a NYSE listed firm increased from 55% in 1988 to 99% in 2004 (NYSE, 2004).

For a 1997 sample of 481 firms, Windolf (2002) found a total of 3,428 interlocking directorates, of which 531 consisted of an executive director of one company on the board of another company. Because of a lack of comparative data, it cannot be determined whether or not this constitutes an increase since the early 1990s - but in any case it indicates the importance of linkages between firms. Davis, Yoo, and Baker (2003) found that in 1999, 97% of Fortune 1,000 firms were within 4 steps of Chase Manhattan, and only one firm was as far as 7 steps. Each director could reach every other director on average through 4.6 intermediaries, and each board could contact every other board in 3.7 steps. This constituted a slight increase in path lengths since 1990. For all 5,610 companies traded on Nasdaq and the NYSE in 2000, the average path length between boards was 4.7. Porter ([1998] 1999) and Rugman and Verbeke (2003) discuss the continuing importance of collaborative clusters of firms, consisting of a ‘flagship’ firm, key suppliers and customers, selected competitors, employers’ associations, unions, and government and educational institutions. While networks between firms can therefore be said to have continued to exist, this still does not need to imply collaboration.

In 1997, banks were granted the legal right to acquire banks in other states and to branch on an interstate basis, while the 1999 Gramm-Leach-Bliley Act⁸⁶ allowed banks, securities firms, and insurance companies to affiliate through financial holding companies.

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⁸⁶ [banking senate.gov/conf/confrrpt.htm](banking.senate.gov/conf/confrrpt.htm)
(FHCs). This has led to a consolidation of the financial sector (Spong, 2003). FHCs are allowed to invest without limits in any type of business. Their representatives may serve on boards of directors, but they may not be executives. In the case of a financial crisis, an FHC may take over company management. While the possibility to set up FHCs has increased the potential influence of financial institutions in corporate governance, in 2001, the role of FHCs in the private equity market was still limited to $8.2 billion of the more than $400 billion outstanding (Robinson, 2002).

In the 1990s, institutional investors established longer-term relationships with firms. Their increased ownership has led to a decisive influence in takeovers, an unprecedented degree of voting power, and representatives on boards (Chew, 1997; Dore, 2000). They have started to influence managements to ensure long-term shareholder value and raise accountability and transparency. Engagement includes paying premiums for stock of firms that introduce desired practices; holding informal meetings with management; demanding a split between chairman and CEO and the expensing of stock options; the voting of proxies; dissident shareholder resolutions; and public removal of firms from the portfolio (Chew, 1997; Hebb, 2003; Wong, 2004). Institutional investors have introduced proposals to rescind poison pills; they have played a central role in the removal of CEOs; and they have pressured companies to increase their number of independent directors and their oversight of management. But they still only hold a minority of votes, and limited information has restricted their influence. In effect, most institutions have maintained their focus on managing diversified portfolios (Chew, 1997; O’Sullivan, 2000; Ahmadjian and Robbins, 2003).

Overall, there has been an increase in the pressure from shareholders for returns and accountability (O’Sullivan, 2000; Posnak, 2003). There has also been a sharp increase in the number of shareholder lawsuits (Atkins, 2003). In effect, transparency has increased. The SEC has imposed stricter reporting requirements on executive compensation and has given shareholders greater ability to communicate with each other and with management. The NYSE has required companies to have a majority of independent directors. And the 2002 Sarbanes-Oxley Act has increased penalties for fraud and obstruction of justice regarding financial statements, while also increasing disclosure requirements. The Act calls for independent board members to control audits, CEO compensation, and CEO nominations. CEOs have to certify the veracity of financial statements, while the liability of board members has been increased. All stock option grants and incentive compensation must be approved by shareholders. In addition, the law provides protection for whistle blowers (Kaplan, 1997; Howell and Hibbard, 2002; Koppes, 2003; Jacoby, 2005a).
Table 4.14 shows that M&A activity has increased. While it dropped in the early 2000s due to the stock market crash, it subsequently picked up again. This despite an increase in anti-takeover legislation and defensive techniques - such as poison pills (Chew, 1997; Krause, 2002). Shareholder opposition to takeover defenses has increased. While in 1987, the average vote in favor of proposals opposing poison pills was 29.4%, by the year 2000, the average vote reached more than 50% (Klausner, 2002). In fact, according to Bebchuk and Fried (2004), the number of hostile takeovers of listed firms has been highly limited - providing managers with considerable autonomy. Whether the Sarbanes-Oxley regulation, the new stock exchange requirements, shareholder resolutions, independent directors and board committees, and the ‘outrage constraint’ will reign in the autonomy of management is open to debate. Among others, this depends on the techniques used by management to maintain control in the board and legitimize the level of their income.

<table>
<thead>
<tr>
<th>Year</th>
<th>Deals</th>
<th>Value ($Bln)</th>
<th>Share of market value of equities (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>3,510</td>
<td>356.0</td>
<td>5.6</td>
</tr>
<tr>
<td>1996</td>
<td>5,862</td>
<td>469.1</td>
<td>6.1</td>
</tr>
<tr>
<td>1997</td>
<td>7,848</td>
<td>674.8</td>
<td>6.9</td>
</tr>
<tr>
<td>1998</td>
<td>8,047</td>
<td>1,283.4</td>
<td>11.1</td>
</tr>
<tr>
<td>1999</td>
<td>9,628</td>
<td>1,387.4</td>
<td>9.2</td>
</tr>
<tr>
<td>2000</td>
<td>11,123</td>
<td>1,268.6</td>
<td>10.0</td>
</tr>
<tr>
<td>2001</td>
<td>8,545</td>
<td>683.0</td>
<td>6.3</td>
</tr>
<tr>
<td>2002</td>
<td>7,411</td>
<td>441.6</td>
<td>5.6</td>
</tr>
<tr>
<td>2003</td>
<td>8,232</td>
<td>530.2</td>
<td>5.3</td>
</tr>
<tr>
<td>2004</td>
<td>10,296</td>
<td>823.2</td>
<td>7.6</td>
</tr>
<tr>
<td>2005</td>
<td>11,013</td>
<td>1,234.7</td>
<td>11.3</td>
</tr>
</tbody>
</table>


During the 1990s, the share of executive compensation in the form of stock options increased. But empirical studies did not find the presupposed effect on firm performance (Gerety, Hoi, and Robin, 2001; Grabke-Rundell and Gomez-Mejia, 2002; Mcguire and Matta, 2003; Bebchuk and Fried, 2004). Instead, options mainly led to an increase in executive compensation at the expense of employees and long-term investment (Jacoby, 2005a). Executives suffered no penalty when share prices went down, as stock options were repriced or swapped (Koppes, 2003). More recently, however, the approval margin for stock option plans has shrunk. While throughout the 1990s, shareholders approved share plans with margins of 70-75%, in 2001, the median approval percentage dropped to 66% (Buyniski and Harsen, 2002). Leading institutional investors have voted against company proposals to issue...
shares for long-term compensation plans because they are concerned about stock dilution (HR Focus, 2004). And board oversight over and legal regulation of the provision of option grants has increased in response to the scandal over backdated stock options.87 In the early 2000s, stock option provision to executives dropped - as reported above in the discussion of compensation practices.

There is a trend toward greater board independence, supported by the 2002 Sarbanes-Oxley legislation (Larson, 2000; Hymowitz, 2003). A 2003 survey by the Investor Responsibility Research Center of 1,275 of the S&P Super 1,500 companies found a decrease of the average board size to 9 with 69% independent directors. The survey found that 30% of companies had recently separated chair and CEO functions. Almost 20% had instituted a lead independent director chairing the newly required sessions without the presence of management (Directorship, 2004). The relative increase in importance of independent directors has increased the possibility and incidence of forced departure for executives who do not optimize profits (Smith, 2003; Kaplan and Minton, 2006).

Unions became active institutional investors in the 1990s on the basis of stock held through public pension funds. They supported measures such as expensing stock options, tying options to outperforming the industry, giving shareholders the right to propose directors, increasing the number of independent directors, eliminating poison pills, and separating the CEO and chairman of the board. But they are hemmed in by the pension fund obligation to focus only on financial goals and by SEC rules on shareholder proposals. In addition, no union pension plan holds a significant share of stock in any one company (O’Sullivan, 2000; HR Briefing, 2003b; Jacoby, 2005a).

According to Lazonick and O’Sullivan (2000), short-term return on equity has remained the most important aim for managers. For 1990-98, they report a pay-out ratio of 49.6%. While buybacks remained steady at 21.2% of profits in 1996 (O’Sullivan, 2000), according to Davis (2002), the influence of institutional investors has led to a boost of dividends. According to Jacoby (2005a, 2005b), the high pay-out ratio was to some extent due to the threat of takeovers. In states that enacted anti-takeover laws, companies rather payed about 1 to 2% more in average annual wages.

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Interpretation of the Impact of Financial Globalization on Corporate Governance Practices in the US and a Comparison to the Three Perspectives and the Theories of Globalization

While there have clearly been many changes in corporate governance practices in the US, it is difficult to hypothesize how such changes may have been related to the impact of financial globalization. Thus, for example, while there could have been an impact resulting from the possibility to invest funds abroad, no material was encountered giving any indication of such impact. Only the extended role of banks can be hypothesized to have been inspired by German universal banking in the light of pressures for global competitiveness (Calomiris, 1995; Saunders and Walter, 1996; Robinson, 2002; Board of Governors of the Federal Reserve System, 2003) - as stated in table 4.15. The fact that many changes occurred but that only one change could be interpreted to have been related to financial globalization can be seen as an important indication that the impact of financial globalization on US corporate governance practices has been limited in scope. At the same time, the modalities of existing corporate governance practices do indicate potential support for or resistance to changes in US management practices under the impact of financial globalization.

<table>
<thead>
<tr>
<th>Elements of Corporate Governance</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>The position of banks</td>
<td>Banks not allowed to own and operate non-financial companies under Glass-Steagall provision</td>
<td>Banks, securities firms, and insurance companies may affiliate through financial holding companies under Gramm-Leach-Bliley Act</td>
<td>Attempt to improve global competitiveness inspired by German universal banking</td>
<td>Calomiris (1995); Saunders and Walter (1996); Robinson (2002); Board of Governors of the Federal Reserve System (2003).</td>
</tr>
</tbody>
</table>

Table 4.15 Relevant change in corporate governance practices in the US and hypothesized cause related to financial globalization.

In comparing the findings to the three perspectives presented in chapter 3, in contrast to the claim made by Trading Places, equity was not the main source of capital for US firms. Instead, internal financing was the main source of capital, while credit tended to be more important than equity. Indeed, during the 1990s, credit became far more important as a source of external financing and equity financing actually turned negative. But Trading Places is correct in pointing to the high level of M&A activity - and the coincident threat of takeovers. In effect, short-term shareholder value has indeed been an important goal, although pressures by institutional investors for a shift toward a focus on long-term shareholder value have
increased. While not discussed above, in contrast to Prestowitz’s ideas regarding venture capital, IPOs of successful start-ups did in fact provide financial staying power - at least for a number of prominent firms.

As for the depiction of US corporate governance practices in *Capitalisme Contre Capitalisme*, it appears an open question whether or not stockholders actually demand maximal short-term profits. It seems more plausible to argue that stockholders react to the difference between reported and expected profits, while paying attention to the explanation provided by corporate management and to expectations for the future. While this means that managers may not have to do everything to maximize short-term profits, managers were found to have been relatively strongly concerned with share prices and forms of investment for which returns are measurable. Corporate goals did include short-term profits and investor returns, but they also included long-term profitability, firm enlargement, and diversification. And institutional investors have increased pressures toward a focus on long-term shareholder value. At the same time, and in line with *Capitalisme Contre Capitalisme*, M&A activity has been at a high level. But the findings do not allow for a judgment of the extent to which takeover transactions were necessary for the status of the CEO, the reputation of the firm, or to avoid that the CEO was judged cowardly or conservative. In contrast to the claim made by *Capitalisme Contre Capitalisme*, risk taking appears to have been extensive, in particular in firms financed by venture capital. But the profit target does appear indeed to have led to the shedding of labor.

The sources of corporate financing depicted by the OECD are largely confirmed, although the relative importance of credit as a source of external financing is not mentioned.

The hypothesized causal factor related to financial globalization - the extended role of banks inspired by German universal banking in the light of pressures for global competitiveness - is not indicated by the three perspectives.

Of the different theories of globalization, the convergence, ‘German’ hybridization, and transformation theories are all consistent with the presented findings. Only the divergence theory is implausible in light of the implementation of a practice inspired by German universal banking. The argument is summarized in table 4.16.

**Internal Social Control Practices in US Management around 1990**

Internally, top management in the US normally had unilateral control over the firm (Brewster,
Changes in corporate governance up to the early 2000s

<table>
<thead>
<tr>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks, securities firms, and insurance companies may affiliate through financial holding companies under Gramm-Leach-Bliley Act</td>
<td>Attempt to improve global competitiveness inspired by German universal banking</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
</tr>
</tbody>
</table>

1998; Hall and Soskice, 2001). The formal duties and rights of supervisors and workers were clearly separated, as were decision-making and implementation (Ichniowski et al., 2000; Pudelko, 2000). Teams were narrowly defined and closely monitored by management (Marsden, 1999). QCCs contributed to good relations between co-workers and supervisors and they enhanced motivation, but they were also often orchestrated by management to create the perception, but not the reality, of worker participation (Lincoln and Kalleberg, 1990). Jobs were designed to constitute a rigid bureaucratic control system, while task responsibility was individual (Marsden, 1999).

Arm’s-length management was implemented through MBO, program planning and evaluation, and cost-benefit analyses. Long-term strategic goals set by top management were broken down into short-term, quantitative goals for the lower organizational levels (Pudelko, 2000; Gómez-Mejía, Balkin, and Cardy, 2001). Formalized control systems provided for written job descriptions and performance records, supplemented by direct control of shop-floor workers by supervisors (Marsden, 1999; Jürgens, 2003). The power of employers to fire employees under the employment at will doctrine gave them enormous power to dictate employee conduct and to control their work lives (Estlund, 2002).

Financial control and quantitative budgeting processes were important control instruments. The internal capital allocation system aimed to motivate management to optimize measurable investment returns, to raise accountability for unit financial performance, and to base decision-making and investment allocation on financial criteria. This often prompted managers to skimp on investment in capabilities. Whereas the benefits of such investments take time to materialize and are shared throughout the company, the costs are expensed immediately and charged to particular units. Intangible investments such as training could not be tracked by the financial system and fell prey to deferral in the name of increasing near-term profits (Friedland and Alford, 1991; Hofstede, 1991; Porter, 1997; Pudelko, 2000). The
evaluation of divisions on the basis of profitability also reduced cooperation between departments (Kono and Clegg, 2001).

Inducement was also used to control employees, largely in the form of individual monetary incentives and competitive promotion. While this could go at the expense of cooperation and communication (Lincoln and Kalleberg, 1990; Dore, 2000; Pudelko, 2000), organization-wide PRP was used to encourage cooperation and reinforce commitment (Gómez-Mejía, Balkin, and Cardy, 2001). The authority of supervisors was strong. Decision making was top-down, formalized, and oriented to short-term quantitative goals and measures. Innovative decisions were regarded positively, but there was a low tolerance of decision mistakes. In the case of problems, an attempt was made to shift responsibility for decisions to subordinates. In group decision making, members were expected to present and discuss competing opinions, after which a decision was reached by means of voting (Pudelko, 2000).

There was a relative lack of employee involvement. While 1992 surveys found that more than 80% of firms had employee participation programs, high-level employee involvement was limited (Kochan, 1996; Taras, 2003). In practice, organized employee participation beyond self-managed work teams, disciplinary committees, and teams or committees that address efficiency, work process, or product quality, were outlawed by the National Labor Relations Act (LeRoy, 2006). The 1991 NOS found that lower-level employees were involved in decisions of performance evaluation, scheduling, and overtime. They were also to some extent involved in hiring and promotion. But they were less involved in setting wage levels, deciding staffing levels, determining when subcontractors or temporary workers would be used, and dismissals (Marsden, Cook, and Kalleberg, 1996). Lincoln and Kalleberg (1990) found that workers reported a fair amount of freedom in how they did their work as well as a frequent use of their own judgment. Managers were subject to less supervisory control and enjoyed more autonomy than workers. Supervisors were less likely than managers or workers to report that their superiors left them alone.

Appraisal was frequent, formal, quantitative, short-term, and individual. A strong emphasis was placed on individual achievement and knowledge, but individual behavior was also evaluated. A frequent change of firms counted as a sign of flexibility and was valued positively. Appraisal was mainly performed by direct supervisors, although there was also third-party assessment of competence by specialists, other managers, assessment centers, or outside consultants. If the employee did not live up to demands, the labor relation was ended...
without much ado (Marsden, 1999; Pudelko, 2000; Gómez-Mejía, Balkin, and Cardy, 2001; Strauss, 2001).

Communication occurred through formal channels and strictly according to the line. There was precise communication, at low volumes. As a result of arms’-length management and low upwards information flow, managers received information for their decisions largely from staff members, who controlled the information flow from employees to management through management-information systems, cost accounting, and financial calculations. Communication between management and workforce was also maintained by foremen (Porter, 1997; Ichniowski et al., 2000; Pudelko, 2000).

Relations between managers and workers were formalized, factual, adversarial, and characterized by a large power distance. Managers felt they had to emphasize their position because of potential competition from subordinates. They had no trust in the will to work and the skills of employees. In consequence, employees did not feel trust or loyalty; they were unwilling to confide in supervisors concerning personal matters; and the frequency with which they talked to superiors was low. They were highly dependent on their superordinates (Lincoln and Kalleberg, 1990; Dore, 2000; Pot, 2000; Pudelko, 2000). Formal conflict resolution procedures were widely used. In the 1991 NOS, 68% of firms indicated the presence of such procedures (Kalleberg, Marsden, Knoke, and Spaeth, 1996; Marsden, 1999).

**Changes in Internal Social Control Practices in US Management up to the Early 2000s**

In internal social control, hierarchical coordination has remained dominant (Turner, Wever, and Fichter, 2001). But peer pressure in teams, group targets and bonuses, stock options, and a limited degree of delegation and participation have increasingly been used. Operational authority and responsibilities were delegated, and supervisors and foremen were retrained to act as facilitators and coaches. But the low educational level of workers has set a limit to such delegation, as has the conviction of managers that they are the only ones who can manage. Middle managers often sabotage participation as they fear a loss of authority. And unions are hesitant because they fear for their right of existence. Participatory decision making is distrusted because it is thought to serve manipulation by management (Marsden, Cook, and Kalleberg, 1996; Berg et al., 2000; *HR Focus*, 2002a; Pot, 2000; Pudelko, 2000; Strauss, 2001; Fairris and Tohyama, 2002; Kwon, 2007). Meanwhile, the National Labor Relations Act has also continued to restrict organized participation (LeRoy, 2006).
Employee monitoring has increased. A 2001 AMA survey of 1,627 large and mid-size firms found that 77.7% of surveyed firms checked their employees’ e-mail, internet, or telephone connections, or videotaped employees at work - more than double the 35.3% found in 1997 (HR Focus, 2001b). In appraisal, individual achievement has remained important, but there has been an increase in the importance of good team behavior and cooperative management (Pudelko, 2000; Gómez-Mejía, Balkin, and Cardy, 2001). Peer review has been introduced by 18% of firms with 50 or more employees (Jacoby, 2005a). And for management, William M. Mercer found that the use of 360-degree feedback had increased from 40% of firms in 1995 to 65% in 2000 (Pfau and Kay, 2002). Evaluation has become based on ranking, with employees with the lowest ranking typically being the first to be released (HR Briefing, 2001).

Communication has increased due to the introduction of ICT (Gómez-Mejía, Balkin, and Cardy, 2001). Most firms have started to provide employees with information on business plans and on corporate and unit-level operating results (Adler, 2003). But information flow between autonomous units has been reduced (Porter, 1997).

Relations between managers and workers have remained authoritarian and antagonistic (Pot, 2000; Turner, Wever, and Fichter, 2001). Subordinates still do not trust their superordinates: a Watson Wyatt Worldwide survey found that the proportion of workers with confidence in their officials stood at only 45% in 2002 (Bates, 2002).


In considering the changes in internal social control practices, one hypothesis related to financial globalization appears plausible: the increase in collective pressures and the (limited) degree of participation is consistent with the hypothesis that FDI by Japanese MNCs has impacted on the way in which US management has attempted to improve its global competitiveness - expressed in the implementation of certain Japanese management practices. This hypothesis is supported by Kenney and Florida (1993), Abo (1994), Florida, Jenkins, and Smith (1998), Nakamura, Sakakibara, and Schroeder (1998), and Liker, Fruin, and Adler (1999), Branch (2006) and Kwon (2007). See table 4.17.

None of the three perspectives discussed in chapter 3 contains any statements about
<table>
<thead>
<tr>
<th>Elements of internal social control practices</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social control through work flow</td>
<td>Individual task responsibility</td>
<td>Peer pressure in teams</td>
<td>FDI by Japanese MNCs into the US has impacted on the way in which US management has attempted to improve its global competitiveness</td>
<td>Kenney and Florida (1993); Abo (1994); Florida, Jenkins, and Smith (1998); Nakamura, Sakakibara, and Schroeder (1998); Liker, Fruin, and Adler (1999); Branch (2006); Kwon (2007).</td>
</tr>
<tr>
<td>Social control through compensation</td>
<td>Emphasis on individual monetary incentives</td>
<td>Group bonuses, stock options</td>
<td>Ibid.</td>
<td>Ibid.</td>
</tr>
<tr>
<td>Social control through training</td>
<td>Individual task responsibility</td>
<td>Supervisors and foremen retrained to act as facilitators and coaches</td>
<td>Ibid.</td>
<td>Ibid.</td>
</tr>
<tr>
<td>Coercion</td>
<td>Limited participation and delegation</td>
<td>Group targets</td>
<td>Ibid.</td>
<td>Ibid.</td>
</tr>
<tr>
<td>Participation and delegation</td>
<td>Individual criteria</td>
<td>Some increase in participation in and delegation of operational activities</td>
<td>Ibid.</td>
<td>Ibid.</td>
</tr>
<tr>
<td>Appraisal</td>
<td>Mainly performed by direct supervisors Use of 360-degree feedback by 40% of firms in 1995</td>
<td>Increase in importance of good team behavior and cooperative management Introduction of peer review by 18% of firms Increase in use of 360-degree feedback to 65% in 2000</td>
<td>Ibid.</td>
<td>Ibid.</td>
</tr>
</tbody>
</table>

Table 4.17 Relevant changes in internal social control practices in US management and hypothesized cause related to financial globalization.

Internal social control practices in the US. This also means that they do not present any analysis of the impact of financial globalization on such practices.

The findings are consistent with the convergence, the ‘Japanese’ hybridization, and the transformation theories of globalization - even if participation and delegation have remained limited. The divergence theory again appears implausible. The argument is summarized in table 4.18.

**Legitimation in the US around 1990**

In many US firms around 1990, legitimacy within the workplace was heightened by the existence of internal labor markets, which fostered close, long-term ties between employers...
<table>
<thead>
<tr>
<th>Changes in internal social control practices up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peer pressure in teams</td>
<td>FDI by Japanese MNCs into the US has impacted on the way in which US management has attempted to improve its global competitiveness</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, ‘Japanese’ hybridization, or transformation</td>
</tr>
<tr>
<td>Group bonuses, stock options</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
</tr>
<tr>
<td>Supervisors and foremen retrained to act as facilitators and coaches</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
</tr>
<tr>
<td>Group targets</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
</tr>
<tr>
<td>Some increase in participation in and delegation of operational activities</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
</tr>
<tr>
<td>Increase in importance of good team behavior and cooperative management</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
</tr>
<tr>
<td>Introduction of peer review by 18% of firms</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
</tr>
<tr>
<td>Increase in use of 360-degree feedback to 65% in 2000</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
<td>Ibid.</td>
</tr>
</tbody>
</table>

**Table 4.18** A comparison of changes in internal social control practices in the US and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.

and employees. Dispute resolution procedures also heightened legitimacy and fostered such ties (Kalleberg, Marsden, Knoke, and Spaeth, 1996). Corporate reputations were protected by private codes of conduct at all Fortune 500 companies (Royle, 2002). Hierarchy was reinforced through status symbols for managers, such as three piece suits, and own cantines, parking lots, toilets, and elevators. At the same time, it was common to address supervisors by their first name and there was a relaxed way of dealing with each other (McMillan, 1989; Block, 1994; Dore, 2000; Pudelko, 2000; Kono and Clegg, 2001).

**Changes in Legitimation in the US up to the Early 2000s**

The management of corporate identity and image has become more salient in order to maintain share value and establish positive employer branding (Balmer and Greyser, 2002; Towers, 2002; Lockwood, 2003). The aim to increase share value has itself become a legitimation for restructuring and downsizing (Godkin, Valentine, and St. Pierre, 2002). It has
allowed managers to release money onto capital markets while enriching themselves (O’Sullivan, 2000).


It is difficult to hypothesize about the relation between these changes in legitimation practices and financial globalization. During the selection process, no material was encountered providing any indication of a plausible link between financial globalization and changes in legitimation practices. None of the three perspectives presented in chapter 3 provide any relevant analyses, and no judgment can be reached regarding the plausibility of the different theories of globalization.

Socialization in the US around 1990

Socialization practices in US organizations around 1990 did not include the articulation of a management philosophy. Because firms changed their identity very rapidly as they engaged in takeovers, mergers, and reorganizations, it was difficult to insist on conformity to a corporate culture. This was reinforced by the existence of franchising and the imposition of self-employed status on de facto employees. Where they were used, QCCs did enhance commitment. Internal labor markets also supported corporate culture, and job rewards - especially intrinsic rewards and promotion opportunities - further contributed to commitment (Lincoln and Kalleberg, 1990; Crouch, 1996; Pudelko, 2000).

Changes in Socialization in the US up to the Early 2000s

Socialization efforts in US firms have intensified. Corporate culture is transmitted to strengthen commitment, motivation, and cooperation, and three-quarters of all firms have drafted ethical guidelines. Besides QCCs, other team work has been used to increase employee involvement and morale. But overall efforts have been superficial and they contrast with fast dismissals. In addition, there has been a relative decrease in the importance of internal labor markets and promotion opportunities (Pot, 2000; Pudelko, 2000; Riordan and Weatherly, 2000; Strauss, 2001).
Interpretation of the Impact of Financial Globalization on Socialization Practices in the US and a Comparison to the Three Perspectives and the Theories of Globalization

The increase in the importance attached to the development of corporate culture - together with that of corporate reputation - may be interpreted to be consistent with the hypothesis that FDI by Japanese MNCs has impacted on the way in which US management has attempted to improve its global competitiveness - expressed in the implementation of certain Japanese management practices. This hypothesis is supported by Kenney and Florida (1993), Abo (1994), Florida, Jenkins, and Smith (1998), Nakamura, Sakakibara, and Schroeder (1998), and Liker, Fruin, and Adler (1999), and Jacoby, Nason, and Saguchi (2004). The changes and interpreted cause are summarized in table 4.19.

<table>
<thead>
<tr>
<th>Elements of socialization practices</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extent of socialization</td>
<td></td>
<td>Intensification of efforts</td>
<td>FDI by Japanese MNCs into the US has impacted on the way in which US management has attempted to improve its global competitiveness</td>
<td>Kenney and Florida (1993); Abo (1994); Florida, Jenkins, and Smith (1998); Nakamura, Sakakibara, and Schroeder (1998); Liker, Fruin, and Adler (1999); Jacoby, Nason, and Saguchi (2004).</td>
</tr>
<tr>
<td>Development of corporate culture</td>
<td>No articulated philosophy</td>
<td>Corporate culture transmitted to strengthen commitment, motivation, and cooperation Ethical guidelines drafted by three-quarters of all firms</td>
<td>Ibid.</td>
<td>Ibid.</td>
</tr>
<tr>
<td>Socialization through work flow</td>
<td>QCCs enhanced commitment</td>
<td>Besides QCCs, other team work used to increase employee involvement and morale</td>
<td>Ibid.</td>
<td>Ibid.</td>
</tr>
</tbody>
</table>

Table 4.19 Relevant changes in socialization practices in US management and hypothesized cause related to financial globalization.

None of the three perspectives presented in chapter 3 discusses socialization practices, and no analysis is presented of the impact of financial globalization. Of the different theories of globalization, only the transformation theory is consistent with the findings. While the implementation of Japanese practices would also be compatible with the convergence and ‘Japanese’ hybridization theories, the way in which socialization efforts have conflicted with fast dismissals indicate a certain transformation. The argument is summarized in table 4.20.
Changes in socialization practices up to the early 2000s

<table>
<thead>
<tr>
<th>Intensification of efforts</th>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FDI by Japanese MNCs into the US has impacted on the way in which US management has attempted to improve its global competitiveness</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
</tr>
<tr>
<td>Corporate culture transmitted to strengthen commitment, motivation, and cooperation Ethical guidelines drafted by three-quarters of all firms Besides QCCs, other team work used to increase employee involvement and morale</td>
<td>Ibid.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4.20  A comparison of changes in socialization practices in the US and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.

Industrial Relations in the US

Industrial Relations in the US around 1990

In US industrial relations around 1990, there were no central employer associations, and existing employer associations had few resources and little capacity to govern their members. The center of power of employers rather lay with the management of firms. The National Association of Manufacturers and the Chambers of Commerce mainly aimed at avoiding unionization (Calmfors and Driffill, 1988; Hollingsworth, 1995; Wheeler, 1998; Pudelko, 2000; Finegold and Keltner, 2001).

Around 85% of union members were organized in industry-wide unions connected to the American Federation of Labor - Congress of Industrial Organizations (AFL-CIO). The AFL-CIO provided support to national unions and mobilized support for laws beneficial to workers. Collective bargaining was left to the national industry unions. The national unions tied local unions together; governed their operation; established bargaining policies; and controlled strike funds. The local unions performed negotiations and organized strikes and
social activities (Wheeler, 1998; Pudelko, 2000; Gómez-Mejía, Balkin, and Cardy, 2001). Unions primarily focused on pragmatic goals with regard to compensation, job security, working hours, the limitation of contingent work, performance regulation, and working conditions (‘business unionism’) (Wheeler, 1998; Lautsch, 2002). Union density in 1990 stood at 16.1% of the labor force (The Japan Institute of Labor, 2003a). Few part-time workers and no temporary or contract employees were represented by unions (Kalleberg and Schmidt, 1996). Low union density coincided with union weakness (Crouch, 1993b).

Unionization had several effects: QCCs were less prevalent as a result of union skepticism in light of their centralizing tendency; dismissals were governed on the basis of last in, first out; retention rates were higher as a result of the higher wage-level and the existence of grievance procedures; promotions were seniority-based; pay rates were linked to jobs and market considerations; and compensation inequality was lower (Lincoln and Kalleberg, 1990; Kalleberg and Moody, 1996; Knoke and Ishio, 1996; Marsden, 1999; Gómez-Mejía, Balkin and Cardy, 2001). In the 1991 NOS, unionization was found to be positively related to training programs for the core workforce, and negatively related to gainsharing and other performance-linked rewards (Kalleberg and Moody, 1996; Knoke and Ishio, 1996; Knoke and Kalleberg, 1996). On the basis of 1971-99 CPS data, Bratsberg and Ragan (2002) found a union wage premium of 16.8%. And on the basis of 1983-97 survey data, Buchmueller, Dinardo, and Valletta (2002) reported an increased provision of health insurance over non-union employers. In unionized firms there often was employee participation in shop-floor decision making, task forces, committees, and due process mechanisms. The use of performance appraisal was limited (Gómez-Mejía, Balkin and Cardy, 2001). The presence of unions further led to a reduction of industrial disputes (Singh, 2001). Lincoln and Kalleberg (1990) found that employees in union plants were less committed, as unions built or capitalized on alienation from the company. Job satisfaction was lower than in non-unionized firms.

Relations between employers and unions were adversarial as interests were seen as fundamentally opposed (Wheeler, 1998; Pudelko, 2000). Employers used different tactics to prevent unionization, including the provision or promise of improved management practices, the use of contingent workers, and the relocation of production to states where right-to-work laws constrained union rights (Kalleberg and Schmidt, 1996; Hammer, 1998; Singh, 2001; Turner, Wever, and Fichter, 2001).

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88 Data from the Japan Institute of Labor are used as these are most complete and allow for comparison with Japanese and German data.
The non-union sector was characterized by broad management discretion. Workers could be terminated for almost any reason and in any order - although, as mentioned above, this did require proof of guilt and absence of discrimination. Employers were likely to allocate jobs on the basis of merit, and structured career paths were used. Compensation was based on job evaluation together with seniority and individual performance evaluation. Merit pay and bonuses were used to encourage competition and recognize top performers. An eye was kept on wages on external labor markets so as to be able to attract and keep desired employees. Performance appraisal was extensive, while a lack of grievance procedures increased turnover (Lincoln and Kalleberg, 1990; Wheeler, 1998; Marsden, 1999; Gómez-Mejía, Balkin and Cardy, 2001).

Collective bargaining mainly occurred at the decentralized level of individual firms or plants, where establishment management bargained with industry-wide unions (Calmfors and Drifill, 1988; Pudelko, 2000). In certain sectors, there was pattern bargaining (Strauss, 1998). Overall, collective bargaining coverage stood at 18% in 1990 (OECD, 2004a). Unions and management negotiated on compensation, working hours, and working conditions (job descriptions, layoffs, promotion criteria, training, discipline, and grievance procedures). ‘Concession bargaining’ became prevalent in the early 1990s, when employers started to demand concessions from unions in return for job security. During the bargaining process, government mediation was widespread (Springer and Springer, 1990; Conti, 1998; Wheeler, 1998; Gómez-Mejía, Balkin, and Cardy, 2001).

Collective contracts usually stipulated that job opportunities were to be allocated on the basis of seniority, with outside hires restricted to entry-level jobs and a ‘last in, first out’ layoff criterion. Compensation was often to be based on seniority. Provisions could be included that limited management’s latitude with regard to outsourcing, the introduction of labor-saving technology, and work transfer. Most agreements had a duration of one to three years (Knoke and Ishio, 1996; Strauss, 1998; Wheeler, 1998; Gómez-Mejía, Balkin and Cardy, 2001; Cutcher-Gershenfeld and Kochan, 2004). Collective agreements led to higher compensation, narrower wage dispersions, a reduction in turnover, and better qualified employees (Strauss, 1998). Strike activity was relatively high. The average number of days per year lost in strikes per 1,000 workers for 1988-92 was 60.3.89

A 1994 survey commissioned by Industrial Relations Counselors found that 15% of 2,609 surveyed firms had joint employee-management committees (Taras, 2003). These committees concerned themselves with job security, communication, work attitudes,
productivity, work conditions, and health and safety. While there existed a legal ban on company unions, in practice the more freedom of participation an employer granted in a committee, the more likely the committee was to be found legal (Strauss, 1998; Wheeler, 1998; Addison, Schnabel, and Wagner, 2001). Management-employee conflict was extensive. In unionized firms, unions and managements preferred to settle such disputes through a grievance procedure which ended in binding arbitration. The grievance procedure decreased the chance that an employee would take a case to court because judges were usually unwilling to challenge the results of arbitration (Lincoln and Kalleberg, 1990; Gómez-Mejía, Balkin, and Cardy, 2001).

**Changes in Industrial Relations in the US up to the Early 2000s**

Job security has become a top priority for unions, although improvement in wages, hours, and working conditions have also remained union aims. The unions have also become more interested in training and development, and in cooperation with management (Wheeler, 1998; Gómez-Mejía, Balkin, and Cardy, 2001). Meanwhile, union membership has dropped from 16.1% in 1990 to 12.5% in 2005 - as indicated in figure 4.10. This drop constituted the main reason for a number of unions in 2005 to leave the AFL-CIO and to establish a new federation, the Change to Win Coalition - representing about one-third of all unionized workers.90 On the basis of CPS data, Bratsberg and Ragan (2002) found a decrease in the union wage premium of 1.4% between 1971 and 1999. But they also found that wage premiums still ranged from 13 to 22%. And in 2003, 60% of union members were covered by medical insurance as opposed to only 44% of non-union members.91

Employer usage of anti-union tactics appears to have increased (Logan, 2002). Companies have increasingly avoided unionization by locating new facilities in areas where unionization is low or where right-to-work laws make it difficult to organize and sustain unions (Gómez-Mejía, Balkin, and Cardy, 2001; Colvin, 2003).

Regarding the impact of financial globalization, Bronfenbrenner (2000) found that employers often threatened to move production offshore in order to avoid unionization, while Bronfenbrenner and Luce (2004) found that some 39% of all jobs leaving the US were union.

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89 laborsta.ilo.org; my calculation.
90 The New York Times, July, 30, 2005
91 www.bls.gov/news.release/ebs2.t01.htm
In other words, unionized workplaces were being disproportionately affected by US production shifts abroad. According to Piazza (2005) and Freeman (2006), the possibility of offshore outsourcing has weakened the bargaining position of workers as firms threaten to move facilities abroad if their current work force does not accept lower wages or inferior working conditions.

There has been a further increase in company/plant level bargaining and a decrease of national/sectoral level and pattern bargaining. Collective bargaining coverage dropped to 14% in 2000 (OECD, 2004a). Concession bargaining was followed by ‘two-tier’ wage agreements in which certain workers, usually new employees, receive lower pay for doing the same work as other employees. Meanwhile, job security for a core workforce has been negotiated in exchange for internal labor market flexibility (Wheeler, 1998; Thelen, 2001; Kuruvilla et al., 2002). The duration of bargaining agreements has increased, with the percentage of contracts extending beyond three years growing from 8% in 1994 to 22% in 1999 (Cutcher-Gershenfeld and Kochan, 2004).

Shifts in labor laws have made it easier to hire striker replacements. Managerial threats to use such replacement workers or to close down plants have made many unions afraid to organize strikes (Goederham, Nordhaug, and Ringdal, 1998; Gómez-Mejía, Balkin, and
Cardy, 2001; Rose and Chaison, 2001). The average number of days per year lost in strikes per 1,000 workers dropped to 11.9 for 2001-2005 (down from 60.3 in 1988-92).\textsuperscript{93}

The number of joint labor-management programs covered 19.5% of the non-union workforce in 1996 (Lipset and Meltz, 2000). Cooperation has often remained superficial, with little active employee participation (Hurd, Milkman, and Turner, 2003). During the 1990s, many employers adopted dispute resolution procedures to avoid unionization and having to go to court. Employees have been required to agree to arbitration as a condition of employment, thus forgoing any opportunity to pursue the claim in court. Meanwhile, management holds authority (Batt, Colvin, and Keefe, 2002; Colvin, 2003).

\textit{Interpretation of the Impact of Financial Globalization on Industrial Relations Practices in the US and a Comparison to the Three Perspectives and the Theories of Globalization}

In relating the observed changes to financial globalization, the possibility of offshore outsourcing can be interpreted to have weakened the bargaining position of workers by allowing employers to threaten to move production offshore in order to avoid unionization and make the workforce accept lower wages or inferior working conditions, and by allowing firms to actually reduce the number of unionized workers. As indicated above, this hypothesis is supported by, e.g., Bronfenbrenner (2000), Bronfenbrenner and Luce (2004), Piazza (2005), and Freeman (2006). See table 4.21.

Comparing the findings with the three perspectives, in line with \textit{Trading Places}, industrial relations in US management are clearly adversarial. Unions are indeed industry-wide, but only where they actually exist. With density at 16.1% in 1990, it is more accurate to say that union representation was low in general. \textit{Capitalisme Contre Capitalisme}'s reference to the ‘business’ comportment of unions is also in line with the material describe above. And the OECD depiction of US industrial relations in terms of low union membership, decentralized wage bargaining, and the resistance of employers to give in to wage demands is also confirmed. But while the number of strikes may indeed have dropped during the 1990s, it was still higher than in Japan and Germany. And apart from not discussing all the other changes that occurred in US industrial relations, what is most importantly missing from all

\textsuperscript{92} Data from the Japan Institute of Labor are used for reason of comparability with Japanese and German union density rates.

\textsuperscript{93} Bosch, Reinoud (2008), Bringing Nuance into the Globalization Debate: Changes in US, Japanese, and German Management, with Special Reference to the Impact of International Finance, European University Institute, 10.2870/25906
Elements of industrial relations practices | Around 1990 | Changes up to the early 2000s | Hypothesized cause | Studies supporting the hypothesis
--- | --- | --- | --- | ---
Character of industrial relations | Employer tactics to avoid unionization included the provision or promise of improved management practices, the use of contingent workers, and the relocation of production to states with right-to-work laws | Employers also threaten to move production offshore to avoid unionization; they can also reduce the number of unionized workers through offshore outsourcing | Possibility of offshore outsourcing | Bronfenbrenner (2000); Bronfenbrenner and Luce (2004); Piazza (2005); Freeman (2006).
Bargaining | Weak unions | Further weakening of bargaining position of workers | Ibid. | Ibid.

Employers demanded concessions from unions in return for job security | Employers threaten to move production offshore to make the workforce accept lower wages or inferior working conditions | Ibid. | Ibid.

Table 4.21 Relevant changes in industrial relations practices in US management and hypothesized cause related to financial globalization.

The findings are potentially consistent with the convergence, divergence, and transformation theories, though not with the hybridization theory. Similar developments are occurring in Japan and Germany, but whether the way in which and the relative extent to which offshore outsourcing is impacting on industrial relations befits the label ‘convergence’, ‘divergence’, or ‘transformation’ is hard to judge. The argument is summarized in table 4.22.

The Labor Force in the US

The Labor Force in the US around 1990

In the US labor force around 1990, there existed a strong chasm between management and other highly skilled workers on the one hand, and lowly skilled workers on the other hand - in terms of tasks, job security, training, income, control, status, values, attitudes, motivation,
Changes in industrial relations practices up to the early 2000s

| Employers threaten to move production offshore to avoid unionization; they can also reduce the number of unionized workers through offshore outsourcing  
| Further weakening of bargaining position of workers  
<table>
<thead>
<tr>
<th>Employers threaten to move production offshore to make the workforce accept lower wages or inferior working conditions</th>
<th>Possibility of offshore outsourcing</th>
<th>No analysis</th>
<th>No analysis</th>
<th>No analysis</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
</table>

Table 4.22 A comparison of changes in industrial relations practices in the US and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.

Commitment, satisfaction, educational level, skills, and productivity. There was also a strong division between white- and blue-collar workers, underlined by formal unequal treatment in terms of working hours and fringe benefits. And there was a formal segmentation of the workforce into regular and contingent workers, in which regular workers were privileged. In addition, the labor force was highly diverse. As a result of these segmentations, there was little cohesion, loyalty, and community spirit (Lincoln and Kalleberg, 1990; Hollingsworth, 1995; Pudelko, 2000; Watson, 2001).

The surveys performed by Schwartz (1994, 1999) during 1988-92 on the basis of his world-wide applicable value survey will here be seen as giving an indication of values endorsed by the labor force in the US. Schwartz found that on the average in the US respondents placed a relatively high emphasis on values expressing the independent pursuit of affectively positive experience (‘Affective Autonomy’), getting ahead through active self-assertion (‘Mastery’), and (surprisingly, perhaps) the transcendence of selfish interests in favor of voluntary commitment to promoting the welfare of others (‘Egalitarian Commitment’). He found a lower relative emphasis on values expressing the independent pursuit of own ideas and intellectual directions (‘Intellectual Autonomy’). Because of the latter, Schwartz did not see the US as a highly individualist nation.

94 On the basis of the Economic Policy Institute study by Callaghan and Hartmann (1994) and Harrison (1994), Thurow (1996) accounted that 25 to 30% of the workforce constituted a contingent workforce consisting of involuntary part-timers, temporary workers, limited-term contract workers, and previously laid-off “self-employed” consultants working at wages far below what they had previously been receiving.
Schwartz’s findings will here be taken at face value, although it should be kept in mind that the outcome of value surveys - no matter how sophisticatedly performed - leave quite some space for interpretation. For example, could it be that the emphasis on values expressing the independent pursuit of own ideas and intellectual directions is low as a result of the high emphasis on such values in social structures? In other words, do value surveys in fact measure ‘compensatory values’ - i.e. values that are expressed to ‘compensate’ for the lack of such values in social structures? This is a contentious issue that would appear to be in need for some good social psychological research. As such research is still largely forthcoming, the most appropriate thing to do at this point would seem to be to take Schwartz’s findings at face value - with the necessary reservations. Such reservations also hold for the results of similar psychological surveys.

On the basis of the 1990-93 world values survey, Inglehart et al. (1998) found that in the US, 62% of respondents said work was very important in their life. 92% said family was very important, and 43% said leisure time was very important. In a job, the following aspects were thought important: good pay (86%); pleasant people to work with (74%); job security (72%); good chances for promotion (58%); good hours (55%); an opportunity to use initiative (52%); achieve something (71%); a responsible job (56%); an interesting job (69%); and a job that meets one’s abilities (57%). 72% of respondents felt they had a great deal of decision-making freedom. Only 12% viewed work like a business transaction, with effort depending on pay. 62% felt that instructions should be followed always. 86% of respondents thought it fair that a quicker, more efficient, and more reliable employee was paid more than another employee of the same age with the same job. 62% felt there should be greater incentives for individual effort. For the future, the following developments were considered a good thing: less emphasis on money and material possessions (71%); greater emphasis on the development of the individual (87%); greater respect for authority (78%); and more emphasis on family life (95%). Confidence in unions was low (33%), while that in companies was average (51%).

Other surveys have provided an indication of the way which work is viewed in the US, and the extent to which US workers are satisfied with and committed to their jobs. On the basis of a 1989/90 sample, Ruiz-Quintanilla and England (1993) report that work was seen as more of an obligation than an entitlement. The 1989 ISSP survey found that 86.6% of respondents were satisfied with their jobs. And in their 1981-83 survey, Lincoln and Kalleberg (1990) found positive responses of 74.3% and 63.8% to two questions measuring
affective commitment, while continuance commitment (intention to stay with the firm) was low at 26.3%. Several other work values of the US workforce have been distinguished. These include a preference for self-employment or working in small innovative firms; the acceptance of layoffs in business downturns; and support for giving advantage to insiders over outside applicants (Lincoln and Kalleberg, 1990; Hui and Luk, 1997; Pudelko, 2000). As for compensation practices, in 1988, 63% of surveyed workers preferred straight salary, followed by individual incentives (22%) and company-wide incentives (12%) (Rynes, Colbert, and Brown, 2002). There was considerable support among employees for paternalistic welfare practices. But workers felt that a superior should not be involved in personal matters. (Lincoln and Kalleberg, 1990; Pudelko, 2000; Gómez-Mejia, Balkin and Cardy, 2001). A survey from the early 1990s further found that workers preferred some form of non-union employee representation organization over unions (Singh, 2001).

The firm could not count on the loyalty of its employees - as indicated by the low continuance commitment indicated above. Instead, the loyalty of employees was divided over different groups and organizations. Employees identified with their job or job field rather than with the firm or the union (Lincoln and Kalleberg, 1990; Pudelko, 2000). The skills of employees were non-firm specific, specialized, and task-oriented (Kono and Clegg, 2001).

US managers attached great importance to the ability to hire and fire at will, preferring the flexibility and control permitted by outside hiring over internal recruitment. They valued personal progress over the long-term well-being of the firm. They were relatively young, dynamic, aggressive, spontaneous, and well-educated - almost always at university level - and they tended to be specialists in finance or marketing. They had high work commitment and satisfaction levels, but their loyalty was low - as they switched jobs and companies at short notice to advance their careers (Lincoln and Kalleberg, 1990; Lincoln, Kerbo, and Wittenhagen, 1995; Dore, 1996; Pudelko, 2000; Windolf, 2002).

Changes in the Labor Force in the US up to the Early 2000s

There has been a growing contingent workforce, which is lowly educated and motivated, has little experience, and receives low wages (Pudelko, 2000; Lautsch, 2002; Houseman, 2002).

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96 The questions were: 1) “I am willing to work harder than I have to in order to help this company succeed”; and 2) “I am proud to work for this company”.
97 The relevant question was: “I would turn down another job for more pay in order to stay with this company”.
Kalleberg, and Erickcek, 2003). The US labor force has also grown increasingly diverse (Gómez-Mejía, Balkin, and Cardy, 2001).

Inglehart et al. (2004) performed a 1999-2002 wave of the world values survey, which is comparable to the 1990-93 wave reported above. The most important findings for the US and its comparison to the earlier data are indicated in table 4.23. The table shows that the importance attached to work dropped to 54%, the importance of family increased somewhat to 95%, while the importance of leisure stayed stable at 43%. Regarding job aspects, there was a small increase in importance of good pay (89%); job security remained stable at 72%; the importance of good hours increased to 66%, the opportunity to use initiative to 62%, and the importance to achieve something to 84%. The importance of a responsible job remained stable at 55%, while the importance of an interesting job increased to 82% and that of a job that meets one’s abilities to 62%. Figures regarding the importance of pleasant people to work with and good chances for promotion, job satisfaction, decision-making freedom, work seen as a business transaction, and whether instructions should be followed always were not available. The percentage of respondents that thought it fair that a quicker, more efficient, and more reliable employee was paid more than another employee of the same age with the same job increased to 91%. The percentage of respondents that felt there should be greater incentives for individual effort dropped to 44%. For the future, the importance of a lower emphasis on money and material possessions dropped to 65%; greater respect for authority dropped to 70%; and more emphasis on family life stayed about stable at 94%. The figure regarding an emphasis on the development of the individual was not available. Confidence in unions increased somewhat to 38%, while that in major companies stayed about the same at 54%.

A second wave of surveys was also performed to measure the development of job satisfaction and commitment. The 1997 ISSP survey found that job satisfaction had dropped to 83.2% (down from 86.6% in 1989). The same survey found that the percentage of respondents expressing affective commitment by means of their answer to Lincoln and Kalleberg’s (1990) two questions had increased to 76.8% and 75.1% (up from 74.3% and 63.8% in 1981-3 respectively). These are significantly higher percentages than in Japan and

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98 A 2005 survey by the National Association of Manufacturers found that 90% of 800 surveyed employers complained of a 'moderate to severe shortage of qualified skilled production employees' (http://www.nam.org/s_nam/bin.asp?CID=9&DID=235731&DOC=FILE.PDF).
<table>
<thead>
<tr>
<th>Human beliefs and values</th>
<th>1990-93 (%)</th>
<th>1999-2002 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work very important</td>
<td>62</td>
<td>54</td>
</tr>
<tr>
<td>Family very important</td>
<td>92</td>
<td>95</td>
</tr>
<tr>
<td>Leisure time very important</td>
<td>43</td>
<td>43</td>
</tr>
<tr>
<td>Important in job:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Good pay</td>
<td>86</td>
<td>89</td>
</tr>
<tr>
<td>- Pleasant people to work with</td>
<td>74</td>
<td>n.a.</td>
</tr>
<tr>
<td>- Job security</td>
<td>72</td>
<td>72</td>
</tr>
<tr>
<td>- Good changes for promotion</td>
<td>58</td>
<td>n.a.</td>
</tr>
<tr>
<td>- Good hours</td>
<td>55</td>
<td>66</td>
</tr>
<tr>
<td>- An opportunity to use initiative</td>
<td>52</td>
<td>62</td>
</tr>
<tr>
<td>- Achieve something</td>
<td>71</td>
<td>84</td>
</tr>
<tr>
<td>- A responsible job</td>
<td>56</td>
<td>55</td>
</tr>
<tr>
<td>- An interesting job</td>
<td>69</td>
<td>82</td>
</tr>
<tr>
<td>- A job that meets one’s abilities</td>
<td>57</td>
<td>62</td>
</tr>
<tr>
<td>Great deal of decision-making freedom</td>
<td>72</td>
<td>n.a.</td>
</tr>
<tr>
<td>Work viewed like a business transaction, with effort depending on pay</td>
<td>12</td>
<td>n.a.</td>
</tr>
<tr>
<td>Instructions should be followed always</td>
<td>62</td>
<td>n.a.</td>
</tr>
<tr>
<td>Fair that a quicker, more efficient, and more reliable employee is paid more than another employee of same age and job</td>
<td>86</td>
<td>91</td>
</tr>
<tr>
<td>There should be greater incentives for individual effort</td>
<td>62</td>
<td>44</td>
</tr>
<tr>
<td>Good thing for the future:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Less emphasis on money and material possessions</td>
<td>71</td>
<td>65</td>
</tr>
<tr>
<td>- Greater emphasis on the development of the individual</td>
<td>87</td>
<td>n.a.</td>
</tr>
<tr>
<td>- Greater respect for authority</td>
<td>78</td>
<td>70</td>
</tr>
<tr>
<td>- More emphasis on family life</td>
<td>95</td>
<td>94</td>
</tr>
<tr>
<td>Confidence in unions</td>
<td>33</td>
<td>38</td>
</tr>
<tr>
<td>Confidence in companies</td>
<td>51</td>
<td>54</td>
</tr>
</tbody>
</table>


Germany. Continuance commitment dropped to 21.1% (down from 26.3% in 1981-3), thereby falling below the levels in Japan and Germany.

Interpretation of the Impact of Financial Globalization on the US Labor Force and a Comparison to the Three Perspectives and the Theories of Globalization

If we are to interpret these findings, the direct impact of globalization on the characteristics of the labor force may be limited to that of migration, leading to an increase in diversity. This issue lies outside the scope of this study. There may well have been more indirect influences of financial globalization working through competitive pressures and/or the effects of international finance, but these are hard to distinguish on the basis of the material that was encountered. No judgment can be reached, therefore, with regard to the plausibility of the different theories of globalization. The findings are nonetheless of the highest importance, as

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100 The relevant question was: “I would turn down another job for more pay in order to stay with this company”.


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they give an indication of the potential support or resistance of the US labor force to the changes in US management practices that are occurring under the impact of financial globalization. This issue is discussed below in the concluding section to the chapter.

When compared to the three perspectives presented in chapter 3, in contrast to the claim made by *Trading Places*, the idea that workers in the US are independent and individualistic is not confirmed by the score on Schwartz’s Intellectual Autonomy-scale. The posited arrogance, greediness, and narrowness of managers may seem plausible to some, but has proven difficult to substantiate. *Capitalisme Contre Capitalisme* does not present any characterization of the US labor force.

The claim in the OECD publications that the US labor force is mobile and flexible is supported but only in the sense that employees changes jobs often. Because employees are relatively specialized, they are not mobile and flexible within a single firm. The strong chasm that exists between highly skilled and lowly skilled workers is not mentioned by the OECD. But ‘the American drive and energy and attitudes towards risk-taking’ noted by the OECD is supported by Schwartz’s finding of a high score on Mastery and by the finding that being self-employed or working in small innovative firms is seen as attractive. Thus, in contrast to what the OECD claims, it is in fact possible to establish whether or not entrepreneurial spirit exists in a particular place.

**Management Systems in the US**

**Management Systems in the US around 1990**

Most management systems in the US around 1990 were relatively bureaucratic with extensive formalization. Job analysis led to narrow jobs, and employees stayed in jobs and specialized unless they were promoted or transferred. There was a strong belief that selection and motivation of workers was amenable to objective, rational, and testable criteria. Seniority mechanisms were important. Numerical flexibility was used rather than functional flexibility, and this came with low investments in training and a high turnover rate. Because of short tenures, employees concentrated more on their personal career than on the firm’s success, and more on the development of general skills than on company-specific ones. Pay was according to the job, and sometimes according to individual performance. Employees worked under close supervision, and performance was evaluated by direct supervisors. At the same time, the
management group was governed by communal methods. Friction losses were high. This management system prevailed in blue-collar and clerical work, and had a direct focus on efficiency and control (Springer and Springer, 1990; Marsden, 1999; Pudelko, 2000; Hall and Soskice, 2001; Schmitt, 2002).

At the end of the 1980s, a small number of large firms implemented so-called ‘high commitment work systems’, management systems which can ideal-typically be seen as characterized by: a flat organization; decentralization; cross-functional management; teams; quality circles; broadly and flexibly defined jobs; job rotation; flexible assignment of multi-skilled workers; a process focus; employment security for a core workforce combined with a contingent workforce; internal labor markets; flextime; merit-based internal promotion; career policies; high levels of training in multiple skills; skill-based, merit-based, gain-sharing, or profit-sharing compensation; ESOPs; higher wages; work/life programs; team-based supervision; employee involvement in decision-making; group incentives; peer and customer review of performance; labor-management communication and cooperation; minimized status differences; the clarification of business goals; and non-union dispute resolution procedures. The aim was to build commitment and motivation by integrating individual needs and organizational requirements, and to achieve control, efficiency, and flexibility (Kalleberg, Knoke, Marsden, and Spaeth, 1996; Hammer, 1998; Wheeler, 1998; Castells, 2000; Ichniowski et al., 2000; Pudelko, 2000; Cappelli and Neumark, 2001; Kalleberg, 2001; Altman, 2002; Colvin, 2003; Erickson and Jacoby, 2003; Osterman, 2006). In 1994, 37% of companies with 50 or more employees had adopted two or more high commitment practices (Taras, 2003).

In either case, employers had a large scope to determine management policies. Management was scarcely regulated by law and hardly influenced by trade unions, and as a result it was flexible. There was a frequent change of management techniques. This allowed for an adjustment to the newest state of research, and it provided renewed motivation, but it also led to confusion and frustration to the extent that expectations were not fulfilled (Pieper, 1990; Pudelko, 2000).

**Changes in Management Systems in the US up to the Early 2000s**

Many firms have built a ‘low-road’ low labor cost, non-union model aimed at short-term profits, with downsizing, outsourcing, no work teams, narrow job classifications, contingent staffing, extensive labor sweating, high quit rates, on-the-job training, piece-rate pay, benefit...
cutbacks, income inequality, equity financing, takeovers, and benefits mainly for the highly educated segments of the labor force, and without labor participation (Ichniowski et al., 2000; Levine, 2000; O’Sullivan, 2000; Pudelko, 2000; Turner, Wever, and Fichter, 2001; Batt, Colvin, and Keefe, 2002; Vogel, 2003). At the same time, around 2000, 20% to 60% of establishments with 50 or more employees were using at least one high commitment work practice (Erickson and Jacoby, 2003). 16% of firms have at least one high commitment work practice in job design, as well as in staffing, training, and compensation. Only a small percentage of firms has adopted a comprehensive high commitment system (Ichniowski et al., 2000).

The 1990s saw the rise of the Silicon Valley high-tech management system. Ideal-typically this system was characterized by: flexible, decentralized organizations with autonomous business units; the extensive use of project teams; frequent spin-offs; the use of headhunters, bonuses, stock options, high salaries, and interesting projects for recruitment purposes; long work hours; high levels of contingent employment and job hopping; low tenure levels; performance-based rewards; high income inequality; a high provision of venture capital; regional clusters of firms, venture capitalists, trade associations, government institutions, universities, suppliers, and customers; a large influence of venture capitalists serving on boards of directors; intense peer pressure and informal communication; symbolic egalitarianism; the absence of unions; a mix of individualism and solidarity; the glorification of risk-taking and the acceptance of failure; commitment to a shared technical culture; and a hard-driving work ethic (Saxenian, 1994; Benner, 1999; Kenney, 2000). With the bursting of the dot.com bubble in 2001, the Silicon Valley model fell into doldrums. Offshore outsourcing of jobs increased while local job growth stagnated and venture capital provision dropped (Kirkegaard, 2004).101

**Interpretation of the Impact of Financial Globalization on US Management Systems and a Comparison to the Three Perspectives and the Theories of Globalization**

The possibility of offshore outsourcing can be hypothesized to constitute an important cause for the development of overall management systems. As the discussion of the categories of compensation and industrial relations has shown, offshore outsourcing has facilitated the establishment of the low labor cost, non-union model. In addition, as mentioned above,

offshore outsourcing has played a role in the disintegration of the Silicon Valley model. See table 4.24 for the ‘state of saturation’.

None of the three perspectives reconstructed in chapter 3 discusses the existence of different management systems in the US. Rather, they present a single ideal-typical description. Because of this, an important aspect of US management is missed: the way in which different management systems become more or less popular over time, and how financial globalization impacts on such management systems.

Of the different globalization theories, the convergence, divergence, and transformation theories are consistent with the findings. Similar developments are occurring in Japan and Germany, but whether such developments should be seen to constitute convergence, divergence, or transformation is difficult to establish. The argument is summarized in table 4.25.

<table>
<thead>
<tr>
<th>Elements of management systems</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of management systems</td>
<td>Mostly bureaucratic</td>
<td>Many firms with low-road management system</td>
<td>Possibility of offshore outsourcing</td>
<td>Bronfenbrenner (2000); Bronfenbrenner and Luce (2004); Levine (2004); Levy (2005); Piazza (2005); Anderson, Tang, and Wood (2006); Freeman (2006).</td>
</tr>
<tr>
<td>Rise of Silicon Valley high-tech management system</td>
<td>Fall of Silicon Valley model</td>
<td>Ibid.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4.24 Relevant changes in US management systems and hypothesized cause related to financial globalization.

<table>
<thead>
<tr>
<th>Changes in management systems up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Many firms with low-road management system</td>
<td>Possibility of offshore outsourcing</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, divergence, or transformation</td>
</tr>
<tr>
<td>Fall of Silicon Valley model</td>
<td>Ibid.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4.25 A comparison of changes in management systems in the US and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.
Conclusion

In this chapter, I presented the outcome of my application of the extended version of grounded theory proposed in chapter 2 to changes in US management practices, with special reference to the impact of financial globalization. The ‘state of saturation’ described in this chapter has demonstrated a considerable improvement on the preconceptions with which I started my research - the core of which was presented in chapter 3 in the form of a depiction of three popular perspectives. Not only does the state of saturation provide a much broader view of relevant elements of US management practices and changes in such elements, the interpretations made indicate plausible causes of specific changes related to financial globalization.

While a number of practices found were consistent with (parts of) the three perspectives described in chapter 3, quite a few practices were found that clearly differed from those perspectives. The most salient of such practices include: the use of teams; job rotation; lean production techniques; outsourcing; internal labor markets; the mixed effects of downsizing on share prices; the increase in (multi-functional) training; the high level of fixed regular pay; the importance of skill-based pay, seniority, and collective PRP; the provision of work/life benefits; CEO bonuses and stock-based pay unrelated to share performance; the recent drop in CEO compensation and stock options; the high level of internal and credit financing; existing networks; universal banking; the pressures by institutional investors for long-term shareholder value; the limited number of hostile takeovers; the goals of long-term profitability, firm enlargement, and diversification; some employee participation; internal peer pressures; the management of corporate reputation and culture; joint management-employee committees; high affective commitment; and the general presence of one or more elements of high commitment work systems. Such findings are important not only because they may change our understanding of US management as it is (thereby testing popular theories arguing for convergence, divergence, hybridization, or transformation), but also because they indicate potential causal factors influencing future developments.

The relevant changes in US management for which causal factors related to financial globalization were hypothesized are summarized and compared to the three perspectives presented in chapter 3 and the overall theories of globalization in table 4.26. In the process of selection, categorization, and synthesis, two plausible causal factors repeatedly presented themselves in the encountered material. The causal factor which appears most clearly related
Table 4.26 A comparison of changes in US management practices and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization (continued on next page).

<table>
<thead>
<tr>
<th>Changes from around 1990 up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Work flow</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Team work has become standard</td>
<td>FDI by Japanese MNCs into the US has impacted on the way in which US management has attempted to improve its global competitiveness</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, ‘Japanese’ hybridization, or transformation</td>
</tr>
<tr>
<td>Job rotation has become widespread</td>
<td>Possibility of offshore outsourcing</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
</tr>
<tr>
<td>Further introduction of lean production</td>
<td>Increase in (offshore) outsourcing</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
</tr>
<tr>
<td><strong>Human resource flow</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment less secure, also for managers and white-collar workers</td>
<td>Possibility of offshore outsourcing</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
</tr>
<tr>
<td>Potential and ‘fit’ with production teams more important; work experience no longer as highly valued</td>
<td>FDI by Japanese MNCs into the US has impacted on the way in which US management has attempted to improve its global competitiveness</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
</tr>
<tr>
<td>Yearly layoff rate increased</td>
<td>Possibility of offshore outsourcing</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
</tr>
<tr>
<td>Offshore outsourcing related to high rates of job losses</td>
<td>Increase in training for highly educated personnel</td>
<td>FDI by Japanese MNCs into the US has impacted on the way in which US management has attempted to improve its global competitiveness</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, ‘Japanese’ hybridization, or transformation</td>
</tr>
<tr>
<td><strong>Training practices</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apparent increase in training</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
<td>Convergence, ‘Japanese’ hybridization, or transformation</td>
</tr>
<tr>
<td>Increase in training for highly educated personnel</td>
<td>Employees trained to become multi-skilled (in narrow tasks) and to work in teams</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
<td>Convergence, ‘Japanese’ hybridization, or transformation</td>
</tr>
<tr>
<td>Employees trained to become multi-skilled (in narrow tasks) and to work in teams</td>
<td>Corporate universities established by growing number of very large firms</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
<td>Convergence, ‘Japanese’ hybridization, or transformation</td>
</tr>
<tr>
<td>Corporate universities established by growing number of very large firms</td>
<td>Increased use of job rotation, informal learning in teams, and mentor programs</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
<td>Convergence, ‘Japanese’ hybridization, or transformation</td>
</tr>
<tr>
<td>Increased use of job rotation, informal learning in teams, and mentor programs</td>
<td>Management training has started to aim at cross-functional skills, and the ability to support team work and to transform corporate culture</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
<td>Convergence, ‘Japanese’ hybridization, or transformation</td>
</tr>
</tbody>
</table>
Table 4.26 (Cont.) A comparison of changes in US management practices and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization (continued on next page).

<table>
<thead>
<tr>
<th>Changes from around 1990 up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Compensation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Introduction of work/life benefits</td>
<td>FDI by Japanese MNCs into the US has impacted on the way in which US management has attempted to improve its global competitiveness</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
</tr>
<tr>
<td>Considerable increase in CEO compensation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in CEO compensation compared to average worker</td>
<td>Possibility of offshore outsourcing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Corporate governance</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Banks, securities firms, and insurance companies may now affiliate through financial holding companies</td>
<td>Attempt to improve global competitiveness inspired by German universal banking</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, ‘German’ hybridization, or transformation</td>
</tr>
<tr>
<td><strong>Internal social control</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Peer pressure in teams increasingly used</td>
<td>FDI by Japanese MNCs into the US has impacted on the way in which US management has attempted to improve its global competitiveness</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, ‘Japanese’ hybridization, or transformation</td>
</tr>
<tr>
<td>Group bonuses and stock options increasingly used</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supervisors and foremen retrained to act as facilitators and coaches</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Group targets increasingly used</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Some increase in participation in and delegation of operational activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in importance of good team behavior and cooperative management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Introduction of peer review</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in use of 360-degree feedback</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Socialization</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intensification of efforts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate culture transmitted to strengthen commitment, motivation, and cooperation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Transformation</td>
</tr>
<tr>
<td>Ethical guidelines drafted by three-quarters of all firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Besides QCCs, other team work used to increase employee involvement and morale</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 4.26 (Cont.) A comparison of changes in US management practices and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.

<table>
<thead>
<tr>
<th>Changes from around 1990 up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industrial relations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Convergence, divergence, or transformation</td>
</tr>
<tr>
<td>Employers threaten to move production offshore to avoid unionization; they can also reduce the number of unionized workers through offshore outsourcing Further weakening of bargaining position of workers Employers threaten to move production offshore to make the workforce accept lower wages or inferior working conditions</td>
<td>Possibility of offshore outsourcing</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, divergence, or transformation</td>
</tr>
<tr>
<td><strong>Management systems</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Convergence, divergence, or transformation</td>
</tr>
<tr>
<td>Many firms with low-road management system</td>
<td>Possibility of offshore outsourcing</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, divergence, or transformation</td>
</tr>
<tr>
<td>Fall of Silicon Valley model</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Convergence, divergence, or transformation</td>
</tr>
</tbody>
</table>
to financial globalization is that of the possibility of offshore outsourcing, which may occur through foreign direct investment as well as through international trade, and which is facilitated by technical change. Even if such outsourcing may have remained limited relative to total employment and job churning in the US, it still gives employers the ability to exercise power over employees. In other words, the possibility to offshore has given employers a certain power to implement desired management techniques.

The second plausible causal factor related to globalization that became salient during the iterative process of the extended version of grounded theory was the impact of FDI by Japanese MNCs on the way in which US management has attempted to improve its global competitiveness - expressed in the implementation of certain Japanese management practices. This hypothesized causal factor demonstrated itself in the increased use of teams, job rotation, lean production, training, work/life benefits, collective pressures, a (limited) degree of participation, and the importance of corporate culture. Interestingly, a certain twist appears to have been given to such Japanese methods, in that they are not always similar to or as extensive as in Japan (e.g. regarding training or the transmission of corporate culture). To some extent, they seem to have become ‘Americanized’.

In addition to these two hypothesized causes, the extended role of banks in US management has been hypothesized to have been inspired by German universal banking in light of pressures for global competitiveness. Other potential causes of the distinguished changes in management practices are likely to exist, such as the impact of technical change. But during the iterative process of the extended version of grounded theory, no reason presented itself to believe that such causes counteracted the specific causes hypothesized here. Importantly, no direct impact of international financial markets - other than that as a channel for FDI - presented itself as a plausible hypothesis.

The presented material also indicates some points of resistance against the impact of financial globalization. To begin, certain changes are incompatible with the characteristics of the labor force. Thus, there exists a contradiction between the importance attached to job security and the high layoff levels, and between the importance of affective autonomy and the increased importance given to corporate culture. At the same time, somewhat surprisingly perhaps, no contradictions exist between the findings of Schwartz and Inglehart et al. and the increase in teamwork, job rotation, training expenses, work/life benefits, collective pressures, and the increase in delegation and participation. The low level of continuance commitment is compatible with the high layoff rate, while the increase in affective commitment is compatible with the increased importance given to corporate culture. On the level of actual practices,
contradictions exist between the increased importance given to training and corporate culture on the one hand, and the high layoff rate on the other; and between elements of ‘low-road’ management systems and the presence of teams, internal labor markets, collective pressures, and the importance of corporate culture. Such contradictions indicate potential sources of resistance.

Another point of resistance is the need for management to placate stakeholders. Shareholders may dump their shares, banks can close lines of credit, business partners can look for other business partners, regulatory bodies can change existing regulations, boards can dismiss their CEOs, and employees may quit. The material presented above has shown the increased importance in the professional management of shares by mutual funds; the extended role of banks; the increased engagement of institutional investors - pressuring management toward long-term shareholder value, accountability, and transparency; the increased independence and power of the board; the new right of shareholders to influence CEO compensation; and the drop in shareholder approval for CEO compensation plans. The management patterns as they are found are an outcome of these diverse pressures and exercises of power.

To conclude, none of the three perspectives constituting the core of the preconceptions with which I started my research referred to the impact of offshore outsourcing and the impact of Japanese FDI on the attempt to improve global competitiveness on US management practices. These causal factors were established as plausible hypotheses through an iterative process of selection, categorization, synthesis, and interpretation of all kinds of empirical and theoretical material. The impact of the causal factors interpreted here can serve as a new theory or set of hypotheses for future research, while attending to the various sources of resistance or support.

As can be seen in table 4.26, of the different theories of globalization, the only theory that is consistently compatible with the findings is the transformation theory. The plausibility of this theory is further underlined by the different points of resistance just mentioned. The analysis presented in this chapter provides a clear specification of the way in which financial globalization can be hypothesized to have led to a transformation of US management practices. As such, important nuance is brought into the transformation theory of financial globalization.
5 Changes in Japanese Management Between 1990 and the Early 2000s

In a process similar to that used for the previous chapter, I constructed systematized pictures of changes in Japanese management between around 1990 (roughly 1987-1994) and the early 2000s (roughly 1995-2005) by means of an iterative process of selection, categorization, synthesis, and interpretation of all kinds of empirical and theoretical findings. Again, a large amount of material was taken into consideration, and the most plausible and relevant material was retained. As in the US case, priority was given to first-hand data or material using first-hand data, followed by secondary sources.

The systematized and synthesized historical material with relevant interpreted hypotheses and comparisons to the three popular perspectives of chapter 3 and the different globalization theories, is again presented according to the management categories of work flow, human resource flow, compensation, governance, industrial relations, the labor force, and management systems. This depiction of the ‘state of saturation’ reached at the time of writing is followed by a concluding section, summarizing the main findings and conclusions.

Several improvements on the three popular perspectives appeared. The impact of financial globalization was hypothesized to have run through an increase in foreign share ownership; deregulation as a result of the existence of the euromarket; and offshore outsourcing. But certain counterforces and processes of adaptation were also found. As was the case for US management, quite a few changes were found that appeared unrelated to financial globalization, indicating the limitations to the scope of its impact. Again, the many other possible causes of change related to overall globalization are considered to lie outside the scope of this study. As in the US case, the only general theory of globalization that is consistent with all the findings is the transformation theory.
**Work Flow in Japan**

**Formal Organization in Japan around 1990**

Around 1990, large Japanese firms had elaborate hierarchical structures with a high percentage of managers. They were centralized, with large head offices that employed around 8% of the workforce. There were many hierarchical levels, which designated status more than function, and did not directly correspond to competences or responsibilities. There was little functional or divisional specialization, while cooperation between departments was extensive. Formalization was high (Lincoln and Kalleberg, 1990; Redding and Whitley, 1990; Robinson, 1994; Marsden, 1999; Pudelko, 2000; Kono and Clegg, 2001; Jacoby, 2005b). Employment in small firms was significant: at the end of the 1980s, firms with fewer than 100 workers provided 58% of manufacturing employment (McMillan, 1989).

Teamwork was extensive. Every employee was a member of multiple workgroups, and their leaders were often also organized in workgroups (Pudelko, 2000). Frequent use was made of project teams (Kono and Clegg, 2001). Lincoln and Kalleberg (1990) found that around 81% of plants had QCCs with 76% of employees as members.

In 1990, the competence rank job classification rule was found in 83.6% of firms (Rōmu Gyōsei Kenkyūjo, 1994). Classifications focused on workers’ ability to contribute to the work group. In some craft sectors and for some licensed occupations, the qualification rule was used to establish systems of occupational skills. Jobs were broad; formal job descriptions were ambiguous and served as guidelines only. Job rotation was high within and between workshops and departments (Lincoln and Kalleberg, 1990; Takahashi, 1990; Marsden, 1999; Clegg and Kono, 2002). Changes in assignments took place twice a year for around 10% of the workforce (Pudelko, 2000). In the production process, lean production was popular (McMillan, 1989).

**Changes in Formal Organization in Japan up to the Early 2000s**

To some extent, there has been a flattening and decentralization of organizational structures. Firms have begun to set up semi-autonomous units, but the head office has remained strong. The importance of teams has increased further, as many companies have abandoned departments in favor of groups with flexible responsibilities (Kono and Clegg, 2001; Itoh, 2003; Araki, 2005; Inagami and Whittaker, 2005; McCann, Hasard, and Morris, 2006; Sako,
The employment share of large firms has risen (Jacoby, 2005b). There has been an increase in outsourcing, but in terms of balance of payments statistics, offshore outsourcing has remained insignificant (METI, 1999, 2003a, 2004). Nonetheless, offshore outsourcing has been related to a concentration on core competences in some firms (METI, 2006; MIC, 2007). 102

**Interpretation of the Impact of Financial Globalization on Formal Organization in Japan and a Comparison to the Three Perspectives and the Theories of Globalization**

The flattening and decentralization of structures and the setting up of semi-autonomous units may be interpreted to have been inspired by US management and oriented at an improvement of global competitiveness. It has occurred primarily in firms with high foreign share ownership, where pressures are exerted by foreign institutional investors. Thus, the following hypothesis can be drawn up: Pressures by foreign shareholders have led to the implementation of management practices similar to US management practices - with the aim to improve competitiveness. This hypothesis is supported by Aoki and Dinc (1997), Itoh (2003), Jackson (2003), Miyamoto (2004), McCann, Hassard, and Morris (2006), Sako (2006), and Jackson and Miyajima (2007). The possibility of offshore outsourcing constitutes another potential channel for the impact of financial globalization, allowing some firms to concentrate on their core competences. Some support for this hypothesis is provided by the findings of METI (2006) and MIC (2007). The relevant changes from the perspective of the impact of financial globalization on Japanese formal organization and the hypothesized causes are summarized in table 5.1.

<table>
<thead>
<tr>
<th>Elements of formal organization</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal structure</td>
<td>Many hierarchical levels; centralized structures</td>
<td>Flattening and decentralization of structures Setting up of semi-autonomous units Concentration on core competences in some firms</td>
<td>Pressures by foreign shareholders towards practices inspired by US management Possibility of offshore outsourcing</td>
<td>Aoki and Dinc (1997); Itoh (2003); Jackson, (2003); Miyamoto (2004); McCann, Hassard, and Morris (2006); Sako (2006); Jackson and Miyajima (2007). METI (2006); MIC (2007).</td>
</tr>
</tbody>
</table>

Table 5.1 Relevant changes in formal organization in Japan and hypothesized causal factors related to financial globalization.

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102 The 2003 survey by METI found that some 5% of surveyed firms offshored their production to concentrate on core competencies. The same answer was provided by 7.3% of companies in the software industry surveyed by the MIC for the period 2005-7.
Considering the three perspectives presented in chapter 3, *Trading Places* ignores the importance of the formal organization in Japanese management. *Capitalisme Contre Capitalisme* does not provide a depiction of formal organization in Japan around 1990. Whether or not the hierarchical structure in Japanese firms has recently been judged cumbersome and paralyzing as the book argues, there has been some flattening and decentralization of organizational structures - although the head office has remained strong. The statements in the OECD publications are to some extent supported. Flexibility in the formal organization has increased through the establishment of semi-autonomous units and groups. But centralization at the head office has remained important, and decentralization has been based on units and groups rather than individuals.

*Trading Places* does not discuss expected changes in formal organization in Japanese management and how these would be related to financial globalization. Both *Capitalisme Contre Capitalisme* and the OECD publications clearly discuss the way in which pressures on international financial markets have led to the wish for and implementation of practices inspired by US management practices, but the possibility of offshore outsourcing is not taken into consideration.

Of the different globalization theories, the convergence, hybridization, and transformation theories are all consistent with the findings. In light of the implementation of practices similar to US management practices, the divergence theory does not appear plausible. The argument is summarized in table 5.2.

<table>
<thead>
<tr>
<th>Changes in formal organization up to the early 2000s</th>
<th>Hypothesized cause</th>
<th><em>Trading Places</em></th>
<th><em>Capitalisme Contre Capitalisme</em></th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flattening and decentralization of structures</td>
<td>Pressures by foreign shareholders towards practices inspired by US management</td>
<td>No analysis</td>
<td>Pressures on international financial markets towards practices inspired by US management</td>
<td>No analysis</td>
<td>Convergence, hybridization, or transformation</td>
</tr>
<tr>
<td>Setting up of semi-autonomous units</td>
<td>Possibility of offshore outsourcing</td>
<td></td>
<td></td>
<td>No analysis</td>
<td></td>
</tr>
<tr>
<td>Concentration on core competences in some firms</td>
<td></td>
<td></td>
<td></td>
<td>No analysis</td>
<td></td>
</tr>
</tbody>
</table>

**Table 5.2** A comparison of changes in formal organization in Japan and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.
Informal Organization in Japan Around 1990

The large Japanese firm around 1990 had the character of an informal community, conceptualized as a corporate family. There was a close attachment of core workers with the firm, in which they spent their entire working life. In exchange, the firm took care of its employees (McMillan, 1989; Lincoln and Kalleberg, 1990; Dore, 2000; Pudelko, 2000).

Employees were committed to the groups they belonged to. Members of such groups spent much time together on and off the job. The needs of all group members were attended to, but there were large internal power distances (Clegg, Higgins, and Speybey, 1990; Lincoln and Kalleberg, 1990; Kono and Clegg, 2001). Groups existed on the basis of divisions, universities, and seniority. There also existed long-term dyadic mentoring relationships between older and experienced employees with higher hierarchical positions and younger and inexperienced employees. Leadership by the mentor was personal and paternalistic (Lincoln, Kerbo, and Wittenhagen, 1995; Pudelko, 2000; Clegg and Ray, 2003).

As a result of these informal bonds there was an independent, unofficial hierarchy next to the official hierarchy. In effect, de facto decentralization was typical (Lincoln and Kalleberg, 1990; Pudelko 2000).

Changes in Informal Organization in Japan up to the Early 2000s

As in the case of the US, it has proven difficult to find studies of changes in informal organization in Japan. The impact of financial globalization on informal organization in Japanese firms is therefore unclear.

A Comparison of Informal Organization in Japanese Management with the Three Perspectives

In its depiction of Japanese management, Trading Places rightly stresses the importance of the informal organization, but whether personal ties are far more important than contracts or professional obligations would appear hard to judge, as personal ties in firms often exist on the basis of contracts or professional obligations. Capitalisme Contre Capitalisme and the OECD publications do not provide a depiction of informal organization in Japanese management.
Human Resource Flow in Japan

Staffing in Japan around 1990

In large Japanese corporations, core workers were provided with lifetime employment supported by informal norms and case law (Chuma, 1997; Dore, 2000; Pudelko, 2000). According to Nomura’s (1994) estimates, this concerned about one-third of the Japanese workforce. Only male regular employees in large firms had lifetime employment, while there was an in-and-out system for contingent workers, women, and the employees of smaller enterprises. In 1990, 19.2% of total employment was classified as part-time (less than 35 hours per week) (OECD, 2004a). In practice, part-time workers worked almost the same number of hours as regular workers. The share of temporary employment and contract work in 1990 was estimated at 10.7% (OECD, 1993). Such non-permanent staff often de facto worked on a long-term basis, albeit for less money and security. The use of temporary employees secured the employment of permanent employees and provided the company with necessary skills and flexibility. Additional flexibility was achieved through the use of overwork (Takahashi, 1990; Berggren, 1995; Chuma, 1997; Castells, 2000; Kono and Clegg, 2001; Kwon, 2004). According to the OECD (2005), the average hours worked per person per year in 1990 were 2,031.

Internal labor markets were common. The core workforce was hired directly after graduation from school or university. Firms were connected with schools and universities through mediation traditions and alumni. Mid-career recruitment was rare except for specialists. Personnel selection took place according to subjective, informal, and non-standardized methods and criteria. Firms recruited generalists, as jobs were only decided later on, and as jobs could be changed in the course of a career. High importance was attached to social and personality criteria. Selection criteria included social conformity, education, university ranking, learning and leadership potential, loyalty, and the ability to ‘fit’ with colleagues. Practical knowledge and skills were only important in the selection of specialists. For new recruits, there were hardly any differences in payment, career possibilities, working hours, and working conditions between firms. In managerial recruitment, enterprises met their needs mostly through internal development. There was only minimal importation of outsiders onto boards. Employment contracts were open-ended (McMillan, 1989; Lincoln and Kalleberg, 1990; Redding and Whitley, 1990; Takahashi, 1990; Robinson, 1994; Dore, 2000; Pudelko, 2000; Kono and Clegg, 2001).
Laws made it difficult for employers to discharge core workers without a good cause. There had to be strong economic pressures; measures to avoid dismissals (transfers, early retirement, reductions in overtime, recruitment, and contingent employment, and pay cuts); a fair selection of dismissed employees that excluded the sole use of performance criteria; and consultation with the union or other worker body. Part-time and temporary workers had no dismissal protection. In practice, layoffs were only hesitantly performed. Survey data from the Ministry of Health, Labor and Welfare indicate a yearly layoff rate of 0.7% in 1989 (Jung and Cheon, 2004). Instead of resorting to dismissals, large firms implemented recruitment freezes; reduced working hours and contingent work; transfers; attrition; early retirement; retraining, and reduced compensation and/or dividends (McMillan, 1989; Lincoln and Kalleberg, 1990; Chuma, 1997; Hollingsworth, 1997; Marsden, 1999; Dore, 2000; Pudelko, 2000; Ahmadjian and Robinson, 2001; Kono and Clegg, 2001; Araki, 2005).

For 1987-8, the OECD (1997e) reported a quit rate of 1.3%. External labor mobility occurred primarily in firms with less than 300 employees (Robinson, 1994). Tenure levels were high, with average tenure in 1992 estimated at 10.9 years (Auer, Berg, and Coulibaly, 2004).

**Changes in Staffing in Japan up to the Early 2000s**

The incidence of lifetime employment has decreased, albeit slowly (Yamamura and Streeck, 2003; Sako, 2006; Aoki, 2007). Only about 20% of the workforce now enjoys lifetime employment (down from one-third in 1990) (The Japan Institute for Labor Policy and Training, 2003-5). Whether or not the idea of providing lifetime employment is still supported is unclear. A 2002 survey by the Ministry of Health, Labor and Welfare found that only 8.5% of companies still supported the lifetime employment system, while 48.6% did not (The Japan Institute of Labor, 2002a). But the 2003 version of the same survey found that 60.1% of firms thought they would employ most of their employees until their retirement.103 And a 2005 survey by the Japan Institute for Labor Policy and Training even found that 90% of responding listed firms intended to maintain lifetime employment policies (Abe, 2007).104 In addition, lifetime employment is still supported by the law. The 2003 Labor Standards Law dictates that a company must have a specific objective and rational reason to dismiss an

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104 On the basis of a 2002 MOF, a 2003 METI, and a Japan Institute of Labor survey, Jackson (2007) concludes that lifetime employment remains a norm for 70-85% of listed firms.
employee, and that it must be appropriate in light of socially accepted views and practices. But the same Law did increase the scope of short-term contract hiring to a wider range of workers, and the contractual period was extended from one to three years (Nakakubo, 2004). Overall, temporary and contract work increased to 15.2% of total employment in 2003 (up from 10.7% in 1990) (The Japan Institute of Labor, 2003a). Meanwhile, as shown in figure 5.1, the share of part-time employment has increased to around 25% (up from 19.2% in 1990).


A 2003 survey by the Ministry of Health, Labour, and Welfare found that 51.7% of companies surveyed said the leading reason for hiring non-regular workers was to cut wage costs, followed by increased task flexibility (28.0%), increased employment flexibility (26.5%), and the securing of experienced workers (26.3%). Apart from the impact of the domestic economic situation, the increase in non-regular work to cut wage costs has been related to an increase in international competitive pressures (Inagami, 2004; Sako, 2006). Average annual hours worked per employee have fallen below the US level at 1,775 in 2005 (down from 2,031 in 1990) as shown in figure 5.2.

Recent recruitment practices have indicated that there appears to be at least a temporary retreat from the use of part-time staff, as companies have started to boost their intake of graduates. A survey by the Ministry of Health, Labour and Welfare found that the annual average number of regular general employees had increased by 0.5% during 2005.

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105 Financial Times, March 29, 2006; Nikkei Sangyo Shimbun, October 2006.
106 www.mhlw.go.jp/english/database/db-l/18/1802pe/mk1802pe.html
Apart from this, firms have increasingly turned to mid-career recruiting, in particular for younger specialists (Kono and Clegg, 2001; Komoto, 2004; Abe and Hoshi, 2007). Nonetheless, the hiring of employees from other firms has remained an exception. A 2001 survey of 229 Japanese listed firms found that 84% prioritized internal recruitment over external recruitment for non-supervisory employees, while 89% did so for managers (Jacoby, 2005b). Selection still occurs on the basis of social abilities, but occupational skills have increased in importance. For non-specialized jobs, past job experiences are still considered negatively. A number of small, technology-intensive, and innovative start-up firms offer an alternative for less traditional, flexible, and creative talent. Such talent hopes to be provided with a faster career, a higher salary, and more freedom (Robinson, 1994; Aoi, 1997; Dore, 2000; Pudelko, 2000; Kono and Clegg, 2001; The Japan Institute for Labor Policy and Training, 2004b).

While large-scale layoffs have remained rare, survey data from the Ministry of Health, Labor and Welfare indicate an increase in the layoff rate to 1.5% in 2001 - up from 0.7% in 1989 (Jung and Cheon, 2004). Ahmadjian and Robinson (2001) found that during 1990-97, firms that were less profitable, had slower growth, had reduced their core workforce in the past, had similar firms reducing their core workforce, and had a large percentage of shares held by foreigners were more likely to reduce their core workforce than other firms. Older and larger firms, firms with high visibility or status, high-wage firms, firms dependent on high levels of human capital, and firms with a large percentage of exports were less likely to do so. On the basis of a 2003 METI survey, Jackson (2007) finds no significant impact of foreign ownership on the use of lifetime employment, but this does not invalidate the findings by Ahmadjian and Robinson (2001) - who used behavioral data instead of survey data and who
did not limit themselves to a single point in time. Moreover, their data were collected in a
different time period. Abe and Shimizutani (2005) also did not establish a connection between
foreign shareholdings and layoffs, but their study was also based on survey material from a
single year (2001). Moreover, they found that firms with more outside directors were more
likely to lay-off employees, while Abe and Hoshi (2004) found that firms with high foreign
ownership had higher levels of board independence - thus providing indirect support for the
findings of Ahmadjian and Robinson (2001).

More often than performing large-scale layoffs, large firms reduced hiring and
overtime of core workers; introduced unpaid holidays and temporary paid leave; transferred
employees to other departments or supplier firms; pressured employees to leave the firm
voluntarily; provided lump-sum payments for early retirement; reduced bonuses; and
retrained employees (Berggren, 1995; Dore, 1996, 2000; Whitley, 1999; Matsuo, 2000;
Pudelko, 2000; Ahmadjian and Robinson, 2001; Kono and Clegg, 2001; Vogel, 2003;

The separation rate\(^{107}\) has increased to 16.1% in 2003 (The Japan Institute of Labor,
2003b; The Japan Institute for Labor Policy and Training, 2004c). According to Pudelko
(2000), changing firms has become more and more acceptable. Some young people, so-called
‘freeters’, have started to take a series of short-term jobs (Kosugi, 2004; Jacoby, 2005b;
Honda, 2005). But interfirm mobility has remained low in comparison to the US (Jackson,
average tenure to 12.2 years in 2002. Thus, there exists a segmentation between a group of
employees with an increased turnover rate and another (larger) group with relatively stable
employment.

**Interpretation of the Impact of Financial Globalization on Staffing Practices in Japan and
a Comparison to the Three Perspectives and the Theories of Globalization**

In relating these changes in Japanese staffing practices to financial globalization, a first
impact that can be hypothesized to exist is that running through large foreign shareholdings in
a number of firms. As found by Ahmadjian and Robinson (2001), in such firms, the indicence
of lifetime employment was reduced. This impact was resisted to some extent by the Labor
Standards Law. Certain domestic causes of the reduction in lifetime employment have also
been argued to exist - such as the stagnation of the Japanese economy during the 1990s and
the ageing of the core workforce (Inagami and Whittaker, 2005; Sako, 2006) - but these fall outside the scope of this study. On the basis of a survey performed by the Japan Institute for Labor Policy and Training, Abe (2007) found a significant relationship between foreign shareholdings and the implementation of a flexible working hours system.

The increase in contingent employment and the separation rate together with the increase in the tenure rate indicates a stronger segmentation between a core and a contingent workforce. This has been interpreted to have been due to labor costs reduction related to the increase in global competitive pressures (Inagami, 2004; Iwata, 2004; Kosugi, 2004; McCann, Hassard, and Morris, 2006; and Sako, 2006, 2007). The increase in mid-career recruitment of specialists would seem to be the result of technological requirements (Kono and Clegg, 2001). Offshore outsourcing has been found to have led to a decrease in hiring but not to direct increases in layoffs (Kiyota and Matsuura, 2006). The relevant changes in staffing practices in Japanese management related to financial globalization and the hypothesized causes are summarized in table 5.3.

Comparing the findings to the three perspectives, in its depiction of Japanese staffing practices, Trading Places neglects the importance of the extensive contingent workforce. The external recruitment of specialists - which grew further in importance over the 1990s - is not mentioned either. In line with Capitalisme Contre Capitalisme, Japanese firms did provide employment security, but only for about one-third of the labor force. The OECD depiction of human resource flow in Japan is to some extent supported. Layoffs have attained some legitimacy, impediments to inter-company labor mobility have diminished - in particular for specialists - and there has been a significant increase in the turnover rate. But at the same time, lifetime employment for the core workforce is still valued, and there exists a genuine

<table>
<thead>
<tr>
<th>Elements of staffing practices</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staffing system</td>
<td>Lifetime employment for one-third of the workforce</td>
<td>Reduction in lifetime employment to about 20% of workforce</td>
<td>Large foreign shareholdings in a number of firms</td>
<td>Ahmadjian and Robinson (2001).</td>
</tr>
<tr>
<td>Types of employment</td>
<td></td>
<td>Increase in flexible working hours</td>
<td>Foreign shareholdings</td>
<td>Abe (2007).</td>
</tr>
<tr>
<td>- Alternative policies to layoffs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 5.3 Relevant changes in staffing practices in Japanese management and hypothesized causes related to financial globalization.

107 Layoffs and quits.
possibility that this practice regains its former popularity when economic growth picks up durably.\textsuperscript{108} Internal labor markets are still important and mid-career recruitment may drop when firms succeed in the development of internal specialist career paths. Legal employment protection is still important and large-scale layoffs have remained rare. \textit{Trading Places} provides no analysis of the impact of financial globalization on staffing practices in Japan, and neither does \textit{Capitalisme Contre Capitalisme}. According to the OECD, pressures on international financial markets have led to the implementation of practices inspired by US management practices, including an increase in labor mobility and employment flexibility. This is consistent with the hypothesis regarding the impact of foreign shareholdings on Japanese staffing practices. None of the three perspectives discusses the impact of the possibility of offshore outsourcing.

The reduction in lifetime employment together with the increase in flexible working hours appears to indicate a process of convergence in the direction of US management practices. At the same time, the increase in layoffs has been much more limited than in the US, and there did not appear to be a decrease in hiring in the US. Apparently, then, the convergence theory does not provide the most plausible depiction of the developments in Japanese staffing practices - and neither do the divergence or the hybridization theories. The only theory that is consistent with the findings is the transformation theory. The argument is summarized in table 5.4.

<table>
<thead>
<tr>
<th>Changes in staffing practices up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>\textit{Trading Places}</th>
<th>\textit{Capitalisme Contre Capitalisme}</th>
<th>\textit{Economic Surveys and Economic Outlooks}</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in lifetime employment to about 20% of workforce</td>
<td>Large foreign shareholdings in a number of firms</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Pressures on international financial markets towards practices inspired by US management</td>
<td>Transformation</td>
</tr>
<tr>
<td>Increase in flexible working hours</td>
<td>Foreign shareholdings</td>
<td>Possibility of offshore outsourcing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease in hiring</td>
<td>Possibility of offshore outsourcing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\textbf{Table 5.4} A comparison of changes in staffing practices in Japan and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.

\textsuperscript{108} Anecdotal evidence indicates that with the recent economic upswing such is indeed the case (\textit{Nihon Keizai Shimbun}, September, 2005).
Career Development in Japan around 1990

For core employees in large Japanese firms around 1990, the promotion system was largely seniority-based. Promotion also depended on group-oriented behavior, as loyal, motivated, and efficient team workers tended to be promoted. Generalists were favored. Other criteria included: academic qualifications; potential long-term ability; having been transferred between jobs and departments; firm-specific training; after-work activities; age; and family situation. At the higher management level, there was an emphasis on the ability to perform and actual performance, while seniority was only considered to some extent. At top management level, only the ability to perform and actual performance were important. Those who showed perseverance and long-term dedication to their work were judged most suited for leadership. All promotion criteria were informal (McMillan, 1989; Lincoln and Kalleberg, 1990; Takahashi, 1990; Robinson, 1994; Aoki and Dinc, 1997; Dore, 2000; Pudelko, 2000).

Large firms offered extensive job ladders to core workers. Most careers were general as they cut across departments and occupations. But specialist careers did exist, especially at later stages in careers. Status was only loosely tied to authority and responsibility. Thus, an employee could advance in status without undergoing significant shifts in tasks. Careers were internal to the firm, to the extent that a change of firm was not possible without decreasing promotion possibilities. Promotion was slow, steady, and predictable. For managers, career paths were also located within a single firm, running over multiple functions. Managers with higher than average long-term performance were promoted faster than others. Top executives were often drawn from engineering and operations management. For contingent workers, there were no career opportunities (McMillan, 1989; Lincoln and Kalleberg, 1990; Robinson, 1994; Berggren, 1995; Iwai, 1995; Aoki and Dinc, 1997; Marsden, 1999; Dore, 1996, 2000; Pudelko, 2000; Ahmadjian and Robinson, 2001; Kono and Clegg, 2001; Matanle, 2003).

A self-statement system allowed employees to state their job preferences. This made it possible for firms to fit the interests of the employee to the job (Kono and Clegg, 2001). The personnel department took the promotion decision. This ensured loyalty to the overall firm and it reduced the dependence of subordinates on their superordinates. In addition, superordinates were expected to include the opinion of an employee’s colleagues in their evaluation (Pudelko, 2000).
Changes in Career Development in Japan up to the Early 2000s

The seniority principle in promotion has slowly but steadily retreated. In a 1999 survey, the Ministry of Labor found that on average 85.2% of companies based their decisions regarding promotion to Assistant Manager on ability and 80.1% on results while only 47.9% used seniority as a guide. For promotion to manager the figures were slightly higher for ability and results and slightly lower for seniority. The survey also found that 51.5% of companies with more than 5,000 employees and 39.2% of companies of between 1,000 and 4,900 employees had introduced specialist career tracks (Matanle, 2003).

More recently, anecdotal evidence indicates that there may be some return to the use of seniority in promotion. Thus, Sumitomo has introduced a new, full-scale seniority system for newly graduated employees lasting a period of ten years, followed by promotion on the basis of abilities, the importance of assignments, and performance. According to the Nikkei Shimbun (March, 2006), it is expected that this move by Sumitomo will be followed by other firms.

Abe and Hoshi (2004) found that for a sample of 58 firms, the number of firms using fast tracking had increased from 5.2% in 1995 to 10.3% in 2000. A 2003 survey by the Sanno Institute of Management of 4,100 people found that 70% indicated that job switching helped their careers, but most suitably below 35 years of age and in technical or engineering work.

Interpretation of the Impact of Financial Globalization on Career Development in Japan and a Comparison to the Three Perspectives and the Theories of Globalization

The reason for the increased emphasis on ability in career development practices in Japanese firms cannot be determined from the material I encountered in the process of selection, categorization, and synthesis. The introduction of specialist career tracks has most likely resulted from technological pressures (Kono and Clegg, 2001), while the limited importance of job switching indicates the relative persistence of internal careers. On the basis of a sample of 85 listed firms, Abe and Hoshi (2004) found that firms with large foreign shareholdings were more likely to have a fast track career system and less likely to have careers based on seniority. The latter relation to financial globalization is indicated in table 5.5.
Elements of career development practices | Around 1990 | Changes up to the early 2000s | Hypothesized cause | Studies supporting the hypothesis
--- | --- | --- | --- | ---
Staffing system | Careers largely based on seniority | Fast track career system in some firms | Large foreign shareholdings in a number of firms | Abe and Hoshi (2004).

Table 5.5 Relevant changes in career development practices in Japanese management and hypothesized causes related to financial globalization.

_Trading Places_ contains the statement that promotion in Japan is based on seniority. While this is largely the case, the statement neglects the presence of other criteria that were used: group-oriented behavior; generalism; academic qualifications and potential long-term ability; having been transferred between jobs and departments; training; after-work activities; age; family situation; and individual long-term abilities and performance at higher management levels. In line with _Capitalisme Contre Capitalisme_, for the core workforce, there indeed existed a planned slow and orderly career path which promoted harmony because it decreased competition. But whether the largely qualification and seniority-based promotion system actually enhanced economic efficiency is open to debate. To advance in the hierarchy it may not have been as important to increase one’s level of education as the book argues, although it did seem to help. But promotion was also based on loyalty, motivation, efficiency, potential long-term ability, general abilities, after-work activities, age, and family situation - all factors that the book does not mention. In addition, at higher management levels, only the ability to perform, actual performance, and long-term dedication were of importance. As for the expected changes, while for some employees careers have become somewhat faster, it appears that the seniority principle is still important. As argued by the OECD, individual capability and performance have indeed become more important in career development.

_Trading Places_ and the OECD publications do not contain an analysis of the impact of financial globalization on Japanese career development practices. In contrast, according to _Capitalisme Contre Capitalisme_, pressures on international financial markets have led to demands for US-style faster careers, a demand that has apparently to some extent been met.

The findings are consistent with the convergence, the hybridization, and the transformation theories. Only divergence should be seen as an implausible theory, unless there would indeed be a return to the use of seniority in promotion. The argument is summarized in table 5.6.
Changes in career development practices up to the early 2000s

<table>
<thead>
<tr>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast track career system in some firms</td>
<td>Large foreign shareholdings in a number of firms</td>
<td>No analysis</td>
<td>Pressures on international financial markets towards practices inspired by US management</td>
<td>No analysis</td>
</tr>
</tbody>
</table>

### Table 5.6
A comparison of changes in career development practices in Japan and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.

### Training in Japan around 1990

In 1989, 73.8% of Japanese firms with 30 or more regular employees reported to have provided at least some training (OECD, 1991). Average expenses per employee were high, with education and training costs as a percentage of labor expenses at 2.4% in 1988 (METI, 2003b), and education and training expenditure at ¥mln 678,590 during 1993-5 (METI, 2004). Training was firm-specific, cross-functional, team-oriented, and aimed at the long-term. It was mostly on-the-job, but there also existed off-the-job training. There was an emphasis on internal training, but training programs were also provided away from company premises (McMillan, 1989; Lincoln and Kalleberg, 1990; Redding and Whitley, 1990; OECD, 1991; Robinson, 1994; Chuma, 1997; Sano, 1998; Marsden, 1999; Pudelko, 2000; Drost et al., 2002).

Introductory training was widespread. In 1991, 79% of employees of large firms received training in their first year of employment (Pudelko, 2000). Through an introductory course of a few weeks or months, new employees learned to understand their role in the firm, and to develop a communal identity, feelings of responsibility, and work motivation. After the introductory course, employees were provided with different, lowly respected, and hard jobs for a period of 3 to 12 months. After this phase, which was to teach employees modesty, their first real job was provided to them. Further training occurred by means of lectures, job rotation, and informal channels, while learning on the job occurred in small group activities. In mentoring systems, older and more experienced employees supervised one or two new employees, with a long-term focus (McMillan, 1989; Lincoln and Kalleberg, 1990; Robinson, 1994; Chuma, 1997; Marsden 1999; Dore, 2000; Pudelko, 2000; Aoki, 2001).

Management training focused on new recruits and lower and mid-level supervisors. It aimed to motivate them to contribute to the goals of the company, and to provide them with
the skills needed to manage subordinates and to take responsibility. Cross-functional skills were acquired by working in different departments. Top management received less training (Robinson, 1994; Pudelko, 2000; Kono and Clegg, 2001).

*Changes in Training in Japan up to the Early 2000s*

According to ASTD (2005), Japanese organizations in 2002 trained an average of 59% of employees. As comparable data regarding a decade earlier proved difficult to find, it is not clear whether this constitutes an increase or a decrease, but it does give an indication of the state of affairs in the early 2000s. Education and training costs as a percentage of labor expenses dropped from 2.4% in 1998 to 1.6% in 1995, but thereafter remained stable - reaching 1.5% in 2001 (METI, 2003b). Total education and training expenditure increased from ¥mln 678,590 during 1993-5 to ¥mln 775,733 during 1998-2000 (METI, 2004). Training no longer only transmits general firm-specific skills and knowledge, but it has also started to provide specialist skills (Kono and Clegg, 2001). It has increasingly become attuned to individual preferences and talents (Pudelko, 2000). A survey by the Sanwa Research Institute found that in 2000, 80.8% of responding firms trained workers primarily through on-the-job training.

A 2003 survey by the Japan Productivity Center for Socio-Economic Development showed that 40.3% of companies surveyed had introduced an internship system, up from 9.0% in 1998. In addition, in 2004, the Ministry of Education, Culture, Sports, Science and Technology (MEXT) introduced a Japanese-style ‘dual system’ - integrating vocational training at schools for a period of one to three years with corporate internships.

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The stronger emphasis on specialist skills is most likely a result of technological requirements (Kono and Clegg, 2001), while the precise reason for the stronger emphasis on individual preferences and talents is unclear. The introduction of internships and the ‘dual system’ has been inspired by German management practices in an attempt to improve global competitiveness (METI, 2003b, 2004). No plausible causal relation of changes in Japanese training policies to financial globalization came to the fore.
Trading Places and the OECD publications do not contain a depiction of training practices in Japan. While training was extensive, as argued by Capitalisme Contre Capitalisme, whether or not the contingent workforce received training is unclear from the data, but it seems unlikely (Waldenberger, 2006) - and this is not mentioned.

Compensation in Japan

Compensation in Japan around 1990

Compensation for core workers in large Japanese firms around 1990 consisted of fixed regular pay, bonuses, and fringe benefits. New employees were graded according to educational qualifications. The nenko regular pay system combined seniority with merit. For 1992, the effects of seniority on pay were estimated at around 3.3% per year (Genda, 1998). After 10 years of tenure, a percentage of the wage was also tied to rank or job function. In addition, the monthly basic salary was based on age, sex, family situation, and attended internal training (Lincoln and Kalleberg, 1990; Takahashi, 1990; Robinson, 1994; Iwai, 1995; Chuma, 1997; Dore, 2000; Pudelko, 2000; Abe, 2002; Miyamoto and Kubo, 2002).

Compensation also contained a large variable component in the form of bonuses - equivalent to about one-half of yearly salary. Such bonuses were based on agreements between labor and management and only weakly linked to overall firm performance. But 10 to 20% of the bonuses were linked to individual performance (The Japan Institute of Labor, 2002b). Such individual performance referred to the exercise of relational skills, taking on new functions, sharing knowledge, and taking part in group problem-solving activities (Marsden, 1999).

In the early 1990s, hourly direct pay for production workers in manufacturing in Japan outpaced that for US workers (see figure 5.3 - a reproduction of figure 4.6). But while core workers in large firms enjoyed high wages, contingent workers and workers in small subcontracting firms had much lower wages. Their wages were not based on seniority, annual bonuses were limited, and fringe benefits were few (Lincoln and Kalleberg, 1990; Dore, 2000; Kono and Clegg, 2001; Kwon, 2004). According to Castells (2000), part-time workers on average received about 60% of a regular worker’s salary and about 15% of the annual bonus.
Large firms offered many fringe benefits to core workers, constituting around 20% of overall income. Apart from the relatively limited number of legally prescribed benefits, these included extra payment for overwork and shift-work; travel expenses; housing benefits; health insurance; pensions; saving plans; financial help for the education of children; discounts on products; leisure activities; and low interest loans. Employees also received money gifts on special occasions such as marriage, births, funerals, and a child’s entrance to higher education. Welfare services were available to family members, as in widow support. Retiring employees usually received a lump-sum payment on separation from the firm, the amount depending on the seniority of the employee and his salary history. Holidays were few (Lincoln and Kalleberg, 1990; Kester, [1991] 1997; Sano, 1998; Pudelko, 2000; Okabe, 2002; Matsuo, Bosch, and McIntyre, 2003).

The income of a manager depended to a large extent on seniority. In addition, managers were rewarded through bonuses for multiyear accomplishments. Management salaries were relatively low. A survey by Rōmu Gyōsei Kenkyūjo (1988) of 45 firms with 1,000 or more employees found average 1988 CEO compensation to be roughly ¥35 mln ($273,224 at an exchange rate of 128.1¥/$ 110). The firm rather rewarded its managers with costly status-symbols, such as expenses for business activities in exclusive bars and contributions for golf clubs (Dore, 2000; Pudelko, 2000; Kono and Clegg, 2001).

Low importance was attached to external wage equity, because the external labor market was unimportant. If there was a change of employer, the new salary was below the

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109 Including pension, health and nursing, and accident compensation insurance, and child benefit contributions.
110 OECD (1999b).
previous one, as cross-entrants were not considered to be full members of the new firm (Pudelko, 2000). Income differences were small. According to Towers Perrin (2000), in 1991, total CEO pay was 7.8 times higher than that of an average manufacturing employee (25.8 in the US). The OECD (2004a) reports that the 90-10 percentile ratio for the gross earnings of full-time employees was 3.15 in 1985-89 (4.23 in the US). The equal distribution of income continued for lower hierarchical levels. Wage increases for managers were related to those of ordinary workers. In case of economic difficulties, the salaries of managers were cut before those of the workers (Lincoln and Kalleberg, 1990; Marsden, 1999; Dore, 2000; Miyamoto and Kubo, 2002).

**Changes in Compensation in Japan up to the Early 2000s**

There has been a slow trend away from seniority-based wages in order to recruit and motivate young skilled workers by increasing their wage levels (Thelen and Kume, 2003). The 2004 Nissay Business Conditions Survey found that 28.4% of large firms had eliminated seniority-based pay (Komoto, 2004). The years of initial seniority increments have been reduced, with wage differences becoming visible after 5 years. Differentiated pay has been provided for different individual qualification, skill, and performance levels - in particular for specialized career groups (Dore, 2000; Pudelko, 2000; Kono and Clegg, 2001). A survey by the Ministry of Health, Labor, and Welfare found the following developments in the factors taken into consideration in determining wages: job or duty increased from 68.8% of firms in 1988 to 70.6% in 2000; job performance increased from 69.2% to 77.3%; achievement from 55.3% to 62.3%; and age/length of service and educational background from 78.5% to 80.6%. 49.3% of firms had increased wage differentials over the previous 5 years (Abe and Hoshi, 2004).

A 2004 survey by the Japan Institute for Labor Policy and Training (JILPT) found that approximately 60% of companies had introduced a performance-based wage system instead of the nenko system. Individual PRP in particular has been introduced. A 2003 survey by the Japan Productivity Center found that the use of individual performance-linked annual bonus payments had increased from 9.8% in 1996 to 40.9% in 2003. On the basis of 2002 data from the Japan Productivity Center, Miyamoto and Kubo (2002, 2003) report that individual PRP had been introduced to 70.2% of senior management, 45.3% of lower management, and 33.2% of non-managerial employees. It aimed to reduce labor costs and motivate employees. But the highest performers only gained a 7.5% boost of their annual compensation. Moreover, the Japan Institute for Labor Policy and Training reports that in practice, in early 2005 the
compensation system was still performance-based in name only due to discontentment among employees.\textsuperscript{111} A 2002 survey by Towers Perrin Tokyo and Nikko Cordial Securities found that 30\% of listed firms had introduced stock options since these became legal in 1997 (Yanadori, 2004).

More recently, anecdotal evidence indicates at least some return to the seniority wage system. Thus, Sumitomo has introduced seniority wages for newly graduated employees lasting a period of ten years. After that period, evaluations of the development of an employee’s ability will be reflected in bonus payments only. The \textit{Nikkei Shimbun}\textsuperscript{112} expects that this move by Sumitomo will be followed by other firms.\textsuperscript{113} For now, the compensation system is characterized as having become diversified (Ishida, 2007).

The OECD (2004b) reports real wage growth at 2.0\% for 1990-94, 0.9\% for 1995-99, and 0.9\% for 2000-02. Figure 5.4 (a reproduction of figure 4.8) demonstrates a relative decrease in (nominal, exchange-rate corrected) hourly direct pay for production workers in manufacturing compared to US levels. In their study of 996 publicly traded firms, Yoshikawa, Phan, and David (2005) found that the amount spent on wages relative to sales decreased with the ratio of foreign shareholding when firm performance was low.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure5_4.png}
\end{figure}

\textsuperscript{111} www.jil.go.jp/foreign/emm/no.34/34\_si.htm
\textsuperscript{112} \textit{Nikkei Shimbun}, March, 2006.
\textsuperscript{113} An alternative view is held by Conrad and Heindorf (2006), who expect a redefinition of performance criteria and evaluation of performance. But these authors do not discuss the developments at Sumitomo, which are apparently more recent.
There has been an increase in the amount spent on benefits. Legally required benefits, in particular, have increased in importance. At the same time, companies have reduced the amount and comprehensiveness of other benefits.\footnote{http://www.jil.go.jp/foreign/emm/no.78/78_si.htm} They have attempted to tie benefits more closely to the needs of employees by allowing employees to choose from different options in a ‘cafeteria plan’. One option is a portable pension plan for those who intend to change employer at some point in their career. Some companies give employees the option of receiving their pensions while working at the company instead of at retirement (Matanle, 2003; The Japan Institute for Labor Policy and Training, 2005).

CEO pay has increased and become more variable by the introduction of stock-based pay, reaching 12% of average CEO compensation in 2001 (Towers Perrin, 2001). Income differences between top managers and workers have increased. For 2001, Towers Perrin (2001) reports total CEO pay at 11.6 times that of an average manufacturing employee (7.8 in 1991; 41.3 in the US). Gaps between individual workers have widened as well, as a result of the greater emphasis on individual performance (Jackson, 2007). But the collective will to leave individual compensation less to market forces than to a societal consensus over just compensation has remained - with the hiring of highly achieving specialists at high wages as an increasing exception (Pudelko, 2000; Kono and Clegg, 2001). Overall, OECD (2004a) data indicate that the 90-10 percentile ratio for the gross earnings of full-time employees dropped to 2.99 in 1995-99 (3.15 in 1985-89). Thus, while income differences have increased between managers and employees, and between individual workers, income differences between different groups of full-time workers have decreased.

**Interpretation of the Impact of Financial Globalization on Japanese Compensation Practices and a Comparison to the Three Perspectives and the Theories of Globalization**

In relating the findings about Japanese compensation practices to the impact of financial globalization, Jackson (2007) found that firms with greater foreign ownership were less likely to adopt age-based salaries; Abe (2007) found a significant correlation between the share possession rate of foreigners and the introduction of PRP; Jackson and Miyajima (2007) found a relation between foreign shareholdings and the provision of stock options; and Yoshikawa, Phan, and David’s (2005) found that the amount spent on wages relative to sales decreased with the ratio of foreign shareholdings when firm performance was low. On the
basis of an econometric model, the IMF (2007) further finds a negative impact of offshore outsourcing on wage levels. Table 5.7 summarizes the relevant changes in compensation practices and hypothesized causes related to financial globalization.

<table>
<thead>
<tr>
<th>Elements of compensation practices</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of pay</strong></td>
<td>Lack of individual PRP and stock options</td>
<td>Some firms less likely to adopt age-based salaries</td>
<td>Foreign shareholdings</td>
<td>Jackson (2007).</td>
</tr>
<tr>
<td><strong>Wage levels</strong></td>
<td>High relative wage levels</td>
<td>Amount spent on wages relative to sales decreased with ratio of foreign shareholding when firm performance was low</td>
<td>Foreign shareholdings</td>
<td>Yoshikawa, Phan, and David (2005).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Wage levels negatively affected</td>
<td>Offshore outsourcing</td>
<td>IMF (2007).</td>
</tr>
</tbody>
</table>

**Table 5.7** Relevant changes in compensation practices in Japanese management and hypothesized causes related to financial globalization.

In *Trading Places*, the depiction of Japanese compensation practices is limited to the idea that compensation is based on seniority and bonuses. This neglects the importance of other criteria that are used, such as educational qualifications at entry, merit, age, sex, family situation, individual performance, and internal training. It also neglects the compensation system used for contingent workers. *Capitalisme Contre Capitalisme* has a similar shortcoming: while basic salaries in large firms were relatively stable, the variable bonuses were extensive - constituting one-third up to half of yearly income - though only a small part depended on individual performance. Apart from seniority and qualifications, basic salaries were also based on merit, age, sex, family situation, training, and sometimes individual performance. Changes in compensation practices have been moderate: most large firms still have a competence-rank compensation system, with individual PRP amounting only to a maximum of 7.5% of annual compensation. And while the gap between managerial pay and that of the average manufacturing employee has risen, it has remained relatively small. In contrast to the claims made by the OECD, compensation is not solely based on seniority, but also on merit, educational qualifications, ability, age, sex, family situation, and performance. In addition, bonuses form an important part of compensation. While the use of individual PRP has to some extent expanded, it only constitutes a relatively low level of overall compensation.
compensation, and anecdotal evidence suggests the possibility of a return to more traditional compensation practices.

*Trading Places* and the OECD publications do not present an analysis of the impact of financial globalization on Japanese compensation practices. According to *Capitalisme Contre Capitalisme*, pressures on international financial markets have led to demands for US-style compensation practices, and the implementation of such practices has indeed to some extent occurred.

The implementation of US-style compensation practices is inconsistent with the divergence theory of globalization. At the same time, the introduction of such practices has been limited in scope, and the huge increase in income inequality in the US was not matched by the developments in Japan. While income differentials between CEOs and average manufacturing employees did increase somewhat, income differentials between different groups of workers in fact decreased. This implies that the convergence theory of globalization can not be considered to be consistent with the findings either. The hybridization theory is more plausible, but there does appear to have been some transformation of the implemented US-style compensation practices. The transformation theory is compatible with the findings.

The argument is summarized in table 5.8.

<table>
<thead>
<tr>
<th>Changes in compensation practices up to the early 2000s</th>
<th>Hypothesized cause</th>
<th><em>Trading Places</em></th>
<th><em>Capitalisme Contre Capitalisme</em></th>
<th><em>Economic Surveys and Economic Outlooks</em></th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Some firms less likely to adopt age-based salaries Introduction of PRP and stock options</td>
<td>Foreign shareholdings</td>
<td>No analysis</td>
<td>Pressures on international financial markets towards practices inspired by US management</td>
<td>No analysis</td>
<td>Transformation</td>
</tr>
<tr>
<td>Amount spent on wages relative to sales decreased with ratio of foreign shareholding when firm performance was low</td>
<td>Foreign shareholdings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wage levels negatively affected</td>
<td>Offshore outsourcing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 5.8 A comparison of changes in compensation practices in Japan and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.
Governance in Japan

Corporate Governance in Japan around 1990

In corporate governance practices in Japan around 1990, internal funding and credit were important sources of corporate finance - see table 5.9. Net new equity issues were less important but positive nonetheless (in contrast to the US case). The sharp increase in the debt/equity ratio was due to the bursting of the stock market bubble in 1990. Venture capital provision was limited (Jackson, 2003).

Table 5.10 shows that non-financial corporations were the most important shareholders, followed by households. Banks held slightly more than 10% of corporate equity. Together, corporations, banks, insurance/pension funds, the general government, and the central bank and public corporations held 62.0% of shares in 1990. These groups tended to pursue strategic and organizational interests, often holding equity to promote cooperation and reduce risks (Jackson, 2003). The increase in stock ownership by the government indicated in the table resulted from government rescue operations of firms. Share-ownership was concentrated and stable. For the 1986-1991 period, Gedajlovic and Shapiro (2002) found that a firm’s five largest blockholders on average owned 33.7% of its outstanding shares.


<table>
<thead>
<tr>
<th>Year</th>
<th>Internal Funding (¥bln)</th>
<th>External Funding (¥bln)</th>
<th>Internal/Total Funding (%)</th>
<th>Credit Outstanding (¥bln)</th>
<th>Market Value of Equities (¥bln)</th>
<th>Debt/Equity Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>49,842.7</td>
<td>9,925.1</td>
<td>22,732.6</td>
<td>36.3</td>
<td>485,127.1</td>
<td>554,006.6</td>
</tr>
<tr>
<td>1989</td>
<td>49,691.4</td>
<td>13,735.0</td>
<td>38,741.2</td>
<td>33.4</td>
<td>605,289.2</td>
<td>699,846.8</td>
</tr>
<tr>
<td>1990</td>
<td>49,252.8</td>
<td>9,192.9</td>
<td>18,054.0</td>
<td>43.8</td>
<td>580,368.4</td>
<td>431,127.7</td>
</tr>
<tr>
<td>1991</td>
<td>50,849.5</td>
<td>7,688.3</td>
<td>23,983.4</td>
<td>52.5</td>
<td>607,086.2</td>
<td>418,287.5</td>
</tr>
<tr>
<td>1992</td>
<td>53,604.4</td>
<td>4,915.1</td>
<td>28,569.9</td>
<td>65.9</td>
<td>614,433.1</td>
<td>307,438.9</td>
</tr>
<tr>
<td>1993</td>
<td>57,363.6</td>
<td>5,906.2</td>
<td>-5,799.8</td>
<td>77.5</td>
<td>606,807.6</td>
<td>329,410.7</td>
</tr>
<tr>
<td>1994</td>
<td>55,184.3</td>
<td>6,811.7</td>
<td>3,243.1</td>
<td>83.8</td>
<td>601,370.6</td>
<td>405,782.8</td>
</tr>
</tbody>
</table>

1 Net savings and consumption of fixed capital
2 Shares and other equities
3 Loans and securities other than shares
4 Capital transfers, trade credit, financial derivatives, and other

115 Yoshitaka Okada, personal communication.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Households(^1)</td>
<td>27.3</td>
<td>26.4</td>
<td>25.9</td>
<td>25.3</td>
<td>24.3</td>
<td>25.1</td>
</tr>
<tr>
<td>Non-financial corporations</td>
<td>34.3</td>
<td>33.7</td>
<td>31.8</td>
<td>30.3</td>
<td>29.6</td>
<td>29.6</td>
</tr>
<tr>
<td>Banks(^2)</td>
<td>10.0</td>
<td>10.6</td>
<td>10.5</td>
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<td>10.9</td>
<td>10.3</td>
</tr>
<tr>
<td>Insurance firms/Pension funds</td>
<td>11.5</td>
<td>11.9</td>
<td>11.9</td>
<td>12.3</td>
<td>12.4</td>
<td>11.0</td>
</tr>
<tr>
<td>Mutual funds(^3)</td>
<td>9.2</td>
<td>8.2</td>
<td>7.2</td>
<td>6.8</td>
<td>6.6</td>
<td>5.9</td>
</tr>
<tr>
<td>General government</td>
<td>4.1</td>
<td>5.1</td>
<td>7.3</td>
<td>8.4</td>
<td>8.8</td>
<td>10.4</td>
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<td>0.7</td>
<td>1.2</td>
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<td>1.6</td>
<td>2.1</td>
</tr>
<tr>
<td>Foreign</td>
<td>3.0</td>
<td>3.4</td>
<td>4.3</td>
<td>4.6</td>
<td>5.8</td>
<td>5.6</td>
</tr>
</tbody>
</table>

\(^1\) Includes private non-profit institutions serving households
\(^2\) Depository corporations
\(^3\) Other financial intermediaries except insurance and pension funds, financial auxiliaries


Business groups in the form of the so-called ‘vertical keiretsu’ consisted of a stable supply-chain with one dominant company and many small supplier firms, strengthened by mutual shareholding, interlocking directorships, credit provision, and an exchange of personnel. The large assembler often held long-term minority and sometimes majority shares in member firms. The majority of equity was controlled by the keiretsu as a whole. The large firm organized, trained, controlled, directed, and fostered the smaller supplier firms. It was their major or even sole buyer of outputs. The dependence of supplier firms was increased further by the use of shared technology, just-in-time production, and quality requirements and audits. About 60% of small firms worked under such keiretsu arrangements\(^116\) (McMillan, 1989; Tam, 1990; Ruigrok and Van Tulder, 1995; Phan and Yoshikawa, 2000; Hoshi and Kashyap, 2001; Kono and Clegg, 2001; Yoshikawa and Phan, 2001; Gedajlovic and Shapiro, 2002; Nakamura, 2002).

Most large companies also exchanged shares with banks, insurance companies, and companies outside their vertical keiretsu. Patrick (2004) reports total cross shareholding in 1991 at 18.0% of listed company shares. Many of these cross-shareholdings were held within the framework of business groups consisting of large firms and their banks - the so-called ‘horizontal keiretsu’. The cross-shareholdings held within these business groups were never traded without consultation with the firm that issued the shares. In effect, half to three-quarters of the stock of these horizontal keiretsu were not publicly traded, and this provided a guarantee against hostile takeovers. In addition, where share-holding was reciprocal, neither party had an interest in pressing for higher than conventional dividends (Takahashi, 1990; 146

\(^116\) According to an estimate by Kono and Clegg (2001).
Dore, 2000; Chew, 1997; Powell and Smith-Doerr, 1994; Yoshikawa and Phan, 2001). The insulation from short-term demands of shareholders also allowed firms to accept constraints on their ability to hire and fire, which contributed to lifetime employment (Berggren, 1995; Dore, 1996). In economic downturns, *keiretsu* structures allowed workers to be transferred across firms rather than being laid off. Cross-subsidization often occurred (Fligstein, 1997; Hoshi and Kashyap, 2001; Gedajlovic and Shapiro, 2002; Jackson, 2003). *Keiretsu* firms practiced mutual monitoring, and disciplinary action was sometimes carried out (Kono and Clegg, 2001).

The horizontal *keiretsu* usually revolved around a main bank. The relationship between the firm and its main bank included a high level of reciprocal shareholdings, the (non-exclusive) long-term provision of credits, the dispatch of directors, trustee administration, underwriting of bond issues, operation of payment settlement accounts, foreign exchange dealings, and investment banking and advisory services relating to the issue of securities and corporate acquisitions and divestments. This provided for security and stability (Tam, 1990; Aoki and Patrick, 1994; Aoki, Patrick, and Sheard, 1994; Mizruchi and Brewster Stearns, 1994; Aoki, 2001; Yamamura, 2003). Banks were not legally allowed to own more than 5% of shares in a company. In effect, in a *keiretsu*, a company’s main bank usually owned 4.9%, with secondary banks owning another 2 to 3%. Shares owned by banks were traded infrequently (Chew, 1997). For 1991, Patrick (2004) reports cross-shareholdings by banks at 7.4% of listed shares. Abe and Shimizutani (2005) found that 49.2% of directors of listed firms in 1990 were appointed by banks.

Certain monitoring and governance functions were delegated to main banks. Their position as main shareholder, credit supplier, and deposit bank gave them a thorough insight into the firm as well as an influential position. While management maintained autonomy in normal circumstances, it was the main bank which picked up the pieces when a firm got into trouble and needed a restructuring. This was frequently a loss-making activity which was undertaken out of a sense of obligation to the banking community and because the main bank’s status was at stake. Because of pressure from the banks, a change in management could take place in case of mismanagement. Main banks were primarily interested in the long-term growth and prosperity of the firm, since this contributed to the growth of the banks’ business and greater profit. They emphasized strategies focused on stable revenue (Sherman and Babcock, [1993] 1997; Aoki and Patrick, 1994; Aoki, Patrick, and Sheard, 1994; Prowse, 1994; Berggren, 1995; Dore, 2000; Pudelko, 2000; Aoki, 2001; Kono and Clegg, 2001; Yoshikawa and Phan, 2001).
Not all corporations had close relationships with banks. Many large and successful companies were debt free and outside the scrutiny of banks (McMillan, 1989; Kester, [1991] 1997). Institutional investors tended not to exert control over companies (Kono and Clegg, 2001).

Major owners were locked-in to the fate of the firms they invested in. It was virtually unthinkable for an important shareholder to divest without consulting management. Because of this, principal owners had the incentive and ability to engage in information-gathering to assess the prospects of the company. They exerted considerable influence on management behavior. Inside shareholders had power, outside shareholders did not (Chew, 1997).

Concentrated ownership, long-term cross-shareholdings, and the limited number of floating shares led to an absence of takeovers. In effect, there was no pressure from the stock exchange to optimize short-term earnings per share. Rather, firms were subject to informal monitoring by major owners and creditors. This allowed managers to emphasize long-term growth and employment; to invest in long-term capabilities; and to focus on a strategy of market share (McMillan, 1989; Prowse, 1994; Chew, 1997; Oliver, 1998; Deeg, 1999; Whitley, 1999; Dore, 2000; Pudelko, 2000). But Kaplan (1997) did find that managers were more likely to lose their jobs when stock performed poorly and when their company experienced an earnings loss. In other words, the existing informal monitoring process had at least some of the same effects one could expect from pressures deriving from the stock exchange.

In Japan, the AGM has the legal right to appoint and dismiss directors and to set their bonus payments. In practice, however, the influence of the general assembly was limited. Most shareholders submitted their proxy to management and hence the issues proposed by top management were quickly agreed (Aoki and Dinc, 1997; Kono and Clegg, 2001; Araki, 2005).

The board of directors of listed firms had 17.5 members on average in 1990. Around 70% of board members were inside directors, while 30% were outside directors. The latter included managers of connected firms and representatives of the main bank (Abe and Shimizutani, 2005). Outside directors were rather uninfluential. As president of the board, the CEO could appoint and remove directors, and he had considerable influence on the choice of his successor. Still, decision-making in the board was collective in nature (McMillan, 1989; Dore, 1992, 2000; Ruigrok and Van Tulder, 1995; Kaplan, 1997; Pudelko, 2000).
Employees to some extent controlled management through their expectations of the performance of superordinates. Results were to be achieved that were acceptable to all members of the firm (Dore, 2000; Pudelko, 2000).

Overall, the main stakeholders of the firm were fellow *keiretsu* firms, main banks, and employees (Pudelko, 2000). The absence of a market for corporate control and the presence of insider-dominated boards afforded managers a broad scope of discretion. At the same time, shareholdings by financial institutions and corporations and employee expectations imposed limits on such discretion (Gedajlovic and Shapiro, 2002).

Only 8% of Japanese managers surveyed by Hampden-Turner and Trompenaars (1993) felt that the only real goal of a corporation was making profit. Instead, long-term survival and growth in terms of market share, sales, and productivity came first. Harmony in and common purpose of the firm and its employees were other important goals. A high priority was also put on annual profitability and cash flow in order to be able to serve debt obligations. A mixed priority was put on stock price, and a low priority on total shareholder returns (McMillan, 1989; Iwai, 1995; Chew, 1997; Pudelko, 2000; Kono and Clegg, 2001). But there was also a group of independent firms that focused more strongly on shareholder value (Yoshikawa and Phan, 2001).

The emphasis on growth over profit led to a low return on investment and equity. Only small portions of value-added were paid to shareholders. Profit rates were low, and dividends were treated as fixed payments, while rates of internal reinvestment were high. Firms absorbed high labor costs and avoided layoffs, thus maintaining implicit contracts and protecting firm-specific human capital. The long-term horizon led to long-term planning and investment in training. An emphasis on devotion to society led to public trust in the company, which aided long-term sustainability (Kono and Clegg, 2001; Ahmadjian and Robbins, 2003; Jackson, 2003).

**Changes in Corporate Governance in Japan up to the Early 2000s**

The development of the euromarket prompted a process of deregulation of Japanese financial markets during the late 1990s and early 2000s to increase their competitiveness (Rosenbluth, 1989; Toya, 2000; Hoshi and Kashyap, 2001; Lincoln and Gerlach, 2004). In 1998, controls on international capital and foreign exchange transactions were removed, and in 2001, restrictions that separated banking, the securities business, and insurance were lifted. A new market with easier fund-raising for start-ups was created. Share buybacks, stock options,
and share swaps were legalized (Toya, [2000] 2006; Hoshi and Kashyap, 2001; Jackson, 2003; Jackson and Miyajima, 2007). At the same time, as a result of the banking crisis, the government gained leverage over the financial sector (Vogel, 2003). The government also still controlled the postal savings system with assets reaching some $3 trillion. But the 2005 re-election of Koizumi set reform of this system on the agenda, starting in 2007, with the aim to achieve privatization by 2017.117

Table 5.11 shows that internal funding has become an even more important source of corporate finance, in particular when external funding through credit has decreased drastically. Share issues continue to make only a small, though mostly positive, contribution to corporate finance. The debt/equity ratio appears to have returned to levels of before the bursting of the stock market bubble in 1990. Since the mid-1990s, venture capital has become a little easier to obtain. In 1999-2000, the Market for High Growth and Emerging Stocks (Mothers) and Nasdaq Japan were created to promote investment in new technology companies. In 2002, Nasdaq US pulled out of Nasdaq Japan, after which the latter was continued as Hercules. At the end of 2004, Mothers listed 150 firms, and Hercules 127. The

<table>
<thead>
<tr>
<th>Year</th>
<th>Internal Funding (¥bln)</th>
<th>External Funding (¥bln)</th>
<th>Internal/Total Funding (%)</th>
<th>Credit Outstanding (¥bln)</th>
<th>Market Value of Equities (¥bln)</th>
<th>Debt/Equity Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>59,583.6</td>
<td>7,527.4</td>
<td>-8,252.1</td>
<td>-5,943.1</td>
<td>614,732.5</td>
<td>151.5</td>
</tr>
<tr>
<td>1996</td>
<td>64,966.6</td>
<td>4,782.0</td>
<td>-2,541.6</td>
<td>3,965.1</td>
<td>595,363.6</td>
<td>149.0</td>
</tr>
<tr>
<td>1997</td>
<td>69,741.5</td>
<td>-17,203.7</td>
<td>10,743.9</td>
<td>-10,069.8</td>
<td>598,520.4</td>
<td>191.3</td>
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<td>1998</td>
<td>67,343.5</td>
<td>6,179.8</td>
<td>-23,709.8</td>
<td>-26,107.6</td>
<td>577,553.2</td>
<td>185.9</td>
</tr>
<tr>
<td>1999</td>
<td>70,957.5</td>
<td>9,134.7</td>
<td>-25,210.2</td>
<td>-5,474.2</td>
<td>544,324.7</td>
<td>101.3</td>
</tr>
<tr>
<td>2000</td>
<td>76,907.4</td>
<td>8,105.0</td>
<td>-21,119.5</td>
<td>7,469.4</td>
<td>514,979.3</td>
<td>121.4</td>
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<td>2001</td>
<td>75,375.5</td>
<td>3,442.7</td>
<td>-15,598.5</td>
<td>-19,789.4</td>
<td>490,488.2</td>
<td>147.8</td>
</tr>
<tr>
<td>2002</td>
<td>79,862.9</td>
<td>4,324.2</td>
<td>-25,468.5</td>
<td>-23,709.8</td>
<td>467,812.0</td>
<td>155.2</td>
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<td>2003</td>
<td>83,047.7</td>
<td>1,957.2</td>
<td>-27,901.7</td>
<td>-6,231.6</td>
<td>436,736.7</td>
<td>108.3</td>
</tr>
<tr>
<td>2004</td>
<td>88,704.5</td>
<td>6,747.8</td>
<td>-16,337.1</td>
<td>-3,939.6</td>
<td>415,176.7</td>
<td>89.8</td>
</tr>
<tr>
<td>2005</td>
<td>85,884.2</td>
<td>5,720.0</td>
<td>-3,662.2</td>
<td>2,572.9</td>
<td>408,098.1</td>
<td>56.0</td>
</tr>
</tbody>
</table>

1 Net savings and consumption of fixed capital
2 Shares and other equities
3 Loans and securities other than shares
4 Capital transfers, trade credit, financial derivatives, and other


<table>
<thead>
<tr>
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<tr>
<td>Households1</td>
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<td>21.9</td>
<td>20.2</td>
<td>19.9</td>
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<td>22.2</td>
<td>21.9</td>
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<tr>
<td>Non-financial corporations</td>
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<td>23.9</td>
<td>23.5</td>
<td>24.5</td>
<td>21.4</td>
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<td>23.1</td>
<td>23.5</td>
</tr>
<tr>
<td>Banks2</td>
<td>10.7</td>
<td>10.7</td>
<td>11.0</td>
<td>11.2</td>
<td>9.5</td>
<td>9.9</td>
<td>9.4</td>
<td>8.1</td>
<td>8.0</td>
<td>7.8</td>
<td>8.2</td>
</tr>
<tr>
<td>Insurance firms/Pension funds</td>
<td>10.6</td>
<td>11.1</td>
<td>11.4</td>
<td>10.9</td>
<td>9.7</td>
<td>10.0</td>
<td>10.4</td>
<td>8.5</td>
<td>8.4</td>
<td>7.8</td>
<td>8.4</td>
</tr>
<tr>
<td>Mutual funds3</td>
<td>5.1</td>
<td>4.7</td>
<td>4.3</td>
<td>5.0</td>
<td>5.8</td>
<td>6.6</td>
<td>8.1</td>
<td>7.9</td>
<td>7.0</td>
<td>6.6</td>
<td>5.9</td>
</tr>
<tr>
<td>General government</td>
<td>9.6</td>
<td>12.4</td>
<td>14.4</td>
<td>14.2</td>
<td>10.9</td>
<td>13.2</td>
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<td>2.0</td>
<td>4.4</td>
<td>5.0</td>
<td>4.9</td>
<td>4.1</td>
<td>4.0</td>
<td>3.8</td>
<td>4.2</td>
<td>3.7</td>
<td>3.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Foreign</td>
<td>7.3</td>
<td>8.8</td>
<td>9.8</td>
<td>10.2</td>
<td>15.2</td>
<td>13.5</td>
<td>13.2</td>
<td>12.0</td>
<td>15.3</td>
<td>16.4</td>
<td>19.6</td>
</tr>
</tbody>
</table>


The level of venture capital investment increased from ¥82 bln in 1988 to ¥587 bln in 2001, but it dropped back to ¥544 bln in 2003 (Sako, 2007).

Table 5.12 shows that the proportion of stably held shares (by corporations, banks, insurance firms and pension funds, the general government, and the central bank and public financial corporations) declined to 52.4% in 2004 (down from 62.0% in 1990), even when the relative percentage of shares held by the general government remained significant due to corporate rescue operations of non- or de-listed firms.\(^{118}\) The share held by other groups (households, mutual funds, and foreigners) increased to 47.6%. These groups trade more actively and are oriented towards achieving share price gains (Jackson, 2003). There has been a notable increase in shareholding by foreigners (mainly US pension and mutual funds). Between 1988 and 1998, the number of listed firms with foreign ownership of 10% or more increased from 9 to 25%. In 1998, foreign owners controlled stakes of 33% or more in 30 non-financial listed corporations (2.5% of the total), and held a majority of shares in 1% of such corporations (Jackson, 2003). The shift in ownership has led to a decrease in ownership concentration and an increase in share turnover and volatility. In a sample of 58 listed firms, Abe and Hoshi (2004) found that the proportion of shares held by the 10 largest shareholders dropped from 46.0% in 1995 to 43.8% in 2000. The turnover ratio of firms listed on the TSE increased from 28.9% in 1996 to 100.8% in 2004 (TSE, \textit{Fact Book}, 2003, 2005).

Patrick (2004) reports a decrease of total cross-shareholding to 7.4% of listed company shares in 2003 (down from 18.0% in 1991). Nonetheless, for most large companies,

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\(^{118}\) Yoshitaka Okada, personal communication.
majority ownership has remained concentrated in relational blocs (Jacoby, 2005b), and firms have been forging new alliances for cross-shareholding as a form of takeover protection (Jackson and Miyajima, 2007). But there also appears to be a number of firms that has increasingly become dependent on capital markets, with a high percentage of shares held by foreigners (Kono and Clegg, 2001). The latter firms appear to be responsible for the decrease in cross-shareholding: Miyajima and Kuroki (2005) found that it was profitable firms with easy access to capital markets and high foreign ownership in the early 1990s that tended to unwind cross-shareholdings.

Patrick (2004) also reports that cross-shareholding by banks dropped to 3.7% of listed shares in 2003 (down from 7.4% in 1991). From their side, corporations cut their shareholdings in banks in half since 1996 (Jackson, 2003). Furthermore, for a sample of 58 listed firms, Abe and Hoshi (2004) found that the proportion of (ex-)bankers on the board dropped from 7.7 in 1995 to 7.2 in 2000. And during the 1990s, loans by main banks decreased in importance because of internal financing and the bad loan problem. All this led to a loosening of ties between large firms and main banks, implying some waning of the influence of banks in corporate governance. While banks have continued to play a role in corporate restructuring, deviations from main bank intervention have increased (Whitley, 1999; Hoshi and Kashyap, 2001; Kono and Clegg, 2001; Davis, 2002). But many firms still rely heavily on bank loans nonetheless, while banks also play a significant role in securities underwriting and risk management - allowing banks a continuing influence in corporate governance. New bank holding companies may increase ownership concentration by being allowed to hold 15% stakes. And the dependence of small and medium-sized companies on banks increased over the 1990s as a result of the banks' aggressive courting of such firms (Hoshi and Kashyap, 2001; Nakamura, 2002; Jackson, 2003; Jackson and Miyajima, 2007). Importantly, also, banks appear recently to have resolved their bad loan problem and they have tentatively started lending again.\footnote{119}

New institutional investors have created pressures to provide for short-term financial returns, transparency, board independence, and investor relations. Regulatory reform has moved standards of disclosure toward those of the US SEC (Jackson, 2003). In 2004, 40% of companies listed on all Japanese exchanges voluntarily filed quarterly reports (Ishizuka and Kitamura, 2004). New consolidated accounting makes it hard to hide losses in subsidiary firms. In effect, according to Jackson (2003), strategies of internal diversification to maintain employment are being abandoned. In particular in firms with an increase in foreign

\footnote{10.2870/25906}
ownership, there has been an increased demand for disclosure and transparency. In several such firms, information was disclosed to a wider extent (Yoshikawa and Phan, 2001; Miyajima, 2007). But the pressure from foreign investors has remained limited to a small group of top companies (Jackson, 2005). And more recently, the influence of foreign investors appears to have decreased (Jacoby, 2005b). Meanwhile, employee stock ownership funds have emerged, reinforcing a stakeholder ethos - albeit on a limited scale (Jacoby, 2005b).

Barriers to takeovers have weakened, leading to an increase in M&A activity to a peak of $108.5 billion in 2004. The foreign share of such M&A reached 9.5% of the total. But hostile takeovers are still impeded by cross-shareholdings, the role of METI and the banks in mediating mergers, and a 2002 law easing the issuance of warrants exercisable upon a hostile takeover attempt. In effect, hostile takeovers have remained rare (Ahmadjian and Robbins, 2003; Jackson, 2003; Okazaki, 2004; Jackson and Miyajima, 2007). In several firms with an increase in foreign ownership, stock options were introduced (Yoshikawa and Phan, 2001).

Overall, in 2002, 28.1% of listed firms had introduced such stock options (up from 9.5% in 1999) according to a survey by the Ministry of Finance. But actual usage of stock options has remained relatively limited in scope (Jackson, 2003; Miyajima, 2007).

Fees for shareholder derivative law suits and minimum stock holding for inspection of company accounts have been lowered, leading to an increase in shareholder derivative actions (Jackson, 2003; Shishido, 2007). Meanwhile, the 2001 Commercial Code revisions have enabled the AGM or the board of directors to limit the directors’ financial liability (Araki, 2005).

The average number of directors in listed firms has decreased to 14.7 in 2001 (down from 17.5 in 1990). The percentage of inside directors dropped from 70% in 1990 to 63.3% in 2001 (Abe and Shimizutani, 2005). Most of the other directors came from parent or affiliated companies (Araki, 2005). Firms with high foreign ownership had higher levels of board independence (Abe and Hoshi, 2004).

The 2002 revision of the Commercial Code introduced an optional US-style governance model, based on the board and three committees with a majority of outside directors. By 2005, more than 60 listed companies had adopted the new governance model, although the majority of companies still maintained the traditional model (Aoki, 2007). At the same time, the executive officer system - in which a distinction is made between executive

120 Data from Thomson (www.thomson.com).
officers in charge of operating divisions, and monitoring board members - had already been adopted by 33% of listed firms in 2002 (12.8% in 1999) according to a survey by the Ministry of Finance (Miyajima, 2007).

Overall, for firms with a high ratio of foreign ownership and dependence on capital markets, there has been an increase in pressure from shareholders. This has not been the case for firms with a high ratio of strong stockholders and dependence on bank loans (Dore, 2000; Miyajima, 2003).

A survey by the Ministry of Finance found an increase in the percentage of firms that placed importance on their customers (from 37.9% in 1999 to 50% in 2002) and shareholders (from 25.5% to 31.3%). The emphasis on creditor banks went down from 27.9% in 1999 to 16.6% in 2002. But the percentage of firms that placed importance on employees increased slightly (from 27.3% to 28.5%) (Miyajima, 2003). According to Jacoby (2005b), the importance given to market share has fallen. Balancing multiple goals, including short- and long-term profits, shareholder value, ROE, cash-flow, and long-term growth, while maintaining respect for employees has remained of cardinal importance (Kono and Clegg, 2001; Araki, 2005).

Where there is an emphasis on shareholder value, it has led to practices such as high levels of board independence; the introduction of a committee structure; improved investor relations; increased corporate disclosure; EVA, ROE, or cash flow calculations; assessment of internal profit centres on the basis of profitability targets; and contingent pay and ESOPs. Only a small segment of companies with a high ratio of foreign share ownership have adopted these practices (Dore, 2000; Kono and Clegg, 2001; Jackson, 2003; Jackson and Miyajima, 2007; Abe, 2007; Ahmadjian, 2007). Yoshikawa, Phan, and David (2005) found that the amount spent on wages relative to sales decreased with the ratio of foreign shareholding when firm performance was low.

For 2001-2005, Jackson (2007) found a high increase in the cumulative volume of dividends paid, compared to a decline in total salaries. In his interpretation, this may signal a shift from treating dividends as a quasi-fixed charge toward having a more variable relation with profits and negative relation to employment. In line with the increase in total CEO pay compared to that of an average manufacturing employee indicated above, Jackson also found an increase in the payment to directors over the same period.

Meanwhile, internal profit responsibilities - where they are used - are not very strict (Kono and Clegg, 2001). And companies with a high ratio of strong stockholders and
dependence on loans did not reform their governance structures, and neither did firms with long-term employment and seniority-based wage systems (Miyajima, 2003).

**Interpretation of the Impact of Financial Globalization on Corporate Governance Practices in Japan and a Comparison to the Three Perspectives and the Theories of Globalization**

In interpreting the impact of financial globalization on corporate governance practices, one important hypothesized channel is that of the possibility of financing on the euromarket, which - together with domestic causes - led to deregulation in Japan in order to improve global competitiveness. Such deregulation facilitated an increase in foreign shareholdings (Toya, [2000] 2006; Hoshi and Kashyap, 2001; Streeck and Yamamura, 2003; Lincoln and Gerlach, 2004). As described, for firms with a high ratio of foreign ownership, there has been a decrease in cross-shareholdings; an increase in transparency, the use of stock options, board independence, shareholder value orientation, and contingent pay - under the conditions specified above. The argument is summarized in table 5.13.

In its depiction of Japanese corporate governance practices, *Trading Places* rightly stresses the importance of debt as a source of financing for Japanese firms, but the book neglects the importance of internal financing. Its depiction of the *keiretsu* system is largely confirmed. But while survival, market share, and giving purpose to the lives of employees were indeed of the highest importance as aims for large firms, productivity, profitability, and cash flow were certainly not unimportant. The depiction of Japanese governance practices in *Capitalisme Contre Capitalisme* is largely confirmed. But while the role of banks was indeed important in corporate financing, internal finance was probably even more important. And while core stockholders could sanction inefficient managers to a certain extent, this did not necessarily imply the protection of small stockholders. Rather, intervention by banks aimed to protect loans instead of investor returns, even if the banks could be important (though small) shareholders. In contrast to the claim made by *Capitalisme Contre Capitalisme*, it is questionable whether banks actually had the power to coopt management. Rather, it seems that top management coopted its own members under some sort of acceptance by personnel and other stakeholders. As for changes in governance practices, the ‘Big Bang’ program of deregulation is very much in line with *Capitalisme Contre Capitalisme*’s argument that pressures on international financial markets would lead to the implementation of US-style
<table>
<thead>
<tr>
<th>Elements of corporate governance</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal regulation</td>
<td>Financial markets strongly regulated</td>
<td>Deregulation of financial markets to improve competitiveness: removal of controls on international capital and foreign exchange transactions; lifting of restrictions separating banking, the securities business, and insurance; share buybacks, stock options, and share swaps legalized</td>
<td>Development of the euromarket</td>
<td>Rosenbluth (1989); Toya ([2000] 2006); Hoshi and Kashyap (2001); Lincoln and Gerlach (2004).</td>
</tr>
<tr>
<td>Shareholders</td>
<td>Limited foreign shareholdings</td>
<td>Large increase in foreign shareholdings</td>
<td>Deregulation of financial markets</td>
<td>Toya ([2000] 2006); Hoshi and Kashyap (2001); Streeck and Yamamura (2003); Lincoln and Gerlach (2004).</td>
</tr>
<tr>
<td>Organizational goals, strategies, and policies</td>
<td>Stakeholder orientation</td>
<td>Decrease in cross-shareholdings Increase in transparency and information disclosure</td>
<td>High foreign shareholdings in a number of firms</td>
<td>Miyajima and Kuroki (2005). Yoshikawa and Phan (2001); Ahmadjian (2007); Miyajima (2007).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Board independence</td>
<td></td>
<td>Dore (2000); Kono and Clegg (2001); Jackson (2003).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Shareholder value orientation</td>
<td></td>
<td>Abe (2007).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Contingent pay Reduction in wages relative to sales</td>
<td></td>
<td>Yoshikawa, Phan, and David (2005).</td>
</tr>
</tbody>
</table>

**Table 5.13** Relevant changes in corporate governance practices in Japan and hypothesized causes related to financial globalization.

management practices. But the particular channels through which such deregulation impacts on Japanese management practices are not discussed. The OECD publications overstate the dependency of Japanese firms on bank loans - as firms have had a strong capacity for internal financing, and financing through credit has dropped drastically since 1998. While in line with the OECD argument, managerial decisions are certainly subject to the influence of the main bank, other stakeholders - in particular fellow *keiretsu* firms and employees - have influence as well. Managers also appear to have a broad scope of discretion. The other aspects of corporate governance described by the OECD are supported by the data, although a statement such as “the board has ... ceased to be an effective body for making strategic decisions” (OECD 1998c: 163) appears hard to substantiate. Deregulation on financial markets in Japan has certainly been extensive - thus partly supporting the OECD argument about the impact of
international finance on Japanese management practices resulting from pressures on international financial markets. But the effects of such deregulation appears so far not to have been as dramatic as argued by the OECD. Thus, while there is a group of firms that increasingly depends on capital markets, there is also still a group of firms that maintains cross-shareholding relationships and depends on bank borrowing. Other connections between *keiretsu* firms are still extensive as well. Overall, the OECD does not sufficiently consider the channels through which deregulation may be hypothesized to have impacted on Japanese governance practices.

Of the different overall theories of globalization, the convergence, hybridization, and transformation theories are all consistent with the findings. Only the divergence theory appears implausible in light of the implementation of US-style corporate governance practices. The argument is summarized in table 5.14.

<table>
<thead>
<tr>
<th>Changes in corporate governance practices up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deregulation of financial markets to improve competitiveness: removal of controls on international capital and foreign exchange transactions; lifting of restrictions separating banking, the securities business, and insurance; share buybacks, stock options, and share swaps legalized</td>
<td>Development of the euromarket</td>
<td>No analysis</td>
<td>Pressures on international financial markets towards practices inspired by US management</td>
<td>No analysis</td>
<td>Convergence, divergence, hybridization, or transformation</td>
</tr>
<tr>
<td>Large increase in foreign shareholdings</td>
<td>Deregulation of financial markets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease in cross-shareholdings</td>
<td>High foreign shareholdings in a number of firms</td>
<td>No analysis</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in transparency and information disclosure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The use of stock options</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board independence</td>
<td></td>
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</tr>
<tr>
<td>Shareholder value orientation</td>
<td></td>
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</tr>
<tr>
<td>Contingent pay</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Reduction in wages relative to sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 5.14 A comparison of changes in corporate governance practices in Japan and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.


Regarding internal social control practices, the management committee, composed of around 10 full-time directors, was the most important executive decision-making body. This top
managerial body defined the values and goals of the organization, made decisions on strategy, determined the organizational structure, and selected key personnel (Kono and Clegg, 2001). Different work flow, human resource flow, and compensation practices served to enhance internal social control. In the formal organization, status hierarchies were designed to minimize cleavages and maximize consensus. The proliferation of subunits such as departments, sections, and teams and the continuous, finely graduated job and status hierarchies achieved the division of the workforce. This division fragmented workers as a class while encouraging dependency relations across class and status barriers. The use of small teams elicited involvement, cooperation, motivation, and loyalty within teams and competition between them. QCCs enhanced motivation and communication and contributed to good relations between workers and supervisors (McMillan, 1989; Pudelko 2000; Kono and Clegg, 2001). Job complexity enhanced social integration by promoting teamwork, while job rotation further fostered employee dependence on the firm and prevented workers from monopolizing information or qualifications. Just-in-time production demanded continuous allegiance from core workers (Lincoln and Kalleberg, 1990; Clark and Chan, 1995; Ruigrok and Van Tulder, 1995; Pudelko, 2000; Fairris and Tohyama, 2002).

The informal sense of community provided a basis for the will among employees to compromise and achieve order and consensus. The informal structure also implied that for side-entrants, women, and foreigners it was impossible to penetrate into the core workforce. The competition between informal groups constituted a system of checks and balances (Pudelko, 2000).

Employee dependence on the firm was also fostered through the provision of job security, internal careers, training, seniority-based promotion and pay, and retirement provisions. Lifetime employment and favorable working conditions ensured cooperation and loyalty. Restricting lifetime employment and favorable working conditions to core workers allowed employers to play off workers against each other and create structural dependencies. The firm also attempted to integrate the employee’s family in the affairs of the firm. By doing so, the possibility was foreclosed that family life presented a competition to work activities (Lincoln and Kalleberg, 1990; Ruigrok and Van Tulder, 1995).

Specific internal social control practices included the use of MBO, normative and disciplinary control systems, inducement, authority structures, group-oriented decision making, informal appraisal, and extensive informal communication and conflict resolution practices. The use of MBO was widespread, bringing workgroups together through common goals (Pudelko, 2000). There were no detailed rules, and direct orders were few and
ambiguous (Kono and Clegg, 2001). Financial control was lenient, although there was a formalized financial control system. Conditional on generating a positive level of earnings, managers had a great deal of freedom (McMillan, 1989; Sherman and Babcock, [1993] 1997).

Normative control systems were widely used (Gómez-Mejía, Balkin, and Cardy 2001). In the informal organization, peer group norms and interactions sustained work performance (Marsden, 1999; Jackson, 2003). The staffing norm of permanent employment reduced the likelihood that employers would terminate workers either for poor performance or bad business conditions; a complementary norm discouraged voluntary leaving (Lincoln and Kalleberg, 1990). Social prohibitions against job-hopping and recruitment by poaching militated against the development of a labor market for specialists, and allowed organizations to take the cooperation of their permanent male employees for granted (Clegg and Ray, 2003). At the same time, if an employee would refuse the expected will to perform, the firm would have no difficulties to dismiss him. Because the employee could never enter into the core workforce of another firm, this provided a high incentive to fulfill expectations. Employees could also be transferred to meaningless jobs. In effect, they complied, often without private acceptance, with the group norms of working hard and staying with the company (Hui and Luk, 1997; Pudelko, 2000; Kono and Clegg, 2001). The allocated holiday entitlements in compensation practices were not fully taken up, so as to demonstrate appropriate behavior. Participation in small group activities such as QCCs and zero-defect groups further constituted a moral obligation. Employees were expected to form informal contacts and cooperate with such contacts when needed. For the success of the group, employees were also expected to develop themselves. Normative pressures led employees to socialize with co-workers after work hours; to have low absenteeism and high overtime; and to end the day only when the superordinate went home. High workplace discipline reflected the pressures of membership in a community, which bent the individual to a collective will. It was expected that the position of superordinates be acknowledged with appropriate declarations of honor. This made superordinates conscious and secure of their higher position (Lincoln and Kalleberg, 1990; Pudelko, 2000).

As for social control policies based on inducement, incentives were provided by means of promotions, participation, and extensive communication. Fringe benefits were provided to increase dependence on the company and in exchange for loyalty. There was a high importance of immaterial incentives, such as rank, firm prestige, interesting tasks, encouragement, words of praise, public recognition, and official certificates. The division between formal rank and actual decision making responsibility also served the need for
recognition while avoiding loss of face for long-term employees not qualified for leadership tasks. Incentives were based on collective identity and collective goals, with the symbolic renunciation of status differences by the superior translating into work motivation. For managers, material reward was only a small incentive. More important was social prestige that was expressed in rank and in the size of the firm and the growth rate of sales and profits. Managers were rewarded for harnessing subordinates’ ability for the benefit of the work group (Lincoln and Kalleberg, 1990; Redding and Whitley, 1990; Martinelli, 1994; Robinson, 1994; Conti, 1998; Fujino, 1998; Pudelko, 2000).

Authority structures were traditional, paternalistic, and deferential. The status of a manager depended on seniority, qualifications, technical competence, personality, and group affiliation. Because of the secured position of superordinates, it was easy for them to be concerned with the needs of subordinates, and to provide training, incentives, and information (Morgan, 1986; McMillan, 1989; Robinson, 1994; Dore, 2000; Pudelko, 2000; Ray, Clegg, and Gordon, 2003).

In large firms, decision making is usually seen to have been bottom-up, informal, qualitative, incremental, collective, and oriented towards consensus. In the case of an important decision, all those concerned were included in the decision making process. The decision process, *ringi seido*, involved a circulation of a proposal made by lower hierarchical levels through all levels to reach consensus. The authority to make the final decision rested with top managers or with the president, with the CEO bearing symbolic responsibility. *Ringi* has been seen to invite participation and diffuse responsibility. But although subordinates had a high degree of decision making autonomy, the superordinate carried full responsibility. This led to subtle pressures on subordinates not to bring their superordinate into difficulties. Overall, the decision making process was slow, but because everyone concerned had given approval of and thereby carried responsibility for the decision, implementation was smooth and there was commitment to its success (McMillan, 1989; Lincoln and Kalleberg, 1990; Takahashi, 1990; Pheysey, 1993; Smith and Bond, 1993; Pudelko, 2000).

Several scholars have seen the *ringi*-system as an *ex post* collective authorization of decisions made beforehand by top management. At the same time, true participatory decision-making is thought to have existed at middle-management levels. In practice, top management is seen to have made strategic decisions, in close cooperation with middle hierarchical levels. The lower hierarchical levels were responsible for operational decisions. Managers were not afraid to delegate such decisions, as they did not compete with their subordinates as a result of the seniority principle (Lincoln and Kalleberg, 1990).
Apart from participation in decision-making, workers in work groups and QCCs also participated in the identification of problems, the development of proposals, and the implementation of solutions. Training programs were conducted to improve participation and the way suggestions were made. Opinion boxes were placed in halls (McMillan, 1989; Pudelko, 2000; Matsuo, Bosch, and McIntyre, 2003). But according to Kwon (2004), in practice, the governance of teamwork was relatively hierarchical. And in SMEs, the adoption of participatory management was low in general.

Autonomy existed to some extent for managers at higher levels and employees with long tenures. White-collar workers stood under close observation by their superordinates, but they had a certain freedom in problem solution. As indicated above, the same situation existed for blue-collar workers, although their autonomy in problem solution is contested. The intensity of supervision was highest for middle managers (McMillan, 1989; Pudelko, 2000).

Appraisal occurred a few times per year. It was informal, qualitative, long-term, and team-based. Emphasis was placed on age, length of service, schooling, skills, attitudes, effort, and gender, and physical presence played an important role. A frequent change of firms counted as a indication of instability and was valued negatively. Managers were evaluated on a wide range of criteria with an emphasis on achievement. Evaluation was usually conducted by groups, with department heads evaluating their own employees as well as members of other departments, and subordinates evaluating their supervisors. Teams were often made to work in an open environment to ensure that all team members could be easily monitored. Employees were often also actively involved in their own appraisal via interviews and self-reports. The personnel department held final authority. Evaluations were used for promotion, training, and compensation (Takahashi, 1990; Robinson, 1994; Ruigrok and Van Tulder, 1995; Sano, 1998; Marsden, 1999; Pudelko, 2000; Kono and Clegg, 2001; Milliman et al., 2002; Jacoby, 2005b).

Communication volumes were high, with information flowing in all directions. Mechanisms included workplace conferences, small group activities, proposal systems, grievance procedures, consultation sessions, factory visits, self-report systems, opinion surveys, newsletters, notice boards, letters from the president, morning gatherings, in-house broadcasts, lunch and dinner parties, social occasions, and the media. Large offices in which workers and superordinates were brought together served communication outside the line, while job rotation led to an intense communication between different departments. Firm training centers served to stimulate informal communication between the newly hired. In later years, the employees hired in the same year met regularly. This also held for the graduates of
the same school and university (McMillan, 1989; Aoki and Dinc, 1997; Sano, 1998; Pudelko, 2000; Aoki, 2001).

Conflicts were solved through informal problem solving and persuasion (Eisenstadt, 1996). To assert one’s legal rights was considered ‘unethical’ (Fairris and Tohyama, 2002). If a worker behaved impudent, his informal mentor would correct him in private. During after-hours common leisure activities, conflicts could be fought out that were taboo at the work place (Lincoln and Kalleberg, 1990; Dore, 1994; Pudelko, 2000).

Relations between superordinates and subordinates were authoritarian, strong, personal, paternalistic, deferential, and cooperative. There existed a mutual dependence. Superordinates were physically located amongst their subordinates, and they provided their subordinates with support, information, and stimulation. They frequently initiated unsolicited contact with subordinates, which was experienced as a motivational force. From their side, subordinates expressed respect for and deference to a superior through active participation and the making of suggestions. But there were instances where young workers did not accept the discipline and low emphasis on individual merit (McMillan, 1989; Lincoln and Kalleberg, 1990; Smith and Bond, 1993; Lincoln, Kerbo, and Wittenhagen, 1995; Hui and Luk, 1997; Pudelko, 2000; Gómez-Mejía, Balkin, and Cardy, 2001; Kono and Clegg, 2001; Fairris and Tohyama, 2002).

**Changes in Internal Social Control Practices in Japanese Management up to the Early 2000s**

While internal decision-making has remained based on consensus, the number of participants has decreased and to some extent decision making has been transferred to specialists. Even when participation and delegation are still central, the importance of the role of the superordinate has increased. He now actively decides the direction of the decision (Pudelko, 2000; Kono and Clegg, 2001).

In appraisal, profitability and individual goal achievement have become more important - although profit responsibilities are not very strict. It is also increasingly demanded from employees to show initiative and creativity. Procedures have been introduced to make appraisal more quantitative, including written tests, MBO, self-evaluation, and 360-degree appraisal with feedback (Pudelko, 2000; Kono and Clegg, 2001; Miyamoto and Kubo, 2002).

The relation between management and labor has remained cooperative, but the paternalism of labor-management relations has faded somewhat (Whitley, 1999; Fairris and
Jackson (2003) notes growing internal competition between different subsidiary companies or production sites over strategic resources. And the number of civil labor disputes has increased considerably (Kwon, 2004; The Japan Institute for Labor Policy and Training, 2004a; Sugino and Murayama, 2006).

**Interpretation of the Impact of Financial Globalization on Internal Social Control Practices in Japan and a Comparison to the Three Perspectives and the Theories of Globalization**

From this depiction of changes in internal social control practices in Japan, the impact of financial globalization may be hypothesized to run through foreign shareholdings. As indicated in the section on corporate governance, a small segment of companies with a high ratio of foreign share ownership has placed an increased importance on profitability, individual goal achievement, and quantitative measures (Dore, 2000; Kono and Clegg, 2001; Jackson, 2003). The increase in emphasis on creativity has been interpreted to have arisen out of a desire to increase (global) competitiveness (Japan Productivity Center for Socio-Economic Development, 2004). The higher emphasis on decision making by specialists could have resulted from technological developments (Kono and Clegg, 2001) - an issue that lies outside the scope of this study. The relevant change in internal control practices and the interpreted cause related to financial globalization are shown in table 5.10.

<table>
<thead>
<tr>
<th>Elements of internal social control</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal</td>
<td>Low emphasis on profitability; team-based and qualitative</td>
<td>Increased emphasis on profitability, individual goal achievement, and quantitative measures</td>
<td>Foreign shareholdings in a number of firms</td>
<td>Dore (2000); Kono and Clegg (2001); Jackson (2003).</td>
</tr>
</tbody>
</table>

**Table 5.15** Relevant change in internal social control practices in Japan and hypothesized cause related to financial globalization.

In line with *Trading Places*, the firm clearly had an authoritarian nature and total dedication was expected from subordinates. But at the same time, the participation of subordinates was seen by some to have been extensive, even if other scholars saw participation as more appearance than substance. In any case, the dependence between superordinate and subordinate was mutual, as the superordinate was expected to support, inform, and stimulate subordinates. *Trading Places* also neglects the importance for internal social control of the characteristics of the formal organization; staffing, career development,
training, and compensation practices besides special benefits; certain types of coercion and inducement; and group decision-making. While *Capitalisme Contre Capitalisme*’s claim of the existence of joint management was supported by many scholars, several others saw consensual decision-making as more appearance than substance. In the latter case, it would have been management alone that *de facto* determined management practices. In contrast to the claim made by the OECD publications, decision-making in Japanese internal social control practices is still based on a group process. None of the three perspectives present a clear analysis of how financial globalization is thought to impact on internal social control practices in Japan.

Of the different overall globalization theories, the convergence, hybrization, and transformation theories are consistent with the findings. Divergence appears implausible in light of the implementation of certain US-style management practices. The argument is summarized in table 5.16

<table>
<thead>
<tr>
<th>Changes in internal social control practices up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased emphasis on profitability, individual goal achievement, and quantitative measures</td>
<td>Foreign shareholdings in a number of firms</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, hybridization, or transformation</td>
</tr>
</tbody>
</table>

**Table 5.16** A comparison of changes in internal social control practices in Japan and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.

**Legitimation in Japan around 1990**

In their legitimation practices, large Japanese firms around 1990 avoided downsizing in order to maintain reputation and good relations with unions (Ahmadjian and Robinson, 2001). Managerial authority was legitimated through joint consultation mechanisms, paternalism, and symbolic egalitarianism (McMillan, 1989; Pudelko, 2000; Fairris and Tohyama, 2002).

**Changes in Legitimation in Japan up to the Early 2000s**

While social distaste for downsizing has remained, increasing rates of reductions of core workforces have removed the perceived illegitimacy of the practice. Firms are more likely to
get away with the claim that ‘everyone else is doing it’ to justify their actions. Foreign ownership has also given firms justification to downsize. In contrast, firms with a high rating in a popular annual ranking of firms have been found unlikely to compromise their reputation through downsizing (Ahmadjian and Robinson, 2001; Ahmadjian and Robbins, 2003).

**Interpretation of the Impact of Financial Globalization on Legitimation Practices in Japan and a Comparison to the Three Perspectives and the Theories of Globalization**

Clearly, one impact of globalization on legitimation practices can be hypothesized to run through foreign share ownership, which has made downsizing more legitimate - as found by Ahmadjian and Robinson (2001), and Ahmadjian and Robbins (2003). See table 5.11.

<table>
<thead>
<tr>
<th>Elements of legitimation practices</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legitimation through human resource flow practices</td>
<td>Downsizing avoided to maintain reputation and good relations with unions</td>
<td>Downsizing has become more legitimate</td>
<td>Foreign shareholdings in a number of firms</td>
<td>Ahmadjian and Robinson (2001); Ahmadjian and Robbins (2003).</td>
</tr>
</tbody>
</table>

**Table 5.17** Relevant change in legitimation practices in Japan and hypothesized cause related to financial globalization.

None of the three perspectives presented in chapter 3 discusses legitimation practices in Japan, or the impact of financial globalization on such practices. Of the overall theories of globalization, the convergence, hybridization, and transformation theories are all consistent with the findings. See table 5.18.

<table>
<thead>
<tr>
<th>Changes in legitimation practices up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downsizing has become more legitimate</td>
<td>Foreign shareholdings in a number of firms</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, hybridization, or transformation</td>
</tr>
</tbody>
</table>

**Table 5.18** A comparison of changes in legitimation practices in Japan and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.
In Japanese firms around 1990, socialization efforts were extensive. Through socialization, core employees became part of a family-like community, that took care of them in a material and immaterial sense. In return, effort, loyalty, commitment, and identification with the work group and the firm were expected. All employees were expected to contribute to group harmony (McMillan, 1989; Lincoln and Kalleberg, 1990; Redding and Whitley, 1990; Kim, 1994; Pudelko, 2000).

Many firms had a clear statement of their philosophies and creeds, containing long-term goals, social responsibilities, strategies, and codes of behavior. A 1986 survey by the Japan Productivity Center found that 48.3% of firms emphasized harmonious coexistence with society; 37.7% cooperation and cohesiveness towards seniors, colleagues, and subordinates, 28.3% creativity; 22.7% faithfulness towards the company; and 19.3% a customer orientation. Only 10.7% emphasized respect for employees (Kono and Clegg, 2001).

Socialization to some extent occurred through or was supported by work flow, human resource flow, compensation, and internal social control practices. Formal status hierarchies were structured to maximize commitment, and socialization through team work and QCCs was emphasized. Job rotation aimed at eliminating the occupation as an anchor for identification which could compete with the company. It stimulated trust and empathy between employees, as well as an understanding of organizational goals. Job complexity and control also contributed to organizational commitment (McMillan, 1989; Lincoln and Kalleberg, 1990; Pudelko, 2000). In production, there was an ethos of continuous improvement, orderliness, and cleanliness, emphasized through the display of slogans (Oliver, 1998; Kono and Clegg, 2001).

The high degree of informal work-group cohesion, close and personal relations with work mates and supervisors, the overall solidarity and familial character of the firm, and common informal activities were instrumental in binding workers to, and fostering identification with, the firm. Lifetime employment also contributed to identification with and loyalty and commitment to the firm. To be able to inculcate employees with company culture, new employees were recruited straight out of school or university. Selection tests were designed to ensure that new employees started off as an ability-homogeneous group, thus stimulating a feeling of membership. The internal labor market and promotion opportunities further increased work commitment. Expectations of long-term career development supported
an alignment of individual and organizational goals. Standard ranks had a unifying influence on the company - as all employees climbed the same ladder - and they provided a common frame of reference across functionally disparate departments. Training programs also socialized employees. Through on-the-job training together with frequent job rotation, every employee acquired an intimate knowledge of company culture and events. Cross-training enhanced socialization into the corporate philosophy. And Zen training aimed to decrease the importance of individual ambition, selfishness, and impatience. It taught diligence, with spartan life styles, physical exercise, and experience in living together. Some companies had programs with self-defense training centers, where military discipline, physical endurance, and team work were nurtured in future managers (McMillan, 1989; Lincoln and Kalleberg, 1990; Redding and Whitley, 1990; Beechler and Bird, 1994; Robinson, 1994; Dore, 2000; Pudelko, 2000; Kono and Clegg, 2001).

The wage structure promoted loyalty by tying compensation to length of service (McMillan, 1989). The extensive provision of fringe benefits enhanced morale, loyalty, and commitment, while the care of the firm for private and family concerns strengthened the feeling of community. Company-sponsored social and recreational programs socialized employees in company culture, fostered relations across status and job barriers, and led to a strong identification with the firm. The small wage differences between managers and employees further contributed to identification with the firm (Lincoln and Kalleberg, 1990; Sano, 1998; Pudelko, 2000).

Participation in decision making aimed to build enterprise community and organizational loyalty and commitment. The extensiveness of communication increased the identification of workers with their job and contributed to a harmonious company climate. Discussion rounds and large communal offices served to strengthen the feeling of community. Reciprocal employer-employee obligations also increased commitment. The diffuse, warm, and paternalistic relations between supervisors and subordinates were instrumental in binding workers to, and fostering identification with, the firm. To make subordinates feel that they were important as human beings, the personnel files maintained personal facts, such as birthdays, school graduations, and health conditions of children. These gave the superior to possibility to show interest in the life of subordinates by congratulating them with birthdays, or expressing concern with a sickness in the family (Lincoln and Kalleberg, 1990; Pudelko, 2000; Doeringer, Lorenz, and Terkla, 2003).

As for pure socialization practices, formal orientation programs for newly hired lasted from 3 to 6 months. They consisted of communal learning of the history, structure, goals,
policies, creeds, and songs of the firm; appeals to loyalty and obligation; and communication of a connection between the well-being of the firm and that of Japan. New employees were informed about the required use of deferential language, posture, and seating orders. The firm training centers with their connected residences served to shape the community spirit of the newly hired. For further learning and socialization, mentoring relations were established between older, experienced employees and younger, inexperienced employees. Corporate symbols and rituals meant to evoke feelings of enterprise community and pride. At morning meetings, often the company song was sung and the creed was recited. This encouraged workers to identify with the company, and to act as was expected of them. Company newspapers, ceremonies, pep talks, and slogans diffused and reinforced shared interests and values and enhanced identification with the organization (McMillan, 1989; Lincoln and Kalleberg, 1990; Pheysey, 1993; Pudelko, 2000; Kono and Clegg, 2001).

Core workers were treated in an egalitarian way. Uniform compensation and promotion systems, working hours, and company unions strengthened cooperative relationships and the feeling of community. Participation, operative autonomy, and intensive communication between hierarchical levels emphasized similarities. The formation of divisive subgroups was minimized through diminishing visible disparities in privilege and lifestyle. Symbolic status divisions between management and workforce were minimized through the use of common cantines, parking lots, and offices; the physical proximity of managers; the wearing of similar company uniforms by all employees and managers; informal relationships between management and the workforce in recreational activities; the construction of a long-term relationship of mutual trust; and the mutual respect between management and company unions. Many presidents of large firms were former company union leaders. All these egalitarian factors contributed to the authority of superordinates, and to a soothing of potential conflicts. They enhanced loyalty and commitment and the sense that the firm was a community of people (McMillan, 1989; Lincoln and Kalleberg, 1990; Dore, 1994; Sano, 1998; Pudelko, 2000).

The extensive socialization practices fostered commitment to company goals, and identification and loyalty to the firm (Lincoln and Kalleberg, 1990; Pudelko, 2000). In effect, cooperation in groups and departments was smooth (Reading and Whitley, 1990). Committed employees were willing to accept a change of job function when new technology made their former job obsolete; they were unlikely to leave the firm; and they were willing to undergo training and accept wage restraint when the firm faced temporary difficulties (Dore, 1992, 1996). This only held for large firms and their core workers, however. In peripheral firms, the
low levels of job security, career opportunities, fringe benefits, prestige, and other rewards offset the positive effects on commitment of rewarding, complex, and autonomous jobs (Lincoln and Kalleberg, 1990).

Changes in Socialization in Japan up to the Early 2000s

There has been some shift in corporate creeds. A 2003 survey by the Japan Productivity Center for Socio-Economic Development found that the percentage of firms emphasizing a customer orientation in their corporate creeds increased to 79.4% in 2003 (up from only 19.3% in 1986). ‘Harmonious coexistence with society’ was emphasized by 75.0% (up from 48.3%); respect for employees by 59.3% (up from 10.7%); and ‘pioneer spirit, innovations, creativity’ by 52.7%. 65% of companies surveyed had codes of conduct, most of which were established after 2001.

In contrast to the increased emphasis on respect for employees, the emphasis on employee loyalty has decreased (Kwon, 2004). Many companies have started to tell their new recruits at the traditional April welcoming ceremony that they should no longer expect a job for life (Ahmadjian and Robinson, 2001). A survey by the Sanno Research Institute found that the number of corporations that gave employees awards for long years of service had decreased from 92.2% in 1992 to 81.6% in 2003. Firms with high foreign ownership were found less likely to provide such length-of-service awards than other firms (Abe and Hoshi, 2007). Employees have started to prefer gift products instead of items with the company name, indicating that emotional ties with companies are weakening (Pudelko, 2000).

Interpretation of the Impact of Financial Globalization on Socialization Practices in Japan and a Comparison to the Three Perspectives and the Theories of Globalization

The decrease in the emphasis on employee loyalty has been related to the decline in lifetime employment and the decline in the emphasis placed on seniority (Kwon, 2004), and the communication that new recruits should no longer expect a job for life has also been related to the decline in lifetime employment. As discussed above, the decline in lifetime employment has been found to have been related to large foreign shareholdings in a number of firms (Ahmadjian and Robinson, 2001), while the decline in the emphasis on seniority - at least in compensation - has also been related to foreign shareholdings (Jackson, 2007). Finally, firms with high foreign ownership were found to be less likely to have length-of-service awards.
The changes in socialization practices in Japanese firms and the hypothesized causal relations to financial globalization are summarized in table 5.19.

<table>
<thead>
<tr>
<th>Elements of socialization practices</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Propagated values</td>
<td>Emphasis on employee loyalty</td>
<td>Decrease in emphasis on employee loyalty</td>
<td>Foreign shareholdings in a number of firms</td>
<td>Ahmadjian and Robinson (2001); Kwon (2004); Jackson (2007).</td>
</tr>
<tr>
<td>Socialization through compensation</td>
<td>92.2% of firms provided length-of-service awards</td>
<td>Decrease in percentage of firms providing length-of-service awards to 81.6% in 2003</td>
<td>Foreign shareholdings in a number of firms</td>
<td>Abe and Hoshi (2007).</td>
</tr>
<tr>
<td>Socialization through communication</td>
<td>Appeals to loyalty and obligation</td>
<td>Communication that new recruits should no longer expect a job for life</td>
<td>Foreign shareholdings in a number of firms</td>
<td>Ahmadjian and Robinson (2001).</td>
</tr>
</tbody>
</table>

Table 5.19 Relevant change in socialization practices in Japan and hypothesized causes related to financial globalization.

Trading Places provides an accurate but somewhat limited description of Japanese socialization practices. In contrast, neither Capitalisme Contre Capitalisme nor the OECD publications provide any analysis of such practices. None of the perspectives provides an analysis of the impact of financial globalization. Of the overall theories of globalization, again the convergence, hybridization, and transformation theories are consistent with the findings, while the divergence theory appears implausible. The argument is summarized in table 5.20.

<table>
<thead>
<tr>
<th>Changes in socialization practices up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease in emphasis on employee loyalty</td>
<td>Foreign shareholdings in a number of firms</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, hybridization, or transformation</td>
</tr>
<tr>
<td>Decrease in percentage of firms providing length-of-service awards to 81.6% in 2003</td>
<td>Foreign shareholdings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communication that new recruits should no longer expect a job for life</td>
<td>Foreign shareholdings in a number of firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 5.20 A comparison of changes in socialization practices in Japan and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.
Industrial Relations in Japan

Japanese employers were well-organized in employer associations. All employers’ organizations and large firms belonged to the Keidanren, the Federation of Economic Organizations, which aimed to influence government policies. It had great authority over its members. Neikkeiren, the Federation of Employers’ Associations, dealt with labor issues. It coordinated opinion formation of employers, the presentation of their interests, and it provided member firms with advice. It trained young executives and offered on-the-job training for foremen. The Japan Chambers of Commerce and Industry (JCCI) represented small business, while the Japan Committee for Economic Development, Keizai Doyukai, performed studies of Japan’s industrial structure. Finally, there were many influential industry- and product-specific associations. At the intersection of industry and the bureaucracy was the apparatus of the shingikai, the ‘deliberation committees’ for nearly every industry (McMillan, 1989; Sherman and Babcock, [1993] 1997; Dore, 2000; Pudelko, 2000).

Enterprise unions organized all core workers that were not in charge of labor management within a single firm. In most large companies, union shop agreements obliged all employees to join the union. Most enterprise unions belonged to one of the more than 100 industry union federations. All but a small minority of these federations were integrated in a single national federation, Rengo (The Japanese Trade Union Confederation). The main tasks of the federations were the coordination of activities of member unions to improve wages and working conditions, and the exercise of political influence in name of the worker. The union federations were weak; most influence went to the autonomous and financially independent enterprise unions. Such unions had close relations with managers as activity in the union was seen as an important training for management talent, and as most directors moved through union ranks. Union representatives identified with their employer and supported management to improve the competitiveness of the firm (McMillan, 1989; Lincoln and Kalleberg, 1990; Takahashi, 1990; Dore, 1996; Pudelko, 2000; Araki, 2005). The basic aim of the unions was job security for their members (Weathers, 2003). The unionization rate in 1990 was 25.2% of the labor force (The Japan Institute of Labor, 2003a). Union representation was limited to the core workforce of large firms (McMillan, 1989; Pudelko, 2000).

The enterprise unions increased support for and conformity and loyalty to the company, although they slightly diminished commitment. The identification of members with
their union was small (McMillan, 1989; Lincoln and Kalleberg, 1990; Takahashi, 1990; Dore, 2000; Pudelko, 2000). The enterprise unions collaborated with management. Consensus regarding common goals, together with a relationship of trust, supported a high flexibility of management practices. But flexibility was limited in scopes that concerned elementary interests of employees, such as layoffs (Lincoln and Kalleberg, 1990; Redding and Whitley, 1990; Pudelko, 2000).

There was a predominance of single-employer pattern-bargaining following agreements made by large firms in trendsetting sectors in the Spring Wage Offensive (shunto). The settlements reached in the trendsetting sectors set de facto ceilings. Bargaining covered employment security, compensation, working conditions, joint consultation, and grievance procedures. The negotiations were based on trust and cooperation. They aimed to arrive at a wage increase representing a fair balance between the workers’ wish for more money and the managers’ concern with profits for future investment. In the case of disputes, there was continuous mediation. Legal battles were seen as inappropriate and they rarely occurred (McMillan, 1989; Eisenstadt, 1996; Okubayashi, 1998; Marsden, 1999; Dore, 2000; Pudelko, 2000; Sisson and Marginson, 2002; Weathers, 2003). Collective bargaining coverage in 1989 was 23% (OECD, 1994). Bargaining agreements led to low income differences, as wage increases for managers were similar to those for core workers (Dore, 2000; Pudelko, 2000). Negotiations occurred without much friction. The average number of days per year lost in strikes per 1,000 workers for 1988-92 was 2.8.121

In 1988, 73% of companies with more than 5,000 employees had voluntary joint consultation committees (Okubayashi, 1998). In these committees, employees had codetermination and information rights regarding work assignments, production schedules, work-force levels, working hours, compensation, and work rules. In the case of production and restructuring, management did not wait for agreement by employees. In the case of rationalization and working conditions (schedules, hours, and wages), management usually did have to wait for consensus (Pudelko, 2000; Fairris and Tohyama, 2002; Araki, 2005).

Worker-management conflict was limited. Management attempted to solve conflicts with the workforce informally. Employees also made an effort not to let discussions with management escalate (Pudelko, 2000).
Changes in Industrial Relations in Japan up to the Early 2000s

In 2002, Keidanren merged with Nikkeiren to form Nippon Keidanren, the Japan Business Federation. Cohesion of employer associations has remained, although small firms have become somewhat less willing to accept big firms’ leadership (Dore, 2000). Job security has become a top priority for unions, to the decrement of the secondary goal of pay increases (Thelen and Kume, 2003; Benson and Debroux, 2004; The Japan Institute for Labor Policy and Training, 2005). As shown in figure 5.4, union density declined to 18.7% in 2005, even if unions have made a somewhat reluctant attempt to organize part-time workers (Yamashita, 2005).

![Figure 5.4](image)

**Figure 5.4** Union density in Japan as a percentage of the labor force. Source: The Japan Institute of Labor (www.jil.go.jp/english/estatis/eshuyo/200705/e0701.htm).

Industrial relations in large firms have remained highly cooperative (Jackson, 2003). There has been an increase in company/plant level bargaining and a weakening of pattern bargaining (Weathers, 2003). This has led to a greater differentiation of wage levels depending on the profitability of different divisions. Broad agreements have been concluded on wage moderation and flexibility in exchange for employment security (Dore, 2000; Kuruvilla et al., 2002; Vogel, 2003; Sako, 2007). Collective bargaining coverage dropped to 17.5% in 2000 (OECD, 2004a). Meanwhile, strike activity has declined. The average number of days per year lost in strikes per 1,000 workers for 2000-2004 was 0.3. A 1998 survey by the Ministry of Labor found that 78% of establishments had joint labor-management committees (Fairris and Tohyama, 2002).

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Bosch, Reinoud (2008), Bringing Nuance into the Globalization Debate: Changes in US, Japanese, and German Management, with Special Reference to the Impact of International Finance
European University Institute
10.2870/25906


Interpretation of the Impact of Financial Globalization on Industrial Relations Practices in Japan and a Comparison to the Three Perspectives

The increase in company/plant level bargaining, the weakening of pattern bargaining, and the agreements on wage moderation and flexibility have been related to an increase in global competition - see, e.g. Kawamoto (2000), Rowley, Benson, and Warner (2004), and The Japan Institute for Labor Policy and Training (2005). No plausible relation to financial globalization came to the fore.

In comparing the findings to the three perspectives presented in chapter 3, Trading Places is correct in pointing to the importance of enterprise unions and their effects, but in fact, the unionization rate in Japan was low enough to say that union representation was low in general. In contrast to the claim made by Capitalisme Contre Capitalisme, labor unions were hardly powerful and their collective responsibility was limited to the level of the individual firm. In addition, agreements were firm-based rather than national, although they were influenced by pattern bargaining. In line with Capitalisme Contre Capitalisme, union density has declined from the relatively low level around 1990, which may have led to a further decrease in union power. There has also indeed been an increase in company/plant level bargaining, but collective negotiation has in fact remained stable. In contrast to the general claim made by the OECD, industrial relations have remained cooperative rather than becoming more individualist.

The Labor Force in Japan

The Labor Force in Japan around 1990

In the Japanese labor force, there existed a segmentation between the core workforces of large firms on the one hand, and the contingent workforces of large firms and the workforces of smaller firms on the other hand. Only the core workforces had lifetime employment, seniority, and extensive social security. For core workers, management and employees shared the fate of the firm. This stimulated a sense of community, loyalty, mutual trust, the will to consensus, cooperation, and the ability to compromise. Differences in education and productivity...
between core workers were small, and there was hardly a status difference between skilled and unskilled core workers. In contrast, contingent workers - constituting the remaining two-thirds of the labor force - had low wages and benefits. Their status was below that of the core workforce (Lincoln and Kalleberg, 1990; Granovetter, 1994; Pudelko, 2000).

As an indication of values held by the Japanese labor force in 1988-92, Schwartz’s (1994, 1999) value survey found that on average, respondents placed a relatively low emphasis on maintenance of the status quo, propriety, and restraint of actions or inclinations that might disrupt the solidary group or the traditional order (‘Conservatism’). They placed a high emphasis the independent pursuit of own ideas and intellectual directions (‘Intellectual Autonomy’), and a relatively high emphasis on getting ahead through active self-assertion (‘Mastery’), as well as on the legitimacy of an unequal distribution of power, roles, and resources (‘Hierarchy’). He also found a low emphasis on the transcendence of selfish interests in favor of voluntary commitment to promoting the welfare of others (‘Egalitarian Commitment’). The relatively high scores on Intellectual Autonomy and Mastery were seen to imply an intellectual emphasis on self-direction and the active mastery of the social environment through self-assertion. As in the US case, Schwartz’s findings will here be taken at face value - with the same reservation that an expression of psychological values may result from a lack of such values at the social level.

On the basis of their 1990-93 world values survey, Inglehart et al. (1998) report that in Japan, 41% of respondents said work was very important in their life. 78% said family was very important, and 24% said leisure time was very important. In a job, the following aspects were thought important: good pay (78%); pleasant people to work with (78%); job security (58%); good hours (55%); generous holidays (52%); and a job that meets one’s abilities (57%). 66% of respondents felt they had a great deal of decision-making freedom. Only 14% viewed work like a business transaction, with effort depending on pay. 33% of respondents felt that instructions should be followed always. 59% thought it fair that a quicker, more efficient, and more reliable employee was paid more than another employee of the same age with the same job. 34% of respondents felt there should be greater incentives for individual effort. For the future, the following developments were considered a good thing: greater emphasis on the development of the individual (70%), and more emphasis on family life (85%). Confidence in unions was low (26%), while that in companies was low as well (28%). The survey further found that 68% of respondents were satisfied with their job.

Other surveys have provided an indication of the way in which work was viewed in Japan, and of the extent of affective and continuance commitment of the labor force. On the
basis of their 1989/90 sample, Ruiz-Quintanilla and England (1993) report that the Japanese labor force saw work as somewhat more of an entitlement than an obligation. In their 1981-83 survey, Lincoln and Kalleberg (1990) found positive responses of 54.3% and 57.9% to their questions measuring affective commitment - percentages that were lower than in the US. At the same time, they found that employees were committed and loyal in terms of behavior - as attested by low absenteeism, long work hours, low turnover, participation in *jishu kanri* groups (pro-active management in teams), low strike activity, and the willingness to carry out work over and above their role descriptions. In their interpretation, these behavior patterns could have reflected normative pressures to comply. Meanwhile, continuance commitment was expressed by 20.4% of respondents.

Several other characteristics of the Japanese labor force around 1990 have been distinguished. Japanese workers have been seen to have had a high need for recognition by colleagues. They valued giving insiders an advantage over outside applicants, while disagreeing with the idea that weak demand, automation, and the need for productivity justified layoffs. Generalists were highly esteemed, and large pay differentials were not appreciated. Diligence and frugality were valued above leisure and consumption. Other work values included persistence and mutual respect. Employees favored close, diffuse relations with supervisors and reciprocal obligations linking the employee and the company. They preferred a paternalistic manager over a more task-oriented manager. Employees had general firm-specific and task-oriented skills (McMillan, 1989; Lincoln and Kalleberg, 1990; Smith and Bond, 1993; Robinson, 1994; Hui and Luk, 1997; Sinha, 1997; Smith and Schwartz, 1997; Pudelko, 2000; Kono and Clegg, 2001).

According to several scholars, there existed a stark difference between younger and older Japanese workers. Younger workers were seen to be unwilling to man boring, dangerous, or unpleasant jobs. They were less willing than older workers to accept layoffs, transfers, and reduced leisure time for the sake of the firm. They rather placed a higher value on promotions, leisure, economic rewards, and consumption. Younger workers were less inclined than older workers to think that insiders should have an advantage in the competition for jobs (McMillan, 1989; Lincoln and Kalleberg, 1990; Dore, 2000; Pudelko, 2000).

The different values of young workers show up in Inglehart et al.’s (1998) findings. Of the 16-29 age category, only 26% said work was very important in their life, while 43% said leisure time was very important. In a job, good pay was thought important by 85%; job security by 58%; good hours by 70%; generous holidays by 69%; to achieve something by 57%; an interesting job by 58%; and meeting one’s abilities by 77%. 21% viewed work like a
business transaction, with effort depending on pay. Only 22% felt that instructions should be followed always. Interestingly, only 53% thought it fair that a quicker, more efficient, and more reliable employee was paid more than another employee of the same age with the same job. And only 30% felt there should be greater incentives for individual effort. For the future, 75% felt that a greater emphasis on the development of the individual would be a good thing. Job satisfaction was expressed by only 59% of respondents.

Japanese managers valued job security, prestige, experience, loyalty, and the fulfilling of duties. They were not prepared to take individual and risky decisions (Hofstede, 1991; DiMaggio, 1994; Martinelli, 1994; Pudelko, 2000). Managers believed they were responsible for the well-being of workers both inside and outside the company (Fairris and Tohyama, 2002). They trusted in the will to work and the skills of employees. They were committed to employee participation and consensus building - as reflected in career planning and organizational socialization - and they saw enterprise unions as useful. At the same time, they felt that the company should act in its own interests, even if this created problems for its employees. Managers had long-term planning horizons. They were passive, thoughtful, and deliberative, with a strong attention to detail. They had a talent for orchestrating organizational functions and responsibilities in a harmonious and finely-tuned fashion. They were strong in informal networking, and they had a high capacity to cope with ambiguity and political in-fighting (McMillan, 1989; Lincoln and Kalleberg, 1990; Lenssen, 1996; Sinha, 1997; Beldona, Inkpen, and Phatak, 1998; Dore, 2000; Pudelko, 2000).

Organizational and work commitment were higher among managers and supervisors than among workers. Japanese managers scored average on job satisfaction (Lincoln and Kalleberg, 1990). The managerial echelons were elitist and meritocratic, with all but a few top managers graduates from the University of Tokyo (Morgan, 1986; Lenssen, 1996). Kono and Clegg (2001) found that in 1990, 35.9% of directors had their expertise in technology and production. 32.6% in marketing; 13.4% in finance and administration; 9.8% in planning; 6.7% in personnel; and 1.6% in general affairs.

Changes in the Labor Force in Japan up to the Early 2000s

Since the early 1990s, the core workforce has shrunk, while the contingent workforce has increased in size (Jackson, 2003). The latter includes a strong increase in the number of young atypical workers, the so-called ‘freeters’ (Honda, 2005).
Inglehart et al. (2004) found several changes in the beliefs and values endorsed by the Japanese population, as summarized in table 5.21. On the basis of their 1999-2002 world values survey, they found that the importance of work had increased to 49%, the importance of family to 93%, and the importance of leisure time to 44%. Regarding job aspects, there was a small increase in importance of good pay (83%); experiencing not too much pressure became important at 69% (up from 42% in 1990-93); the importance of job security increased to 80%, and that of good hours to 72%; the importance of an opportunity to use initiative appeared at 50% (up from 34%); the importance of generous holidays increased to 71%; the importance to achieve something appeared at 70% (up from 48%); the importance of a responsible job increased to 67% (up from 48%); that of an interesting job increased to 4% (up from 36%), and that of a job that meets one’s abilities to 90%. Figures regarding the importance of having pleasant people to work with, decision-making freedom, the view of work as a business transaction, whether instructions should be followed always, and job

<table>
<thead>
<tr>
<th>Human beliefs and values</th>
<th>1990-93 (%)</th>
<th>1999-2002 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work very important</td>
<td>41</td>
<td>49</td>
</tr>
<tr>
<td>Family very important</td>
<td>78</td>
<td>93</td>
</tr>
<tr>
<td>Leisure time very important</td>
<td>24</td>
<td>44</td>
</tr>
<tr>
<td>Important in job:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Good pay</td>
<td>78</td>
<td>83</td>
</tr>
<tr>
<td>- Not too much pressure</td>
<td>42</td>
<td>69</td>
</tr>
<tr>
<td>- Pleasant people to work with</td>
<td>78</td>
<td>n.a.</td>
</tr>
<tr>
<td>- Job security</td>
<td>58</td>
<td>80</td>
</tr>
<tr>
<td>- Good hours</td>
<td>55</td>
<td>72</td>
</tr>
<tr>
<td>- Opportunity to use initiative</td>
<td>34</td>
<td>50</td>
</tr>
<tr>
<td>- Generous holidays</td>
<td>52</td>
<td>71</td>
</tr>
<tr>
<td>- Achieve something</td>
<td>48</td>
<td>70</td>
</tr>
<tr>
<td>- Responsible job</td>
<td>48</td>
<td>67</td>
</tr>
<tr>
<td>- Interesting job</td>
<td>36</td>
<td>64</td>
</tr>
<tr>
<td>- A job that meets one’s abilities</td>
<td>57</td>
<td>90</td>
</tr>
<tr>
<td>Satisfied with job</td>
<td>68</td>
<td>n.a.</td>
</tr>
<tr>
<td>Great deal of decision-making freedom</td>
<td>66</td>
<td>n.a.</td>
</tr>
<tr>
<td>Work viewed like a business transaction, with effort depending on pay</td>
<td>14</td>
<td>n.a.</td>
</tr>
<tr>
<td>Instructions should be followed always</td>
<td>33</td>
<td>n.a.</td>
</tr>
<tr>
<td>Work is a duty towards society</td>
<td>n.a.</td>
<td>61</td>
</tr>
<tr>
<td>Fair that a quicker, more efficient, and more reliable employee is paid more than another employee of same age and job</td>
<td>59</td>
<td>88</td>
</tr>
<tr>
<td>There should be greater incentives for individual effort</td>
<td>34</td>
<td>35</td>
</tr>
<tr>
<td>Good thing for the future:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Greater emphasis on the development of the individual</td>
<td>70</td>
<td>n.a.</td>
</tr>
<tr>
<td>- More emphasis on family life</td>
<td>85</td>
<td>89</td>
</tr>
<tr>
<td>Confidence in unions</td>
<td>26</td>
<td>43</td>
</tr>
<tr>
<td>Confidence in companies</td>
<td>28</td>
<td>29</td>
</tr>
</tbody>
</table>

satisfaction were not available. 61% of respondents saw work as a duty towards society (data for 1990-1993 were not available). The percentage of respondents that thought it fair that a quicker, more efficient, and more reliable employee was paid more than another employee of the same age with the same job increased to 88%. The percentage of respondents that felt there should be greater incentives for individual effort remained stable at 35%. For the future, more emphasis on family life increased slightly to 89%. The figure regarding whether there should be a greater emphasis on the development of the individual was not available. Confidence in unions increased to 43%, while that in major companies stayed about the same at 29%.

Other surveys have provided indications of changes in levels of job satisfaction, affective and continuance commitment, support for lifetime employment and seniority-based wages, and the trade-off between income and free time. The 1997 ISSP found that 71.8% of respondents were satisfied with their job.\textsuperscript{123} Affective commitment to firms appears to have increased somewhat, though remaining at a lower level than in the US. In the 1997 ISSP survey, the percentages of subjects responding positively to Lincoln and Kalleberg’s (1990) questions measuring such commitment were 58.4% and 57.2% (up from 54.3% and down from 57.9% respectively). Continuance commitment increased to 41.4% (up from 20.4%). A 2004 survey by the Japan Institute of Labour Policy and Training found that 78% of respondents expressed support for life-long employment (up 5.7% since 1999), while 66.7% expressed support for seniority-based wages (up 4.4% since 2001). And a 2000 survey by the Prime Minister’s Office found that the proportion opting for more income over more free time fell from a high of 53.3% in 1994 to 48.7% in 2000 (Matanle, 2003). Meanwhile, according to Kono and Clegg (2001), next to and in competition with identification with the firm, an identification with the occupation has been developing. Specialization is increasingly replacing more generalist competencies.

The changes found by Inglehart et al. (2004) for the 16-29 age category on the basis of their 1999-2002 world values survey are shown in table 5.22. The importance attached to work in life increased to 39%, while leisure time was now considered very important by 61% of respondents (up from 43% in 1990-93). In a job, good pay was thought important by 87% (up from 85%); not too much pressure by 71% (up from 50%); job security by 82% (up from 58%); good hours by 77% (up from 70%); the opportunity to use initiative by 53% (up from 37%); generous holidays by 81% (up from 69%); to achieve something by 78% (up from

\textsuperscript{123} www.za.uni-koeln.de/data/en/issp/codebooks/s3090cdb.pdf; my calculations.
57%); a responsible job by 65% (up from 42%); an interesting job by 81% (up from 58%); and meeting one’s abilities by 92% (up from 77%). Only 41% saw work as a duty towards society. 86% thought it fair that a quicker, more efficient, and more reliable employee was paid more than another employee of the same age with the same job (up from 53%). Only 35% felt there should be greater incentives for individual effort (up from 30%). Data regarding the view of work as a business transaction, whether instructions should be followed always, whether there should be a greater emphasis on the development of the individual, and job satisfaction were not available.

<table>
<thead>
<tr>
<th>Human beliefs and values</th>
<th>1990-93 (%)</th>
<th>1999-2002 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work very important</td>
<td>26</td>
<td>39</td>
</tr>
<tr>
<td>Leisure time very important</td>
<td>43</td>
<td>61</td>
</tr>
<tr>
<td>Important in job:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Good pay</td>
<td>85</td>
<td>87</td>
</tr>
<tr>
<td>- Not too much pressure</td>
<td>50</td>
<td>71</td>
</tr>
<tr>
<td>- Job security</td>
<td>58</td>
<td>82</td>
</tr>
<tr>
<td>- Good hours</td>
<td>70</td>
<td>77</td>
</tr>
<tr>
<td>- Opportunity to use initiative</td>
<td>37</td>
<td>53</td>
</tr>
<tr>
<td>- Generous holidays</td>
<td>69</td>
<td>81</td>
</tr>
<tr>
<td>- Achieve something</td>
<td>57</td>
<td>78</td>
</tr>
<tr>
<td>- A responsible job</td>
<td>42</td>
<td>65</td>
</tr>
<tr>
<td>- An interesting job</td>
<td>58</td>
<td>81</td>
</tr>
<tr>
<td>- A job that meets one’s abilities</td>
<td>77</td>
<td>92</td>
</tr>
<tr>
<td>Satisfied with job</td>
<td>59</td>
<td>n.a.</td>
</tr>
<tr>
<td>Work viewed like a business transaction, with effort depending on pay</td>
<td>21</td>
<td>n.a.</td>
</tr>
<tr>
<td>Instructions should be followed always</td>
<td>22</td>
<td>n.a.</td>
</tr>
<tr>
<td>Work is a duty to society</td>
<td>n.a.</td>
<td>41</td>
</tr>
<tr>
<td>Fair that a quicker, more efficient, and more reliable employee is paid more than another employee of same age and job</td>
<td>53</td>
<td>86</td>
</tr>
<tr>
<td>There should be greater incentives for individual effort</td>
<td>30</td>
<td>35</td>
</tr>
<tr>
<td>Good thing for the future:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Greater emphasis on the development of the individual</td>
<td>75</td>
<td>n.a.</td>
</tr>
</tbody>
</table>


For Japanese managers, Okabe (2002) found that a high group orientation was not characteristic. Managers did value job security highly. Young managers were found to have become more sensitive to monetary rewards since the introduction of greater merit pay. Kono and Clegg (2001) found that the number of directors with an expertise in technology and production increased to 38.7% in 1996 (up from 35.9% in 1990). The number of directors with an expertise in marketing went to 33.1% (up from 32.6%); in finance and administration to 9.7% (down from 13.4%); in planning to 11.3% (up from 9.8%); in personnel to 6.3% (down from 6.7%); and in general affairs to 0.9% (down from 1.6%).

Bosch, Reinoud (2008), Bringing Nuance into the Globalization Debate: Changes in US, Japanese, and German Management, with Special Reference to the Impact of International Finance
European University Institute
10.2870/25906
Interpretation of the Impact of Financial Globalization on the Japanese Labor Force and a Comparison to the Three Perspectives

As for the US case, it is difficult to interpret any causal impact of financial globalization on the characteristics of the Japanese labor force. The many characteristics of the Japanese labor force - and the changes therein - are nonetheless highly important, as they give an indication of potential sources of support for or resistance against the changes in Japanese management occurring under the impact of financial globalization. This will be discussed in the concluding section of this chapter.

According to Trading Places, the Japanese labor force can be characterized by stability. But while this is true for the core labor force, it does not hold for much of the contingent labor force. Dedication, cooperation, and organizational identification were indeed high, but Schwartz’s value-survey results indicated that Autonomy values were important as well. Capitalisme Contre Capitalisme does not discuss the existing segmentation in the Japanese labor force. In line with the book’s argument, employee commitment to work and to the firm has decreased somewhat, and there has been an increase in the value attached to leisure. There has also been some increase in the percentage of employees that would like to see compensation become more dependent on individual performance while enlarging pay inequality. The OECD statement that Japanese employees are conservative, and that it is difficult to obtain recognition in the event of failure, are supported by Schwartz’s finding of a lower score on his Mastery scale than in the US, but they are contradicted by the low score on the Conservatism and the high score on the Intellectual Autonomy scales. Whether there has been a shift in attitudes of the labor force in the direction of further individualism is unclear from the data.

Management Systems in Japan

Management Systems in Japan around 1990

Around 1990, there were two main Japanese management systems, one high-commitment system applying to core employees in large firms and a market-type system applying to peripheral employees. In the high-commitment system, core employees were hired on the
basis of their latent potential. They enjoyed job rotation; lifetime employment; a structured
career path on the basis of seniority; firm-specific training; high wages with seniority; a large
number of benefits; participation; and enterprise unionism. Bottom-up and top-down
communication ensured consensus and legitimacy that increased cooperation. Equality and
homogeneity were favored in work conditions, skill, control, and responsibility. Socialization
aimed to build a strong corporate culture. Overall, management for core employees was long-
term oriented, uniform, stable, but also inflexible. This high-commitment system only existed
for about one-third of the working population. For peripheral employees there was a market-
type system, in which work entailed less security, a lower income, fewer benefits, and less
societal status (McMillan, 1989; Lincoln and Kalleberg, 1990; Oliver, 1998; Pudelko, 2000;
Kono and Clegg, 2001; Fairris and Tohyama, 2002).

Changes in Management Systems in Japan up to the Early 2000s

According to Thelen and Kume (2003), there has been a trend toward intensification of
traditional high-commitment practices for core workers together with a growing exclusion of
others. While firms that have maintained cross-shareholding relationships and still depend on
bank borrowings have maintained traditional employment practices (Kono and Clegg, 2001),
firms that have non-traditional ownership structures (especially high foreign ownership) have
more non-traditional management practices (Abe and Hoshi, 2004).

On the basis of survey data from the Ministry of Finance, Jackson and Miyajima
(2007) find that Japanese listed firms fall into three groups: traditional Japanese firms with
relational finance, insider boards, and relational employment practices (42% of firms with
16% of employment); ‘hybrid’ firms with market finance but insider boards and relational
employment practices (24% of firms with 67% of employment); and an intermediate group
with relational finance or insider boards but more market-oriented employment and incentive
patterns (34% of firms with 18% of total employment).

Interpretation of the Impact of Financial Globalization on Japanese Management Systems
and a Comparison to the Three Perspectives and the Theories of Globalization

For overall management systems, one impact of financial globalization may be interpreted to
run through foreign share ownership - a hypothesis supported by the relationship found
between large foreign shareholdings in a number of firms and the reduction in lifetime
employment in such firms (Ahmadjian and Robinson, 2001). Table 5.23 presents the ‘state of
saturation’.

<table>
<thead>
<tr>
<th>Elements of management systems</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Types of management systems</td>
<td>High-commitment system for core workers, market-type system for others</td>
<td>Growing exclusion of workers from high-commitment system</td>
<td>Foreign share ownership</td>
<td>Ahmadjian and Robinson (2001); Abe and Hoshi (2004).</td>
</tr>
</tbody>
</table>

**Table 5.23** Relevant change in Japanese management systems and hypothesized cause related to financial globalization.

In line with *Trading Places*, the high-commitment management system applying to the core workforce indeed aimed at consensus. But a depiction of the market-type management system pertaining to no less than two-thirds of the Japanese workforce is missing. *Capitalisme Contre Capitalisme* does not present a description of Japanese management systems, and neither does the OECD. Of the overall theories of globalization, the convergence theory does not appear plausible, as employment security for a core workforce is still strongly supported. The divergence theory also appears implausible in light of the decrease in lifetime employment. Both the hybridization and the transformation theories appear to be consistent with the findings. The argument is summarized in table 5.24.

<table>
<thead>
<tr>
<th>Changes in management systems up to the early 2000s</th>
<th>Hypothesized cause</th>
<th><em>Trading Places</em></th>
<th><em>Capitalisme Contre Capitalisme</em></th>
<th><em>Economic Surveys and Economic Outlooks</em></th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growing exclusion of workers from high-commitment system</td>
<td>Foreign share ownership</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Hybridization or transformation</td>
</tr>
</tbody>
</table>

**Table 5.24** A comparison of changes in management systems in Japan and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.

**Conclusion**

As in the US case, this chapter has demonstrated a considerable improvement on the preconceptions regarding (changes in) Japanese management with which I started my research. The ‘state of saturation’ that was depicted here indicates many deviations from the three popular perspectives discussed in chapter 3. As far as Japanese management practices around 1990 are concerned, the most important of these include: the relevance of the formal
organization; the in-and-out system for the great majority of employees; the extent of variable pay; the low wages and benefits for contingent workers; the financial independence of firms from their creditors; the loss of jobs for managers when stock performed poorly; the importance of profitability and cash flow goals; the use of an extensive hierarchy and job rotation to divide the workforce; the use of lean production to demand allegiance; the possibility that participation was more appearance than substance; the way in which staffing, career development, training, and compensation practices increased dependence; the importance of formal and informal control systems, high workplace discipline, and the strong authority of superordinates; the limited power of unions; the segmentation between core and peripheral workers; the importance attached to intellectual autonomy and mastery; the low affective commitment together with high behavior commitment due to normative pressures; and the market-type management system for contingent workers.

Findings for changes in Japanese management up to the early 2000s that differ from the pictures drawn by the three perspectives discussed in chapter 3 include: the continued existence of a strong head office; the value that remains attached to lifetime employment for the core workforce; the external recruitment of specialists; the continued importance of seniority in career development; continuing legal employment protection; the introduction of the dual training system; the ineffective introduction of individual PRP; the role of government in corporate finance; the distinction between firms depending on capital markets with a high percentage of shares held by foreigners, and firms with traditional cross-shareholding relationships and bank borrowings; the introduction of universal banking; and the continued collective rather than individualist focus in corporate creeds and industrial relations. In a general sense, while changes in Japanese management have been largely in the direction of the predictions made by Capitalisme Contre Capitalisme and the OECD Economic Surveys and Economic Outlooks, they have not been as dramatic.

The relevant changes in Japanese management practices and their hypothesized causes related to financial globalization are summarized in table 5.25. This ‘state of saturation’ indicates that three causes were hypothesized to have been most relevant for Japanese management: the existence of large foreign shareholdings in a number of firms; the possibility for financing on the euromarket leading to deregulation; and the possibility of offshore outsourcing. Where large foreign shareholdings existed, there appears to have been: a
Table 5.25 A comparison of changes in Japanese management practices and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization (continued on next page).

<table>
<thead>
<tr>
<th>Changes from around 1990 up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Work flow</strong></td>
<td></td>
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</tr>
<tr>
<td>Formal organization</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Flattening and decentralization of structures</td>
<td>Pressures by foreign shareholders towards practices inspired by US management</td>
<td>No analysis</td>
<td>Pressures on international financial markets towards practices inspired by US management</td>
<td>Pressures on international financial markets towards practices inspired by US management</td>
<td>Convergence, hybridization, or transformation</td>
</tr>
<tr>
<td>Setting up of semi-autonomous units</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concentration on core competences in some firms</td>
<td>Possibility of offshore outsourcing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Human resource flow</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Staffing practices</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Reduction in lifetime employment to about 20% of workforce</td>
<td>Large foreign shareholdings in a number of firms</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Pressures on international financial markets towards practices inspired by US management</td>
<td>Transformation</td>
</tr>
<tr>
<td>Increase in flexible working hours</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease in hiring</td>
<td>Possibility of offshore outsourcing</td>
<td></td>
<td></td>
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<tr>
<td>Career development practices</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Fast track career system in some firms</td>
<td>Large foreign shareholdings in a number of firms</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Compensation</strong></td>
<td></td>
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</tr>
<tr>
<td>Some firms less likely to adopt age-based salaries</td>
<td>Foreign shareholdings</td>
<td>No analysis</td>
<td>Pressures on international financial markets towards practices inspired by US management</td>
<td>No analysis</td>
<td>Transformation</td>
</tr>
<tr>
<td>Introduction of PRP and stock options</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Amount spent on wages relative to sales decreased with ratio of foreign shareholding when firm performance was low</td>
<td>Offshore outsourcing</td>
<td></td>
<td></td>
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<tr>
<td>Wage levels negatively affected</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
### Table 5.25 (Cont.) A comparison of changes in Japanese management practices and hypothesized causes related to financial globalization to the three perspectives and the overall theories of globalization.

<table>
<thead>
<tr>
<th>Changes from around 1990 up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Trading Places</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Corporate governance</td>
<td></td>
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</tr>
<tr>
<td>Deregulation of financial markets to improve competitiveness: removal of controls on international capital and foreign exchange transactions; lifting of restrictions separating banking, the securities business, and insurance; share buybacks, stock options, and share swaps legalized; Large increase in foreign shareholdings</td>
<td>Development of the Euromarket</td>
<td>No analysis</td>
<td>Pressures on international financial markets towards practices inspired by US management</td>
<td>Pressures on international financial markets towards practices inspired by US management</td>
<td>Convergence, divergence, hybridization, or transformation?</td>
</tr>
<tr>
<td>Decrease in cross-shareholdings</td>
<td></td>
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</tr>
<tr>
<td>Increase in transparency and information disclosure</td>
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<tr>
<td>The use of stock options</td>
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<tr>
<td>Board independence</td>
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</tr>
<tr>
<td>Shareholder value orientation</td>
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<tr>
<td>Contingent pay</td>
<td></td>
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</tr>
<tr>
<td>Reduction in wages relative to sales</td>
<td></td>
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</tr>
<tr>
<td>Internal social control</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Increased emphasis on profitability, individual goal achievement, and quantitative measures</td>
<td>Foreign shareholdings</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, divergence, hybridization, or transformation</td>
</tr>
<tr>
<td>Legitimation</td>
<td></td>
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<tr>
<td>Downsizing has become more legitimate</td>
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</tr>
<tr>
<td>Socialization</td>
<td></td>
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</tr>
<tr>
<td>Decrease in emphasis on employee loyalty</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease in percentage of firms providing length-of-service awards to 81.6% in 2003</td>
<td>Foreign shareholdings</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, divergence, hybridization, or transformation</td>
</tr>
<tr>
<td>Communication that new recruits should no longer expect a job for life</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management systems</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growing exclusion of workers from high-commitment system</td>
<td>Foreign shareholdings</td>
<td>No analysis</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Hybridization or transformation</td>
</tr>
</tbody>
</table>

Bosch, Reinoud (2008), Bringing Nuance into the Globalization Debate: Changes in US, Japanese, and German Management, with Special Reference to the Impact of International Finance.
flattening and decentralization of structures; the setting up of semi-autonomous units; a reduction in lifetime employment; an increase in flexible working hours; a more frequent use of fast track career systems; a decrease in seniority pay; an increase in PRP; a decrease in the amount spent on wages relative to sales when firm performance was low; a change from a stakeholder orientation to a decrease in cross-shareholdings, an increase in transparency, the use of stock options, board independence, a shareholder value orientation, and contingent pay; an increased emphasis on profitability, individual goal achievement, and quantitative measures; a legitimation of downsizing; a decrease in the emphasis on employee loyalty; the communication that new recruits should no longer expect a job for life; a decrease in the provision of length-of-service awards; and a growing exclusion of workers from the high-commitment system. The possibility for financing on the euromarket has been hypothesized to have prompted the deregulation of financial markets leading to a large increase in foreign shareholdings with the consequences indicated above. The possibility of offshore outsourcing was hypothesized to have been related to a decrease in hiring and to have negatively affected wage levels. This may be interpreted to have increased the market power of employers, facilitating specific changes in management practices.

There appear to have been domestic factors supporting the direction of influence of financial globalization, in particular competition on the domestic market and the bad loan problem of banks leading to a decrease in bank shareholding and other ties between banks and firms (Jackson, 2003). But there also appear to have been countervailing factors: the Labor Standards Law; the importance of internal financing; the public-sector components of the financial system; and an increase in shareholdings by the government.

Existing contradictions also constitute forces resisting the impact of financial globalization. As in the US case, a number of changes are incompatible with the characteristics of the Japanese labor force. Contradictions exist between: the importance attached to ‘Hierarchy’ and the recent flattening of organizational structures - potentially explaining why the head office has remained strong; the importance attached to ‘Intellectual Autonomy’ and ‘Mastery’ and the increased use of teams - potentially explaining why commitment is behavioral rather than affective; the importance attached to job security and the high level of continuance commitment on the one hand, and the increased scope and duration of short-term contract hiring, the increase in temporary and contract work, the increase in the layoff rate, and the lower emphasis on lifetime employment in socialization on the other hand; the emphasis on ‘Intellectual Autonomy’ and the increase in specialization; and the emphasis on ‘Hierarchy’ and the increase in internal competition and civil labor
disputes. As in the case of the US, there also exists a contradictory relationship between the increase in individual performance related pay - to the extent that it actually occurred - and, on the one hand, the high percentage of respondents thinking it fair that a quicker, more efficient, and more reliable employee be paid more than another employee, and on the other hand, the low percentage of respondents feeling that there should be greater incentives for individual effort. A similar contradiction exists between these values and the introduction of individual performance assessment. The increase in the provision of stock options holds a reverse relationship to these values. These contradictions constitute potential sources of resistance to occurring changes. Interestingly, no contradiction exists between: the implemented changes in general and the low emphasis on ‘Conservatism’; the importance attached to job security and the high level of continuance commitment on the one hand, and the increase in average tenure on the other hand; the emphasis on ‘Intellectual Autonomy’ and ‘Mastery’ and the higher emphasis on ability and results in promotion; the low emphasis on ‘Egalitarian Commitment’ and the increase in income differences; the emphasis on ‘Intellectual Autonomy’, ‘Mastery’, and the increased emphasis on initiative, creativity, and innovation; and the lower emphasis on items with the company name and the low level of affective commitment.

Other contradictions exist between the increased use of teams and the increased use of practices based on individual achievement. The increased use of individualist practices also contradicts the community character of firms, the importance of informal networks, and the collectivist promotion, training, compensation, and socialization practices. These contradictions again potentially counteract the impact of financial globalization. Interestingly, there may not be a contradiction between the introduction of individual PRP and lifetime employment, as individual PRP has been introduced to save labor costs in particular for managerial employees.

Overall, then, the picture of changes in Japanese management and their relation to financial globalization that appears from the state of saturation presented in this chapter indicates the complexity of the impact of financial globalization. Different channels exist through which such impact occurs and there also exist several sources of resistance. These channels and sources of resistance were only to a limited extent recognized by the three perspectives constituting the core of the preconceptions with which I started my research. Of the general theories of globalization, only the transformation theory is consistent with all the findings reported in the chapter. The application of the extended version of grounded theory described in chapter 2 has established a new set of hypotheses concerning changes in
Japanese management related to the impact of international finance, ready to be further improved upon in future research. By establishing this set of hypotheses, causal channels and their transformative effects are specified, thus bringing nuance into the overall transformation theory of globalization.
To study changes in German management between 1990 and the early 2000s and their causes related to financial globalization, systematized depictions were again constructed according to the extended version of grounded theory presented in chapter 2. As in the US and Japanese case, the state of saturation based on empirical and theoretical findings from around 1990 (roughly 1987-1994) is compared with the state of saturation of such findings from the early 2000s (roughly 1995-2005), and causal factors related to financial globalization are hypothesized. The systematized and synthesized historical data and theories are again presented according to the different management categories of work flow, human resource flow, compensation, governance, industrial relations, the labor force, and management systems. Hypotheses regarding the impact of financial globalization are provided for each main sub-category, and they are compared to the core of the preconceptions with which I started my research - represented by the perspectives of Capitalisme Contre Capitalisme and the OECD - and to the different overall theories of globalization.

As demonstrated by Capitalisme Contre Capitalisme, German management is sometimes equated with Japanese management and opposed to US management. When the extended version of grounded theory is used to study German management, a number of nuances to this depiction appear. Nuances also appear regarding the idea that German management is developing in a neo-liberal direction. The impact of financial globalization is hypothesized to run through offshore outsourcing, financial deregulation, foreign share ownership, and the way in which FDI has affected attempts to improve (global) competitiveness. Certain counterforces to the impact of financial globalization, processes of adaptation, and apparently unrelated changes were also found. The only overall theory of globalization that is consistent with the findings is the transformation theory. The hypotheses that are developed provide an important specification of this theory.
Work Flow in Germany

*Formal Organization in Germany around 1990*

In German firms around 1990, hierarchies were relatively flat and decentralized. Horizontally overlapping functions were avoided. There was a high, partly bureaucratic degree of regulation (Pudelko, 2000). The employment share of small and medium-sized firms was higher than in the US and close to that of Japan. In 1986-87, 58% of total manufacturing employment was in enterprises with less than 500 employees (Streeck, [1996] 1997).

Teamwork existed in 23% of the 100 largest firms in 1989-1990 (Antoni, 1996). Around the same time, some 40% of employees participated in QCCs (Kono and Clegg, 2001). Jobs were based on externally certified qualifications. They were broad and relatively complex. Job rotation was common (Marsden, 1999; Pudelko, 2000). The production process occurred according to the principles of diversified quality production (Streeck, 1991; Turner, Wever, and Fichter, 2001).

*Changes in Formal Organization in Germany up to the Early 2000s*

During the 1990s, firm hierarchies in Germany became flatter and more decentralized. Units were set up as independent profit centers. A residual hierarchy has remained through the certification and ranking of skill levels. There has been a change from functional to product- and process-oriented types of organization (Dore, 2000; Jürgens, Naumann, and Rupp, 2000; Pudelko, 2000; Beyer, 2001; Finegold and Keltner, 2001; Lane, 2001; Jürgens, Krzywdzinski, and Teipen, 2006). A significant shift in employment has occurred from large to small firms (Deeg, 1999).

There has been a further move to team-based organizations, the use of QCCs, broad jobs, and job rotation, related to the adoption of lean production techniques by a majority of companies (Brewster, Hegewisch, and Mayne, 1994; Deeg, 1999; Müller, 1999; Benders and Van Bijsterveld, 2000; Pudelko, 2000; Bauer and Bender, 2001; Finegold and Keltner, 2001). But the qualification-based jobs, identities, and hierarchies have limited the implementation and scope of lean production with its fluid roles and responsibilities. In fact, many firms have continued to pursue diversified quality production (Culpepper and Finegold, 1999; Ferner and Varul, 2000b; Jürgens, 2003). Meanwhile, much production has been outsourced to low-wage
countries (Lane, 2000). In 2005, offshoring was estimated at 7.2% of yearly total job loss (European Foundation for the Improvement of Living and Working Conditions, 2006).

**Interpretation of the Impact of Financial Globalization on Formal Organization in Germany and a Comparison to the Two Perspectives and the Theories of Globalization**

In interpreting the impact of financial globalization, the decentralization of formal structures and the setting up of independent profit centers has been interpreted to have been inspired by US management practices in order to improve competitiveness (Schumann, 2000; Tullius, 2002). These practices were first introduced by US MNCs into Germany (Ferner, 2000; Jürgens, 2003), and by German MNCs as a result of their experiences in their foreign subsidiaries (Ferner and Quintanilla, 1998). Thus, the following hypothesis can be drawn up: FDI by US MNCs into Germany and FDI by German MNCs abroad has impacted on the way in which German management has attempted to improve its global competitiveness, and this is expressed in the implementation of certain US management practices. The restructuring process has also been related to the extent of foreign shareholdings (Höpner, 2003b). The further introduction of teams, QCCs, broad jobs, job rotation, and lean production, is more likely to have resulted from an imitation of Japanese practices - again to improve (global) competitiveness (Benders and Van Bijsterveld, 2000; Jürgens, 2004). Here, the practices concerned have been found to have been implemented first by Japanese and US MNCs through FDI into Germany, and by German MNCs (Jürgens, 2003, 2004). Thus, FDI by US, Japanese, and German MNCs can be hypothesized to have affected the way in which German management has attempted to improve its global competitiveness - leading to the implementation of certain Japanese management practices. The problematic implementation of lean production indicates domestic impediments to the transfer of practices across cultures. As in the US case, financial globalization also impacts on management practices through the possibility of offshore outsourcing which increases the power of management (Marin, 2005; Jürgens, Krzywdzinski, and Teipen, 2006). The relevant changes in formal organization and the hypothesized causes are summarized in table 6.1.

The findings indicate that formal structures in German firms have become flatter, and this may well be in line with *Capitalisme Contre Capitalisme*’s claim that pressures on international financial markets have led to the perception that hierarchical structures were
Table 6.1 Relevant changes in formal organization in Germany and hypothesized causal factors related to financial globalization.

cumbersome and paralyzing. At the same time, no material was encountered to determine whether or not formalization was indeed considered similarly. *Capitalisme Contre Capitalisme* does not mention the (further) introduction of teamwork, QCCs, job rotation, and lean production, and as these practices have been interpreted to have been taken over from Japanese rather than US management, this is an important shortcoming.

The OECD does not discuss German workflow practices. The extent to which changes in such practices imply the coming into being of an ‘entrepreneurial climate’ due to pressures on international financial markets is an open question. While decentralization and the creation of profit centers could be consistent with such a claim, this may be less so for the (further) introduction of teamwork, QCCs, job rotation, and lean production. On the basis of the presented material, no clear conclusion can be drawn.

Of the overall globalization theories, the divergence theory appears implausible in light of the implementation of US- and Japanese-style management practices. The convergence, hybridization, and transformation theories are all consistent with the findings.
No judgment can be reached at this stage regarding the plausibility of the different theories in light of the possibility of offshore outsourcing. The argument is summarized in table 6.2.

<table>
<thead>
<tr>
<th>Changes in formal organization up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Further flattening and decentralization of structures; setting up of semi-autonomous units</td>
<td>FDI by US MNCs into Germany and by German MNCs abroad has impacted on the way in which German management has attempted to improve its global competitiveness</td>
<td>Pressures on international financial markets towards practices inspired by US management</td>
<td>Pressures on international financial markets towards practices inspired by US management</td>
<td>Convergence, divergence, hybridization, or transformation</td>
</tr>
<tr>
<td>Further introduction of teams</td>
<td></td>
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<tr>
<td>Further introduction of QCCs</td>
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<td>Further introduction of broad jobs</td>
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<tr>
<td>Further introduction of job rotation</td>
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<tr>
<td>Introduction of lean production</td>
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<tr>
<td>Much outsourcing of production to low-wage countries</td>
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<tr>
<td>Possibility of offshore outsourcing</td>
<td>No analysis</td>
<td>No analysis</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Possibility of offshore outsourcing</td>
<td>No judgment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 6.2** A comparison of changes in formal organization in Germany and hypothesized causes related to financial globalization to the two perspectives and the overall theories of globalization.

**Informal Organization in Germany around 1990**

The informal organization in German management around 1990 was referred to as the *Betriebsgemeinschaft* (‘works community’). This notion encapsulated diffuse and implicit values, resulting in non-contractual rights and obligations for employees (Ferner and Varul, 2000b; Pudelko, 2000; Jackson, 2003). Firms had a ‘cooperative corporate culture’ - a shared concern with the firm’s prosperity and its reputation for quality (Dore, 2000).
Changes in Informal Organization in Germany up to the Early 2000s

As in the case of the US and Japan, I did not encounter any studies discussing changes in informal organization in Germany.

Human Resource Flow in Germany

Staffing in Germany around 1990

German firms around 1990 provided considerable job security supported by legal regulations (Muller, 1998; Dore 2000; Kitschelt and Streeck, 2003). Contingent workers were treated as a buffer stock of flexible labor to insulate the core workforce from layoffs (O’Sullivan, 2000). In 1990, 13.4% of total employment was part-time (less than 30 hours per week) (OECD, 2004a). The share of temporary work in the same year was estimated at 10.5% (OECD, 1993), while average hours worked per person per year were 1,541 (OECD, 2005).

Internal recruitment was more important than external recruitment, but external markets were used as well. Many new employees started their career as apprentices, and firms rigorously selected entrants to their apprenticeship programs. The need for personnel was also covered by graduates from high school and university. University graduates were hired to cover the need for management talent. In selection, social competence and occupational qualifications and experience were valued highly. Top managers were usually recruited internally: in 1990, only 17% of top managers were recruited from the outside. Employment contracts were highly specific (Pieper, 1990; Dany and Torchy, 1994; Sparrow and Hiltrop, [1997] 1998; Muller, 1998; Dore, 2000; Pudelko, 2000; Höpner, 2001, 2003b).

Legal regulations made it difficult for firms with more than 5 employees to dismiss employees. Dismissals were void if possibilities for transfer or retraining were available. The dismissal of a senior employee to hire a younger employee was illegal, and from employees with functionally equivalent tasks, those with the best job market options were to be dismissed first. Works council members, pregnant women, and national servants could not be dismissed. Dismissals were costly in terms of negotiating time in works councils and supervisory boards, because of obligatory social plans (for firms with more than 20 employees), and sometimes, in terms of morale and cooperation. They had negative effects on the reputation of and peace in the firm. Dismissals were avoided if possible, although they...
were performed more quickly than in Japan (Pieper, 1990; Dore, 2000; Pudelko, 2000; Eger, 2004). Using data from the German Socio-Economic Panel, Cornelißen and Hübler (2005) report a yearly average layoff rate of only 1.0% for 1990-91. Reductions in work forces were rather achieved through hiring freezes, reduced working hours, early retirement, retraining, and wage freezes (Crouch, 1993a; O’Sullivan, 2000; Pudelko, 2000; Morin and Vincens, 2001; Rehder, 2001).

Cornelißen and Hübler (2005) report a quit rate of of 4.6% in 1990 and 4.7% in 1991. Tenure levels were high: for 1990, the OECD (1993) reported average tenure at 10.4 years, while for the same year, Höpner (2003b) found average tenure of CEOs of the 40 largest firms to be around 9 years.

Changes in Staffing in Germany up to the Early 2000s

Employer commitment to long-term employment has remained strong (Jürgens, 2003). But there has been a movement to a more flexible employment contract, by slightly relaxing ‘hiring and firing’ rules, by making it easier for employers to recruit staff on a temporary or part-time basis, and by provisions for more flexible working hours (Sparrow and Hiltrop, [1997] 1998; Tempel, 2001). Also, in 2004, the number of employees in an establishment needed to qualify employees for coverage by employment protection legislation was increased from 5 to 10. As shown in figure 6.1, the share of part-time employment increased to 21.8% in 2005 (up from 13.4% in 1990). The share of temporary employment increased to 13% in 2004 (up from 10.5% in 1990) (Statistisches Bundesamt, 2004). There has also been an increase in the use of flexible working hours (Bluhm, 2001; Bosch and Lehndorff, 2001;

![Graph showing part-time employment in Germany (1995-2005)](image)

Jürgens, Krzywdzinski, and Teipen, 2006). Figure 6.2 shows that average annual working hours per employee decreased from 1,541 in 1990 to 1,435 in 2005.


The recruitment of school and university graduates has increased in importance. Through apprenticeships, cooperation in examination-projects, firm presentations, and congresses for graduates, contacts are made with potential applicants. But most firms still advertise vacant positions in the establishment first (Müller, 1999; Pudelko, 2000; Gómez-Mejía, Balkin, and Cardy, 2001). For top managers, there has been a trend towards recruitment from the external labor market. In 1999, the percentage of top managers recruited from the outside had risen to 34% (up from 17% in 1990) (Höpner, 2003b).

Collective agreements have ruled out plant closures, and compulsory reductions were only used in exceptional cases. Nonetheless, Cornelißen and Hübler (2005) report an increase in the yearly layoff rate to 2.0% for 2001-2 on the basis of data from the German Socio Economic Panel (up from 1.0% for 1990-1). The use of early retirement to avoid layoffs has decreased because of the resulting high non-wage labor costs (Jackson, 2003). Quit rates have dropped: Cornelißen and Hübler (2005) report a decrease in quit rates to 2.8% in 2001 and 1.7% in 2002 (down from 4.6% in 1990). Average tenure has remained relatively stable at 10.7 years in 2002 (Auer, Berg, and Coulibaly, 2004). But Höpner (2003b) found that the average tenure of CEOs of the 40 largest firms had declined from around 9 years in 1990 to around 7 years in 1997.
Interpretation of the Impact of Financial Globalization on Staffing Practices in Germany and a Comparison to the Two Perspectives and the Theories of Globalization

On the one hand, the commitment to and continuance of long-term employment together with the increase in contingent employment and the increased importance attached to the recruitment of graduates has been interpreted to have been inspired by Japanese management techniques aimed at improving competitiveness (Kwon, 2004). On the other hand, many of the changes in staffing are likely related to the high unemployment level. The increase in external recruitment of managers has been seen to have been inspired by US practices (Höpner, 2003b). No sources exist that link these causes explicitly to the way in which FDI by Japanese and US MNCs has affected German management.

*Capitalisme Contre Capitalisme*’s statement concerning German staffing practices is confirmed. The OECD depiction of staffing practices is also to some extent supported. Employment protection was eased slightly, the possibility to employ temporary or part-time workers was facilitated, and there has been an increase in working time flexibility. But at the same time, commitment to long-term employment has remained strong, compulsory dismissals have remained relatively exceptional, and turnover has been relatively low.

**Career Development in Germany around 1990**

In German firms around 1990, promotion criteria included seniority, experience, individual performance, and social competences. Acquiring recognized vocational and technical skills could also lead to promotion. The most important criteria for promotion for top management were decision making ability and perseverance; for middle management they were occupational knowledge and experience. Other important criteria for promotion of managers included: the ability to convince, motivate, and set the example; social competence; integrity; analytical thought ability; a systematic and methodical way of working; entrepreneurial thinking; a team- and coworker orientation; and leadership strength and ability. Natural scientific and technical knowledge also helped managerial careers. Promotion criteria were formal and quantifiable (Marsden, 1999; Harding and Paterson, 2000; Pudelko, 2000; Streeck and Höpner, 2003).

Career paths were based on technical competence. Most such paths had few overlapping transfers and they were located in a single firm. Careers were slow (Pieper, 1990; Marsden, 1999; Whitley, 1999; Pudelko, 2000).
Changes in Career Development in Germany up to the Early 2000s

For managerial careers, leadership skills and a university degree in economics have increased in importance as promotion criteria (Müller, 1999; Pudelko, 2000). Career paths are still often located in a single firm, but to a decreasing extent. The number of directors with outside work experience increased from 17% in the 1980s to 35% in the 1990s (Höpner, 2003b). The flattened firm hierarchy allows for faster careers for young talent into top management, even when fast careers are still looked at somewhat suspiciously (Pudelko, 2000).

Interpretation of the Impact of Financial Globalization on Career Development in Germany and a Comparison to the Two Perspectives

The increase in the number of directors with outside work experience has been seen to have been inspired by US management practices (Höpner, 2003b). Again, no sources exist that link this cause explicitly to the impact of FDI by US MNCs.

Capitalisme Contre Capitalisme’s arguments regarding career development in Germany are largely confirmed. But promotion criteria were more diverse than is acknowledged, and whether the slow and orderly career paths were actually economically efficient remains an open question. For managers there has been an increase in job hopping. But while fast careers appear to have become more frequent, they are still regarded with some suspicion. In line with the OECD depiction, employment protection was eased slightly, the possibility to employ temporary or part-time workers was facilitated, and there has been an increase in working time flexibility. But at the same time, commitment to long-term employment has remained strong, compulsory dismissals have remained relatively exceptional, and turnover has been relatively low. While job hopping has increased, career paths are still often located in a single firm.

Training in Germany around 1990

In the 1989 German Socio-Economic Panel, 28% of employees reported to have received continuous (not vocational) training (Pischke, 2000). Average expenses per trainee in the early 1990s amounted to $7,200 (Pudelko, 2000). Training was both general and firm- and industry-specific, harnessing functional specialties. There was both on- and off-the-job
training, internal as well as external. Training was aimed at individuals and at the long-term (Tilly and Tilly, 1994; Marsden, 1999; Pudelko, 2000; Tempel, 2001; Turner, Wever, and Fichter, 2001).

Newly recruited graduates usually received some form of structured induction. Trainees were often rotated for up to two years through different departments to get a general introduction. Vocational training was provided by almost all medium- and large-sized firms to about 5% of the workforce (Muller, 1998; Müller, 1999). Firms that did not provide apprenticeships contributed through their membership fees to the chambers of commerce. The chambers also provided a channel for the application of peer pressures to those not pulling their weight. Vocational training provided both specific and general skills. It combined on- and off-the-job training in companies with theoretical learning in vocational schools during a period of some three and a half years. Theoretical learning was individual, whereas practical training included learning in groups. Apprenticeships provided an opportunity to select suitable applicants, flexible staffing levels, reduced training costs, and external legitimacy. Further training was limited, with an emphasis on the lower hierarchical levels. Training through job rotation for blue-collar workers aimed to develop high and broad skill levels (Conrad and Pieper, 1990; Pieper, 1990; Hollingsworth, 1997; Mabey, Salaman, and Storey, 1997; Marsden, 1999; Dore, 2000; Pudelko, 2000; Finegold and Wagner, 2002; Schmitt, 2002).

Sustained investment in management development existed only for a small group. Potential future top managers received 2 to 5-years of job rotation and further training oriented at entrepreneurship, strategic management, international marketing, and personnel management. Other managers spent only 3 to 5 days a year on further training concerned with issues such as motivation and communication (Finegold and Keltner, 2001).

**Changes in Training in Germany up to the Early 2000s**

The percentage of employees receiving continuous (not vocational) training appears to have dropped slightly. In the 1999 German Socio-Economic Panel, 21% of employees reported to have received such training (Zwick, 2002). This was seen to be about average in international comparison. There has been an increase in team-oriented training (Müller, 1999). The number of employees receiving vocational training appears to have been about stable at around 5%, despite a certain reluctance of Eastern *Mittelstand* firms to invest in such training (Müller, 1999; Culpepper, 2001; Schmitt, 2002).
Interpretation of the Impact of Financial Globalization on Training Practices in Germany and a Comparison to the Two Perspectives

The increase in team-oriented training has been related to the implementation of Japanese management practices in an attempt to improve competitiveness (Schumann, 2000; Kwon, 2004). These have again not been linked explicitly to the way in which Japanese FDI has affected management practices in Germany.

The findings are in line with Capitalisme Contre Capitalisme’s claim that German firms are seen to have an obligation to provide professional education. The OECD publications do not contain any statements concerning training practices in Germany.

Compensation in Germany

Compensation in Germany around 1990

Compensation in German management around 1990 was to a large extent job based, with certified occupational skill as the dominant classification criterion (Marsden, 1999; Dore, 2000; Pudelko, 2000). Multi-employer collective agreements prescribed job grades and demanded formal qualifications (Müller, 1999). The effect of seniority on pay was estimated roughly at only about 0.5% per year of tenure in 1991 (Tomita, 1998).

The use of individual PRP was limited to piece rates subject to collective bargaining. These did not result in much individual variation in wages. There were no remuneration schemes that tied a worker’s income to the fortunes of the firm (Kurdelbusch, 2002a; Jackson, Höpner, and Kurdelbusch, 2005). Yearly bonuses were stable and performance independent, as fixed by tariff agreements. They were low in comparison to basic wages (Pudelko, 2000). Limited stock-option schemes were offered, enabling employees to buy subsidized shares of about 1,000 US$ per year (Muller, 1998). Overall, collectively bargained wages usually accounted for at least 90% of pay. The collective agreements indirectly set the budget available for variable pay above the union wage rate. These additional payments were distributed in equal percentages to all employees (Kurdelbusch, 2002a).

Figure 6.3 shows that hourly direct pay for production workers in manufacturing were relatively high in international comparison - reaching some 145% of the US level in 1993-4.
Many fringe benefits were prescribed by law or tariff agreements. Such benefits usually included family allowances, educational leave for parents with young children, and numerous paid holidays (Lincoln, Kerbo, and Wittenhagen, 1995; Hassel, 2001; Allen and Gale, 2002).

![Figure 6.3 Indexes of hourly direct pay for production workers in manufacturing (exchange-rate corrected) in the US, Japan, and Germany, 1988-1994 (Index, US=100.0). Source: Bureau of Labor Statistics (ftp://ftp.bls.gov/pub/special.requests/ForeignLabor/ichccsuppt06.txt).](image)

The income of managers depended to a large extent on seniority (Pudelko, 2000). In addition, there were small variable components linked to dividend payments (Jackson, 2003). Individual incentives were more frequently found than group incentives, although profit sharing was used by 60% of employers (Filella and Hegewisch, 1994; Rhodes and Van Apeldoorn, 1998). On the basis of a sample of 196 firms, Schwalbach (1999) estimated average 1991 CEO compensation at roughly DM 1.1 million (around $662,651).

High importance was attached to internal equity, while some importance was attached to external equity. The difference between top management income and that of the lowliest paid worker was low. According to Towers Perrin (2000), in 1991, average total CEO pay was 10.2 times higher than that of an average manufacturing employee. The 90-10 percentile ratio for the gross earning of full-time employees was 2.86 in 1985-89 (OECD, 2004a). There was a formal unequal treatment of white and blue collar workers in terms of wages, working hours, and fringe benefits. The difference between the wages of skilled and unskilled workers was low (Marsden, 1999; Pudelko, 2000).
Changes in Compensation in Germany up to the Early 2000s

Wages have remained linked to job functions as determined by multi-employer collective bargaining agreements, but unions have come to accede a certain flexibility in annual contracts (Müller, 1999; Dore, 2000; Kurdelbusch, 2002a).

There has been an increase in variable pay. In a 2000-01 sample of 90 of the largest firms (including a few foreign-owned firms), Kurdelbusch (2002a, 2002b) found that 90% used variable pay. At least half had introduced or extended the scope of such variable pay during the 1990s. The majority of variable pay schemes were introduced to increase control over labor costs. 70% had some form of performance-related pay, constituting up to 10% of annual income. Almost 40% of companies had introduced individual PRP; 51% had profit-related pay (such as bonuses), constituting around 10% of annual income; and 57% had ESOPs. In only 35% of firms with PRP, the compensation scheme was regulated by a collective agreement. In such cases, the collective agreements contained strict rules on individual PRP, with regard to the measurement of performance, the distribution of rewards, and the available budget. In effect, remuneration did not really vary according to individual performance and could not lead to income losses. In other cases as well, variable systems were often diluted by lowering the spread between minimum and maximum bonuses or by expanding the number of eligible employees. This frequently led to roughly the same increase for most employees. In another study based on a sample of more than 100 firms, Schmitt (2002) found that 35.3% of employees received PRP and 1.6% received some form of capital participation. Nearly all capital participations were below DM 2,000 per year.

The OECD (2004b) reports real wage growth at 2.0% for 1990-94, 0.3% for 1995-99, and 0.8% for 2000-2002. As shown in figure 6.4, hourly compensation costs for production workers in manufacturing declined in the late 1990s, but returned to a relatively high level in 2005 at around 140% of US and Japanese levels.


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124 At a 1991 exchange rate of DM 1.66/$ (OECD, 1999b).
125 At a 1996 exchange rate of DM 1.5/$ (OECD, 1999b).
126 At €1.117/$ (www.oecd.org/dataoecd/5/50/2483826.xls).
The average income difference between CEOs and manufacturing employees has increased to 13.2 times in 2001 (Towers Perrin, 2001) - up from 10.2 times in 1991. The 90-10 percentile ratio for the gross earnings of full-time employees has remained fairly stable - standing at 2.87 in 1995-99 (OECD, 2004a).

**Interpretation of the Impact of Financial Globalization on German Compensation Practices and a Comparison to the Two Perspectives and the Theories of Globalization**

In interpreting the impact of financial globalization on changes in compensation practices, the introduction of individual PRP and stock-based compensation has been found to have occurred in particular in firms with a high percentage of foreign shareholdings (Jürgens, Naumann, and Rupp, 2000; Höpner, 2003b; Jackson, 2003; Jackson, Höpner, and Kurdelbusch, 2005). In addition, the introduction of these practices has been found to have occurred first in German subsidiaries of US MNCs, and in German MNCs transferring such practices from their foreign subsidiaries to Germany (Ferner and Quintanilla, 1998; Ferner, 2000; Kurdelbusch, 2002a). Thus, FDI by US MNCs into Germany and by German MNCs abroad can be hypothesized to have led to the introduction of individual PRP and stock-based compensation into Germany. While for the average employee, the extent of *de facto* implementation of these practices appears limited - with individual PRP mainly introduced to
save labor costs - for managers, compensation appears to have become more variable and stock-based. The argument is summarized in table 6.3.

<table>
<thead>
<tr>
<th>Elements of compensation practices</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>FDI by US MNCs into Germany and by German MNCs abroad</td>
<td></td>
<td>Ferner and Quintanilla (1998); Ferner (2000); Kurdelbusch (2002a).</td>
</tr>
</tbody>
</table>

Table 6.3 Relevant change in compensation practices in German management and hypothesized causes related to financial globalization.

The depiction of *Capitalisme Contre Capitalisme* of compensation practices in German firms is largely confirmed. But changes have not been radical. While there has been an increase in the use of individual PRP, this has quite often been based upon collective agreements. The effect of seniority on pay has been limited, but qualification still appears important. Pay inequality has increased somewhat, but has remained much smaller than in the US around 1990. The findings do not indicate whether the claim of *Capitalisme Contre Capitalisme* that pressures on international financial markets lead to demands by young graduates for higher salaries can be upheld. The book does not analyse how financial globalization may have impacted on the introduction of individual PRP and stock-based compensation. In line with the OECD publications, wage differentiation in German firms around 1990 was certainly limited, but whether one wants to label this ‘deficient’ would seem to depend on one’s normative position. Up to the early 2000s, wage differentiation increased, though not radically so. Variable pay has been introduced, in particular individual PRP and stock-based pay, but again this appears to have been done only to a relatively limited extent. The argument by the OECD publications - that pressures on international financial markets lead to an increase in wage differentiation - is in line with the findings, although it appears underspecified.

Of the different overall theories of globalization, only the transformation theory appears plausible. It is clear from the findings that, although US compensation practices were introduced into Germany, they were transformed in the process. The *de facto* variability of compensation appears limited apart from managerial compensation, and the increase in income differentials has been relatively limited. Thus one cannot truly speak of convergence...
or hybridization. Divergence does not appear a plausible hypothesis either. The argument is summarized in table 6.4.

<table>
<thead>
<tr>
<th>Changes in compensation practices up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction of individual PRP and stock-based compensation in particular for managers</td>
<td>High foreign shareholdings FDI by US MNCs into Germany and by German MNCs abroad</td>
<td>No analysis</td>
<td>Pressures on international financial markets towards increased wage differentiation</td>
<td>Transformation</td>
</tr>
</tbody>
</table>

**Table 6.4** A comparison of changes in compensation in Germany and hypothesized causes related to financial globalization to the two perspectives and the overall theories of globalization.

**Governance in Germany**

**Corporate Governance in Germany around 1990**

Table 6.5 shows that internal funding and credit were the most important sources of corporate financing for German firms in the early 1990s. Financing through new issues on the equity markets played a minor, though positive, role. Many large firms were not listed (Edwards and Nibler, 2000). The debt/equity ratio was higher than in the US, but lower than in Japan. Venture capital funding was insignificant (Franzke, Grohs, and Laux, 2003).

<table>
<thead>
<tr>
<th>Year</th>
<th>Internal Funding (€bln)</th>
<th>External Funding (€bln)</th>
<th>Internal/Total Funding (%)</th>
<th>Credit Outstanding (€bln)</th>
<th>Market Value of Equities (€bln)</th>
<th>Debt/Equity Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>new equity²</td>
<td>credit²</td>
<td>other⁴</td>
<td>new equity²</td>
<td>credit²</td>
<td>other⁴</td>
</tr>
<tr>
<td>1991</td>
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<td>16.5</td>
<td>104.8</td>
<td>7.2</td>
<td>50.7</td>
<td>764.3</td>
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<tr>
<td>1992</td>
<td>143.2</td>
<td>13.9</td>
<td>85.6</td>
<td>8.4</td>
<td>57.0</td>
<td>826.5</td>
</tr>
<tr>
<td>1993</td>
<td>132.1</td>
<td>14.2</td>
<td>95.3</td>
<td>4.2</td>
<td>53.7</td>
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<td>19.3</td>
<td>80.6</td>
<td>5.4</td>
<td>58.7</td>
<td>932.4</td>
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</table>

¹ Net savings and consumption of fixed capital
² Shares and other equities
³ Loans and securities other than shares
⁴ Pension contributions

Table 6.6 shows that the largest group of shareholders was the corporate sector, followed by households. The major banks owned significant shares in some major industrial corporations (Franks and Mayer, 1990, 1997). The proportion of stable shares (corporations, banks, insurance firms, pension funds, and the state) stood at 63.6% in 1991. These groups tended to pursue strategic and organizational interests (Jackson, 2003).

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</thead>
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<td>36.0</td>
<td>35.7</td>
<td>37.3</td>
</tr>
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<td>9.9</td>
<td>10.3</td>
<td>10.0</td>
</tr>
<tr>
<td>Insurance firms/Pension funds</td>
<td>4.1</td>
<td>4.5</td>
<td>5.4</td>
<td>5.0</td>
</tr>
<tr>
<td>Mutual funds²</td>
<td>3.4</td>
<td>4.0</td>
<td>5.1</td>
<td>5.6</td>
</tr>
<tr>
<td>Government</td>
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<td>13.6</td>
<td>12.1</td>
<td>11.5</td>
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<td>Foreign</td>
<td>12.1</td>
<td>11.5</td>
<td>10.7</td>
<td>10.2</td>
</tr>
</tbody>
</table>

¹ Credit institutions, savings and loans associations, money market funds
² Other financial intermediaries

Table 6.6 Corporate equity holders in Germany, 1991-94 (%; excludes mutual fund shares). Source: Deutsche Bundesbank (2006). Calculations are mine.

Ownership of shares was concentrated. This was encouraged by a tax break for holdings over 10% and by a 40% capital gains tax on sales of shares by long-term shareholders. New equity issues and trading were discouraged by limits on voting rights and other preemptive rights for existing shareholders (Deeg, 1999). For 171 listed firms in 1990, Franks and Mayer (2001) found that 85.4% had a largest block of 25% or more; 57.3% one of 50% or more; and 22.2% one of 75% or more. In a different study of 156 of the 200 largest non-financial firms in 1992, Edwards and Nibler (2000) found that 55.8% had an owner holding over 50% of equity. Owners with large stakes invested their funds for long periods of time. Their aim was the perpetuation of the enterprise (Porter 1997; Pudelko, 2000). Industrial firms ensured their business through their shareholdings; banks held shares to stabilize credit relations and to support long-term monitoring of their debt holders; public organizations pursued employment security; and for families the long-term maintenance of traditional firm and ownership structures and the survival of the firm were important goals (Höpner, 2003b).

Sixty of the 100 largest companies established one network in which most companies were connected through cross-shareholdings and interlocking directorates. The core consisted predominantly of financial companies. Cross-shareholdings were virtually absent between industrial companies, apart from clusters in the energy and heavy-industry sectors, and the cluster around Siemens. Where they existed, the cross-shareholdings protected against takeovers. A company with a significant ownership stake in another company usually had an executive serving as a representative on the supervisory board of that company. Control was
increased further when the chair of the supervisory board was held (Jürgens, Naumann, and Rupp, 2000; Beyer and Hassel, 2002; Höpner, 2003b; Höpner and Krempel, 2003). The number of interlocking directorates constituted 12% of all possible interlocks in 1990 (Höpner, 2003b). In 1992, every firm in the center of the network was on the average connected with every other firm by almost one-and-a-half person (Beyer, 2003). For a sample of 616 firms in West-Germany in 1993, Windolf (2002) reports the existence of 9,280 interlocking directorates of which 1,456 consisted of an executive manager of one firm on the supervisory board of another. The core of the network was based on reciprocal control relationships. For the rest of the network, top-down control relations were most typical (Konzernierung). In Baden-Württemberg, there also existed networks between decentralized large firms and subcontracting small- and medium-sized firms (Deeg, 1999).

The largest companies had one house bank with which they conducted the main share of their borrowing. This gave banks the ability of ‘sanction’ as lenders of credit (Esser, 1990). Banks also owned some large share stakes, although they rarely owned majority holdings. But as custodians of their customers’ shares, they were able to exercise proxy votes (Franks and Mayer, 1997). For 156 of the 200 largest non-financial firms in 1992, Edwards and Nibler (2000) found that banks controlled an average of 6.7% of voting rights via their own equity holdings and 8.5% on the basis of proxy votes. 127 The number of cases in which an individual bank controlled more than 10% of proxy votes was insignificant. In 40.4% of firms, banks had no voting rights at all. Banks were frequently represented on supervisory boards. In their 1992 sample, Edwards and Nibler found that in 30% of firms, bank representatives held more than 10% of all supervisory board seats. In only one firm they held more than 25%. In 15.4%, they held the supervisory board chair. Jackson (2003) reports that bank representatives held 6% of supervisory board seats in the largest 100 companies in 1993, while Höpner and Jackson (2003) report that bank representatives held about 40% of supervisory board seats in 40 of the largest listed non-financial firms in the beginning of the 1990s. According to Deeg (1999), representatives from competing banks often sat on the same boards. Banks also provided other services to firms, including capital-raising, securities underwriting, investment banking, insurance, foreign exchange operations, and trading and business consulting as well as commercial deposit, credit, and long-term finance. The universal banks also exercised control through their system of pooled information on the development of business and

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127 Edwards and Nibler included only those proxy votes where banks were not instructed by the owner on how to vote.
profitability for all enterprises (Esser, 1990; Harding and Sorge, 2000; Vitols, 2001; Vogel, 2003).

The provision of long-term bank credit and the involvement of banks protected firms from hostile takeovers. It stimulated risk minimization, with an emphasis on stability, continuity, and market share (Esser, 1990; Franks and Mayer, 1990; Chew, 1997; Upchurch, 2000; Höpner, 2003b). It allowed firms to provide long-term employment to employees (Hollingsworth, 1997). At the same time, according to Deeg (1999), banks were only able of periodic control of firms. They more often let firms go under than rescue them. They sometimes did initiate changes in management. But in his view, bank representation on corporate boards was more likely to serve an information than a control function. In addition, according to Edwards and Nibler (2000), banks were not able to influence large unlisted firms. The influence of pension funds and insurance firms was limited, as they could only hold 5% of their assets in domestic equities (O’Sullivan, 2000).

Since firms often funded their activities from retained earnings, they were not always sensitive to the terms on which external finance was supplied (Hall and Soskice, 2001). In addition, the low degree of listing on the stock market, concentrated ownership, extensive cross-holding, interlocking directorates, bank proxy votes, restricted voting rights, limited disclosure obligations, and codetermination insulated firms from takeovers and pressures for short-term returns (Deeg, 1999; Jürgens, Naumann, and Rupp, 2000; Lane, 2000; Jackson, 2003). The number of mergers and acquisitions was small, and hostile takeovers were virtually unheard of. Companies, with the assistance of banks, frequently did use ‘hostile stakes’ to gain control of competitors (Franks and Mayer, 1990, 1997; Chew, 1997; Dore, 2000; Edwards and Nibler, 2000; Höpner, 2001; Vitols, 2001). Because of a lack of pressure from the stock market, firms could offer long-term employment and invest in projects with long-term returns. The small weight given to stock options in managerial compensation further reduced the emphasis on share value (Hall and Soskice, 2001).

The AGM has the right to choose shareholder representatives in the supervisory board and to decide on the discharge of management board members and on the use of profits. Decisions on changes in the company’s statutes, dismissal of supervisory board members, increases or decreases in equity capital, and mergers and liquidations usually required a 75% majority. This meant that a shareholder with over 25% of the voting equity could block these decisions. Minority shareholders had the right to subject managers to scrutiny if they could muster a specified fraction of the voting equity, usually 10%. A shareholder or group of shareholders with 10% of voting equity had the right to put proposals to the vote at the
shareholders’ meeting. They could also go to court to request an audit of the firm’s activities. The law allowed restrictions on the number of votes, usually at 5%. Multiple voting rights were also allowed. This impeded hostile takeovers (Kester, 1997; Edwards and Nibler, 2000; Pudelko, 2000; Höpner and Jackson, 2003; Streeck and Höpner, 2003).

In practice, the influence of large shareholders was exercised primarily through the supervisory board. This board consisted of 9 to 22 members, who were not full-time employees of the firm, but who could be retired company executives. In fact, the chairman of the supervisory board was often the most recently retired chairman of the management board. In firms with more than 2,000 employees, half of the supervisory board was elected by shareholders, while the other half consisted of elected worker representatives. The shareholder-elected half was drawn from families with large share stakes and from the executive ranks of corporations or financial institutions that had a major stake in the company. That stake could be equity investment, a long-standing lending relationship, or a purchase or supply arrangement. The chairman of the supervisory board, always a shareholder representative, could cast a second vote to break ties in decisions. In smaller firms, twice as many shareholder representatives serve on the supervisory board as worker representatives (Kester, 1997; Edwards and Nibler, 2000; Pudelko, 2000; Höpner and Jackson, 2003). The supervisory board appoints, monitors, and dismisses management, gives business advice, and ratifies strategic decisions (Edwards and Nibler, 2000; Jackson, 2003). A list of candidates for the supervisory board tended to be proposed by the management board to the shareholders, who then ratified the list. Thus, in practice, the managers recruited their own supervisors, and supervisory boards passively followed the strategies of their managements (Esser, 1990; Windolf, 2002). But in times of crisis the supervisory board could assume control (Harding and Sorge, 2000).

The day-to-day running of the company is the responsibility of the management board, which had 3 to 15 members. No individual is allowed to be simultaneously a member of both the supervisory and management board. While the management board has a chair, his or her role is that of ‘first among equals’. Major decisions or proposals to the supervisory board were reached through consensus. The parting president of the management board had a large influence on the choice of his successor, who, as all members of the management board, tended to come from the inside (Kester, 1997; Pudelko, 2000; Vitols, 2001).

Employee codetermination and sector-wide wage bargaining supported employee rights. Employee representatives could resort to the courts to prevent or delay managerial decisions in recruitment, termination, and changing work practices. Shareholders and
employees could also form alliances to remove poorly performing management, or to demand higher corporate transparency and accountability (Brewster, 1998; Rhodes and Van Apeldoorn, 1998; Marsden, 1999; Dore, 2000; Pudelko, 2000; Höpner, 2001; Aguilera and Jackson, 2002). Hostile takeovers were impeded by the power of employee representatives on the supervisory board, and by the ability of employee representatives and unions to mobilize political and public opinion (Höpner, 2003b).

Overall, there was consensual decision-making among top management, core shareholders, and bank and employee representatives (Vitols, 2001). Managers were monitored by a combination of families, large corporate shareholders, banks with long-term relationships to the firm, and employee representatives (Chew, 1997; Höpner, 2001). As long as performance was not very poor, management retained a high degree of autonomy subject to legal prescriptions (Schmitt, 2002; Jackson, 2003). Only 24% of German managers surveyed by Hampden-Turner and Trompenaars (1993) in the early 1990s felt that the only real goal of a corporation was to make profits. The technical background of managers supported philosophies that set technical results and growth before financial performance (Höpner, 2003b). Because of the control by different stakeholders, large firms were oriented at long-term survival and growth, market share, incremental change, a progressive distribution of welfare, and job security for core workers. Other, but slightly less important goals included profit and shareholder value. Managers were on the employee- rather than shareholder-favoring side of the divide. Less of value-added was attributed to shareholders, lenders, and bond-holders, because more of it was paid out in wages (Ferner, 1997; Porter, 1997; Dore, 2000; Harding and Sorge, 2000; Pudelko, 2000; Vitols, 2001). Profit rates were low, dividends were treated as low fixed payments, and there were high rates of internal reinvestment. Firms could absorb high labor costs and avoid layoffs, thus maintaining implicit contracts and protecting firm-specific human capital (Höpner, 2003b; Jackson, 2003).

Changes in Corporate Governance in Germany up to the Early 2000s

Table 6.7 shows that internal funding and credit have remained the most important sources of corporate funding, with a brief surge of new share issues following the 1998 privatization of Deutsche Telekom and the establishment of the *Neuer Markt*, up to the bursting of the stock market bubble in 2001-2 (Jackson, 2003). The vast majority of companies has remained unlisted.128 The debt/equity ratio dropped during the late 1990s to a low of 57.4% in 1999 as a result of the stock market boom. Because of the subsequent crash, the ratio increased to 111.8% in 2002. The ratio then dropped back to 79.3% in 2005 as a result of share price recoveries. The amount of venture capital surged after the opening of the *Neuer Markt* in 1997, reaching about €10.8 billion in total between 1996 and 2000. But when the stock market crashed, the provision of venture capital dried up, and in 2003, the *Neuer Markt* was discontinued (Franzke, Grohs, and Laux, 2003).

<table>
<thead>
<tr>
<th>Year</th>
<th>Internal Funding (€bln)</th>
<th>External Funding (€bln)</th>
<th>Internal/Total Funding (%)</th>
<th>Credit Outstanding (€bln)</th>
<th>Market Value of Equities (€bln)</th>
<th>Debt/Equity Ratio (%)</th>
</tr>
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<tbody>
<tr>
<td>1995</td>
<td>168.1</td>
<td>16.5</td>
<td>56.7</td>
<td>7.1</td>
<td>67.7</td>
<td>896.5</td>
</tr>
<tr>
<td>1996</td>
<td>185.5</td>
<td>25.4</td>
<td>59.7</td>
<td>3.6</td>
<td>67.7</td>
<td>1,064.3</td>
</tr>
<tr>
<td>1997</td>
<td>174.0</td>
<td>16.7</td>
<td>56.9</td>
<td>3.6</td>
<td>69.3</td>
<td>1,288.8</td>
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<td>60.7</td>
<td>100.4</td>
<td>4.5</td>
<td>53.4</td>
<td>1,065.9</td>
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<td>156.6</td>
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<td>8.2</td>
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<td>8.2</td>
<td>51.3</td>
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<td>5.3</td>
<td>7.9</td>
<td>80.7</td>
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</tr>
<tr>
<td>2004</td>
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<td>6.6</td>
<td>117.8</td>
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<td>9.1</td>
<td>6.6</td>
<td>93.3</td>
<td>1,365.9</td>
</tr>
</tbody>
</table>

1 Net savings and consumption of fixed capital
2 Shares and other equities
3 Loans and securities other than shares
4 Pension contributions


Table 6.8 shows that the proportion of stable shares (corporations, banks, insurance firms, and the state) decreased to 51.5% in 2005 (down from 63.6% in 1991). The relative ownership by other groups (individuals, mutual funds, and foreigners) increased to 48.5% (up from 36.4% in 1991). The latter groups trade shares more actively, with an orientation on share price gains (Jackson, 2003).

128 On the basis of 2004 data from the Deutsches Aktieninstitut, Noack and Zetzsche (2005) find that there were approximately 1 million limited liability companies ("GmbHs") registered in Germany, as compared to only approximately 15,000 stock corporations ("AGs"). Of the latter, merely 833 were listed on regulated markets.

Bosch, Reinoud (2008), *Bringing Nuance into the Globalization Debate: Changes in US, Japanese, and German Management, with Special Reference to the Impact of International Finance*  
European University Institute  
10.2870/25906
<table>
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<td>21.2</td>
</tr>
</tbody>
</table>

¹ Credit institutions, savings and loans associations, money market funds
² Other financial intermediaries

Table 6.8 Corporate equity holders in Germany, 1995-2005 (%). Source: Deutsche Bundesbank (2006). Calculations are mine.

Ownership concentration has remained high: of the 100 largest German firms in 1998, the proportion of dispersed ownership averaged only 26%; just 23 had over 50% of their shares widely held; only 11 had 75% of their shares in dispersed ownership; and only 51 were listed on the stock exchange (Höpner and Jackson, 2003; Jackson, 2003; Jackson, Höpner, and Kurdelbusch, 2005). The average size of capital participations has been reduced. For 542 listed companies in 1999, Van der Elst (2000) found that 75.1% had a largest share block of of 25% or more; 48.5% one of 50% or more; and 17.3% one of 75% or more.

Between 1996 and 2000, the number of capital ties between the 100 biggest corporations declined from 169 to 80 - largely caused by the sale of small share packages held by financial firms. The 40% tax on profits from the sale of large share blocks was abolished in 2002, which sped up network dissolution. The number of interlocking directorates dropped to 7% of all possible interlocks in 1998 (down from 12% in 1990). In 2001, every firm in the center of the network was on the average still connected with every other firm by only slightly more than one person (one-and-a-half person in 1992). Since 1995, the position of supervisory board chair has increasingly been picked up by ex-managers of the firm itself (Beyer, 2003; Höpner, 2003a, 2003b; Höpner and Krempel, 2003). According to Höpner and Krempel (2003), these vanishing capital and interlocking directorate ties have implied a declining degree of coordination among large companies.

The largest firms have increased their financial autonomy from the banks as a result of high levels of self-financing, intensified bank competition, and new sources of funds from international financial markets. This is seen to have weakened bank influence, leading to an increase in management pay (Deeg, 1999; Dore, 2000; Höpner, 2003b). In a 2000 survey of 52 large firms by the MPIfG only 32.8% answered they still had a Hausbank, while 85.5% said they had had one in the past. 46.2% had recently cut themselves loose from their connection (Beyer, 2003).
From their side, the major commercial banks have responded to increased competition by shifting their focus to investment banking. This has resulted in the sale of some equity holdings in large firms (Höpner and Krempel, 2003). According to Dore (2000), the large banks have become more concerned about the yield on their assets rather than their relationship-cementing value, and more calculative about getting involved in the management of failing firms. But the large banks have remained major shareholders for large firms. Nonetheless, the reduction in relative shareholding has meant that it has become more difficult for banks to affect major decisions in large firms (Deeg, 1999). Meanwhile, the KonTraG of 1998 barred banks from using proxy votes if their direct shareholding exceeded 5%, and it required banks to solicit more instructions from shareholders (Jackson, 2003). The change by the major commercial banks to the investment banking paradigm has led to a reduction in supervision through interlocking directorates. For 40 of the largest listed non-financial firms, Höpner and Jackson (2003) report that the share in which the supervisory board chair was held by a representative of a financial firm dropped to 20% in the late 1990s (down from 40% in the early 1990s).

But according to Lane (2000), the ratio of bank loans to financial liability has remained high at 60-70%. The mechanism of proxy voting still enables banks to vote a high proportion of shares. And the loosening of cross-holdings and interlocking directorates seems to be a gradual process (Jürgens, Naumann, and Rupp, 2000). Meanwhile, the banks have developed a strategy of Allfinanz. This entails the expansion of services, consulting, trading, investment banking, and insurance. In addition, underwriting leaves the banks a continuing role in meeting corporations’ financial needs. Moreover, banks have not abandoned the role of bailing out client corporations, although they have become more careful in funneling cash into rescue operations. And banks remain critical intermediaries in most M&As (Deeg, 1999; Vogel, 2003).

The most noticeable change in the 1990s was the rise of institutional investors, especially from the US (Jürgens, Naumann, and Rupp, 2000). These investors focus on short-term shareholder value, concentrating on a small group of the largest companies. They have created pressures for financial returns, transparency, board independence, and investor relations, influencing management through portfolio decisions and investor meetings (Jürgens, Naumann, and Rupp, 2000; Pudelko, 2000; Höpner, 2001, 2003b; Beyer, 2003; Jackson, 2003). German private pension funds were formally recognized in 1998 under the Third Financial Markets Promotion Law (Jürgens, Naumann, and Rupp, 2000). Pension funds
and insurance firms may still only hold 30% of their assets in domestic equities, and 6% in foreign equities (O’Sullivan, 2000).

Because many large firms continue to have a handful of long-term shareholders who control at least a blocking minority of shares, firms have retained the capability to pursue long-term strategies. But the balance has shifted somewhat towards (foreign) institutional shareholders whose primary interest is an increase in short-term shareholder value. And management appears to have become more sensitive to their demands (Deeg, 1999; Jürgens, Naumann, and Rupp, 2000).

Transparency has increased. The 1994 Second Law for the Promotion of Financial Markets required that all firms issuing publicly traded securities must immediately disclose all information relevant to the value of their securities (Deeg, 1999). The Kapitalaufnahmeerleichterungsgesetz of 1998 allowed firms to account on the basis of the IAS or US-GAAP rather than the Handelsgesetzbuch (HGB). IAS and US-GAAP prescribe a larger amount of information. They demand a report for separate segments, while the use of silent reserves is hampered. In 1999, already 33 of the 100 largest and all DAX 30 companies did their accounting on the basis of IAS. This has increased the ability for outsiders to estimate the value of the firm, thus reducing the hurdle against hostile takeovers. Some firms have set up investor relations, and have started to provide information every quarter of the year (Höpner, 2003b; Höpner and Jackson, 2003; Jackson, 2003). The increased provision of stock options to management has increased an emphasis on share value (Dore, 2000; Höpner, 2003b).

The 1990s saw an erosion of barriers against hostile takeovers. The 1998 KonTraG abolished maximum and multiple voting rights, while in 2002 the capital-gains tax on the sale of corporate shareholdings was abolished (Jackson, 2003). The 2001 Takeover Law disallowed veto rights, poison pills, golden parachutes, and repurchases of stock at a premium, and limited normal repurchases to 10% of share capital (Funk, 2000; Garrett, 2001; Krause, 2002). Through the internationalization of share ownership and the control of dispersed shares by institutional investors, the willingness to sell shares to hostile takeover parties has increased. At the same time, according to Höpner (2003b), banks gave up their role as guardians against hostile takeovers. Codetermination is no longer seen as forming a hurdle because of its increasingly productivity-oriented character. And unions are also seen as no longer trying to combat hostile takeovers. Yet, despite an increase in M&A activity to around $59.4 billion in 2004, and an increase in the buying and selling of parts of firms

\[129\] www.thomson.com
(Höpner, 2003a), hostile takeovers have remained rare. According to Beyer and Hassel (2002), this is largely due to the low volume of the stock market and concentrated ownership.

The possibility for minority shareholders to initiate shareholder suits has been eased. The 2005 Gesetz zur Unternehmensintegrität und Modernisierung des Anfechtungsrechts\textsuperscript{130} gives a minority holding 1% of overall shares or €100,000 in nominal capital the right to induce a pre-procedure for shareholder suits while abolishing the cost provision, and it facilitates cross-border electronic voting \textit{in absentia} (Noack and Zetzsche, 2005).

A growing number of supervisory boards is led by ex-managers from the inside (Höpner, 2001; Jackson, 2003). The number of former CEOs of DAX-30 companies who chair their supervisory boards has increased from 9 in 2001 to 16 in 2004 (Wong, 2004). Meanwhile, the 1998 KonTraG strengthened the supervisory board vis-à-vis management, allowing it to choose and independently meet the auditing firm. The law also allows shareholders representing at least 5% of corporate equity to sue supervisory board members in the case of demonstrable malfeasance. The number of supervisory board positions in different companies that someone can hold has been reduced (Vitols, 2001, 2003; Windolf, 2002). The 2003 German corporate governance code was developed to indicate best practice corporate governance norms, with specific recommendations to improve transparency (Wooldridge and Pannier, 2005). According to Höpner (2001), the willingness of supervisory boards to fire top managers has increased. In the 1990s, several CEOs were forced to retire because of bad share price performance. In effect, the incentive to follow strategies targeting high share prices is seen to have risen. Management in the management board is still more collective than in the US, but it has become closer to US practice (Dore, 2000).

Employees and unions have become shareholders and co-managers of pension funds. While the percentage of shares held by employees and unions remains low - ranging from a mode of 0.5% to around 3% - they have become concerned with the protection of small investors. Unions and works councils have sided with shareholders on the matter of transparency through IAS or US-GAAP, and most employee representatives on supervisory boards and most works councils have accepted stock option plans. Employees have increasingly become involved in managerial decisions (Höpner, 2003b). For the 40 largest firms, Höpner (2003a) found that where employee representatives on the supervisory board were union members, the increase in compensation for top management was lower than elsewhere.

\textsuperscript{130} http://217.160.60.235/BG/BL/bibl1f/bgb105s2802.pdf
Overall, there has been an increased emphasis on shareholder value. In a study of the 112 largest publicly traded firms, Fiss and Zajac (2004) found that while none had espoused shareholder value in annual reports in 1990, more than 60% had done so in 2000. At the same time, a survey published in the *Handelsblatt* in 2000 indicated that only 7% of top managers viewed creating shareholder value as the sole purpose of the firm, compared to 72% who put the interests of shareholders, employees, and the public good on equal footing (Jackson, 2003). In addition, Höpner (2003b) notes that after the burst of the stock market bubble, the fashion word of shareholder value has been used more restrictively.

Considerable variety has been found to exist among firms in the extent of their shareholder value orientation. In his study of the 40 largest listed firms during 1996-1999, Höpner (2003b) found that where firms are subject to the growing influence of investment funds, the fear of hostile takeovers, and/or international competition, there is a stronger emphasis on short-term shareholder value. Such shareholder value is particularly emphasized in large listed firms that have experienced a rise of management teams with international experience and expertise in finance. According to Beyer and Höpner (2003), this includes most managers in the center of the main network of interlocking directorates. Among such managers, shareholder value strategies enjoy a high reputation. In contrast, where traditional managers have stayed entrenched, corporations are more cautious and selective in adopting new management practices. In such firms, the traditional coalition between owners, employees, and management has been continued and the main company goal has remained the survival of the firm (Pudelko, 2000; Jackson, 2003; Zugehör, 2003).

Fiss and Zajac (2004) found that shareholder value orientation espousal in the 112 largest listed firms in the period 1990-2000 was not related to the market for corporate control, nor to international competition. Shareholder value orientation espousal was found to be related to the presence of a younger CEO with a background in economics or law - a finding that is consistent with Höpner’s finding of the relevance of management teams with expertise in finance. In addition, a shareholder value orientation was espoused in firms where share blocks were held by banks with a shareholder value orientation; by non-financial firms that had themselves espoused a shareholder value orientation; and by pro-business federal and state governments. The espousal of a shareholder value orientation did not always entail the actual implementation of shareholder value oriented practices.

At first sight, the findings by Fiss and Zajac (2004) seem incompatible with those by Höpner (2003b), but the two studies are based on different variables. Where Fiss and Zajac focus on shareholder value orientation espousal and a limited number of shareholder value
oriented practices (value-based accounting, stock options, and the use of IAS or GAAP), Höpner focuses on the actual implementation of a composite of a wider range of shareholder value oriented practices. Höpner’s findings can therefore not strictly be said to have been disconfirmed by Fiss and Zajac’s findings, although the latter findings do indicate that Höpner’s findings should be accepted with some reserve - as a hypothesis to be further tested and improved upon.

Where they do exist, shareholder value policies have included a focus on core business through restructuring, the introduction of individual PRP and stock-based compensation, short-term profit requirements for business units, and an increased emphasis on investor relations (Jackson, 2003; Kurdelbusch, 2002a; Höpner, 2003b; Streeck and Höpner, 2003). Jürgens, Naumann, and Rupp (2000) report the following measures taken by the DAX 30 companies since the mid-1990s to foster shareholder value orientation: profitability goals 33.3%; international accounting standards 43.3%; employee share ownership programs 33.3%; stock options for managers 60.0%; and quarterly reporting 66.7%. In his study of the 40 largest listed firms in the late 1990s, Höpner (2003b) found that 36% had started to provide stock participation to employees. Dividends increased with 56% between 1995 and 1999, and even more in firms with a high capital market orientation. 20 firms had implemented target returns. Firms with shareholder value strategies more often bought their own shares and reduced their diversification. And for a sample of very large firms, Beyer and Hassel (2002) found that firms that changed to dispersed ownership, international accounting practices, and foreign ownership increased their dividend payments more than other firms, and more often used profit targets and contingent compensation for management. According to Höpner (2003b), shareholder value strategies are to the advantage of shareholders but also of core employees. This is because the sale of less-than-average profitable subunits decreases the number of employees, while increasing relative wages of core workers. This explains the widespread acceptance of restructuring by employee representatives.

Interpretation of the Impact of Financial Globalization on Corporate Governance Practices in Germany and a Comparison to the Two Perspectives and the Theories of Globalization

Several findings of changes in German corporate governance practices are relevant in interpreting the impact of financial globalization. First, there has clearly been a process of financial deregulation, which has been argued to have been driven by Germany’s need for
stronger and more competitive securities markets and actions taken by the European legislature to improve the European Single Market for financial services and products (Jürgens and Rupp, 2002; Vogel, 2003; Crane and Schaeede, 2005; Noack and Zetzsche, 2005).

Another impact of financial globalization is that constituted by the increased financial autonomy of the largest firms from banks as a result of new sources of funding from international financial markets. As indicated above, this has weakened bank influence which has led to an increase in management pay (Deeg, 1999; Dore, 2000; Höpner, 2003b). New sources of funding from foreign stock exchanges have also prompted leading German firms to shift to US GAAP or IAS accounting, implying an increase in disclosure (Crane and Schaeede, 2005).

The rise of foreign institutional investors has led to pressures on a small group of the largest companies for short-term shareholder value, transparency, board independence, and investor relations, pressures to which the management of such firms has become sensitive (Deeg, 1999; Jürgens, Naumann, and Rupp, 2000; Pudelko, 2000; Höpner, 2001, 2003b; Beyer, 2003; Jackson, 2003). The resulting policies aimed at short-term shareholder value include: a focus on core business through restructuring; the introduction of individual PRP and stock-based compensation - in particular for management; short-term profit requirements for business units; the use of international accounting standards; and the provision of increased dividends, investor relations, and quarterly reports (Jürgens, Naumann, and Rupp, 2000; Jackson, 2003; Kurdelbusch, 2002a; Höpner, 2003b; Streeck and Höpner, 2003). The increased provision of stock options to management has further increased an emphasis on share value (Dore, 2000; Höpner, 2003b). The internationalization of share ownership has also increased the willingness to sell shares to hostile takeover parties, while the increased transparency in response to pressures from foreign institutional investors has reduced a hurdle against such hostile takeovers (Höpner, 2003b; Höpner and Jackson, 2003; Jackson, 2003).

The relevant changes and their hypothesized relations to financial globalization are summarized in table 6.9.

In contrast to the claim made by Capitalisme Contre Capitalisme that the leading role in corporate financing is played by the banks, corporate financing in German firms was largely internal and banks rarely held more than 25% of equity in firms. While this means the power of banks based on credit provision and stock ownership was less than implied by Capitalisme Contre Capitalisme, banks were in a position of power as a result of their voting
<table>
<thead>
<tr>
<th>Elements of corporate governance practices</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal regulation</td>
<td>Regulatory restrictions on financial markets</td>
<td>Financial deregulation</td>
<td>Need for more competitive securities markets; actions taken by European legislature for European Single Market</td>
<td>Jürgens and Rupp (2002); Vogel, 2003; Crane and Schaeide (2005); Noack and Zetzsche (2005).</td>
</tr>
<tr>
<td>Position of banks as stakeholders</td>
<td>Largest companies conducted the main share of their borrowing with one house banks, giving banks the ability to sanction</td>
<td>The largest firms have attained increased financial autonomy from banks. This has weakened bank influence which has led to an increase in management pay</td>
<td>Internationalization of share ownership</td>
<td>Höpner (2003b); Höpner and Jackson (2003); Jackson (2003).</td>
</tr>
<tr>
<td>High proportion of stable shareholding</td>
<td>Increased willingness to sell shares to hostile takeover parties</td>
<td></td>
<td>Pressures from foreign institutional investors</td>
<td></td>
</tr>
<tr>
<td>Limited disclosure obligations</td>
<td>Increased transparency has reduced hurdle against hostile takeovers</td>
<td></td>
<td>New sources of funding from foreign stock exchanges</td>
<td></td>
</tr>
<tr>
<td>Limited disclosure obligations</td>
<td>Leading German firms shifted to US GAAP or IAS, implying an increase in disclosure</td>
<td>Rise of foreign institutional investors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large firms primarily oriented at long-term survival and growth, market share, incremental change, a progressive distribution of welfare, and job security for core workers</td>
<td>In a small group of the largest companies, short-term shareholder-value policies have been implemented, including: restructuring, individual PRP and stock-based compensation, short-term profit requirements, international accounting standards, increased dividends, investor relations, and quarterly reports</td>
<td></td>
<td>Deeg (1999); Dore (2000); Jürgens, Naumann, and Rupp (2000); Pudelko (2000); Höpner (2001, 2003b); Kurdelbusch (2002a); Beyer (2003); Jackson (2003); Streeck and Höpner (2003).</td>
<td></td>
</tr>
</tbody>
</table>

Table 6.9 Relevant changes in corporate governance practices in German management and hypothesized causes related to financial globalization.

of proxies and seats on supervisory boards. They could fulfil the role of controller and countervailing power to management - together with the major blockholders. Whether this type of external control indeed led to the protection of small stockholders seems questionable.

The argument in *Capitalisme Contre Capitalisme* that there has been a process of deregulation of financial markets in response to the need for more competitive securities markets is supported by the findings. But the financial markets have not been without any constraint or police. The role of banks for large firms has indeed decreased due to new
sources of funding from international financial markets, but banks have become increasingly important for SMEs. They have remained important shareholders and proxy voters for large firms and the ratio of bank loans has remained high. The Allfinanz strategy of banks and their role in M&As has sustained their general importance. The claim made by Capitalisme Contre Capitalisme that the power of shareholders has increased is supported, but the power of management appears to have increased as well. Small shareholders may have been interested in making a fortune through betting on the right horse in the late 1990s - thus implying a change in economic culture due to financial globalization - but it seems unlikely that this interest has remained after the stock market crash of the early 2000s. And although there has been an increase in M&A activity, it remains to be seen whether this trend will actually reach the extent of M&A activity in the US. Of particular importance here is the question of the legitimacy of such activity, which has remained unresolved after the court case concerning the Mannesmann takeover. Meanwhile, the system of supervisory boards has so far remained in place.

The description of German corporate governance provided by the OECD is largely supported, although the Neuer Markt has ceased to exist. Deregulation on financial markets has been extensive, and the establishment of the European Single Market has indeed been one cause of this development.

Considering the different overall theories of globalization, it appears that the transformation theory is most plausible. Although German corporate governance practices have to some extent been influenced by US corporate governance practices, there appears to have been some transformation, for example, in the role played by banks and in the practical import of an expressed shareholder value orientation. In addition, the impact of financial globalization has been found to affect mainly a limited number of very large firms. The convergence, divergence, and hybridization theories cannot be upheld in light of these findings. The argument is summarized in table 6.10.

**Internal Social Control Practices in German Management around 1990**

Internally, top management determined criteria for and decided the distribution of financial resources. Questions of strategic importance were dealt with by line managers. Lower-level management and skilled workers controlled the operative use of resources. Employee influence on the organization of work and training through works councils was extensive
Changes in corporate governance up to the early 2000s

<table>
<thead>
<tr>
<th>Changes in corporate governance up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial deregulation</td>
<td>Need for more competitive securities markets; actions taken by European legislature for European Single Market</td>
<td>Need for more competitive securities markets</td>
<td>Establishment of European Single Market</td>
<td>Transformation</td>
</tr>
<tr>
<td>The largest firms have attained increased financial autonomy from banks. This has weakened bank influence which has led to an increase in management pay</td>
<td>New sources of funding from international financial markets</td>
<td>New sources of funding from international financial markets</td>
<td>No analysis</td>
<td></td>
</tr>
<tr>
<td>Increased willingness to sell shares to hostile takeover parties</td>
<td>Internationalization of share ownership</td>
<td>Financial globalization has affected economic culture</td>
<td>No analysis</td>
<td></td>
</tr>
<tr>
<td>Increased transparency has reduced hurdle against hostile takeovers</td>
<td>Pressures from foreign institutional investors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leading German firms shifted to US GAAP or IAS, implying an increase in disclosure</td>
<td>New sources of funding from foreign stock exchanges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In a small group of the largest companies, short-term shareholder-value policies have been implemented, including: restructuring, individual PRP and stock-based compensation, short-term profit requirements, international accounting standards, increased dividends, investor relations, and quarterly reports</td>
<td>Rise of foreign institutional investors</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 6.10 A comparison of changes in corporate governance practices in Germany and hypothesized causes related to financial globalization to the two perspectives and the overall theories of globalization.

(Marsden, 1999; Ferner and Varul, 2000a; Pudelko, 2000; Rehder, 2001, 2003).

Job design and job assignment were subject to managerial discretion, while complex work rules were codetermined by the union and the works councils. Skilled employees enjoyed professional autonomy, whereas unskilled workers received specific directions from first-line supervisors. MBO and pay for performance were used as incentive mechanisms. Immaterial incentives, such as rank, the prestige of the firm, words of praise, and challenge were important motivators (Lenssen, 1996; Marsden, 1999; Pudelko, 2000; Jürgens, 2003). Status was based on one’s occupation and achieved diplomas. The status of a manager depended to some extent on seniority, but authority rested principally on technical expertise and knowledge (Streeck, [1996] 1997; Ferner, 1997; Pudelko, 2000).

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Decision making held a middle position between top-down and bottom-up. The center of decision making lied to some extent with top management, but there was also some delegation of decision making responsibility to lower hierarchical levels. All affected hierarchical levels were included into a lengthy decision making process. Information gathering was extensive. This process was formalized, long-term, and incremental with a high emphasis on consensus. Decision making mistakes were not directly punished, while good decisions were rather indirectly remunerated. The inclusion of many persons and units in the decision making process and the low center of gravity of decision making had the effect that once a decision was taken it was supported by all those concerned and could therefore be implemented quickly (Streeck, [1996] 1997; Marsden, 1999; Pudelko, 2000; Turner, Wever, and Fichter, 2001).

Appraisal rested on informal and non-quantifiable long-term criteria. Effort, success, social skills, branch- and firm-specific knowledge, and general education were valued positively. A frequent change of firms was seen as an indication of instability and was valued negatively. Appraisal was performed by line management. Communication took place through the hierarchy and through works councils. It was formal, precise, and at a low volume (Bournois, Chauchat, and Roussillon, 1994; Larsen, 1994; Pudelko, 2000). Around 1990, two-thirds of employers had regular employee meetings as well as suggestion schemes (Brewster, Hegewisch, Mayne, and Tregaskis, 1994a).

Relationships between superordinates and subordinates were formalized. Managers were closely involved with daily operations and with employees. Between managers and employees there existed a high degree of trust and cooperation. While superordinates paid attention mostly to achievement ability, they also attended to the personal interests of the subordinate. At the same time, distance was maintained by the use of formal language, which emphasized hierarchical differences (Conrad and Pieper, 1990; Hofstede, 1991; Marsden, 1999; Pudelko, 2000; Gómez-Mejía, Balkin, and Cardi, 2001).

Changes in Internal Social Control Practices in German Management up to the Early 2000s

Decision making in German management has become more top-down, quantitative, individual, and conflict accepting (Pudelko, 2000). Local management has been provided with more autonomy and responsibility for operations, but this is accompanied by more rigid goal setting by strategic management through MBO (Trinczek, 2002).
There has been a hesitant introduction of regular appraisal, with a stronger focus on individual performance (Müller, 1999; Lane, 2000; Pudelko, 2000; Grund and Sliwka, 2007). Communication has increased due to the use of smaller workplaces, decentralization of managerial autonomy, and the introduction of ICT. There has also been an increase in the use of collective channels of communication, such as works councils. Many firms have started to use attitude surveys (Brewster, Hegewisch, Mayne, and Tregaskis, 1994a; Müller, 1999; Schmitt, 2002).

According to Vogel (2003), relations between management and labor have continued to be cooperative, but Jackson (2003) notes a growing internal competition between different subsidiaries or production sites over strategic resources.

**Interpretation of the Impact of Financial Globalization on Internal Social Control Practices in German Management and a Comparison to the Two Perspectives and the Theories of Globalization**

Decentralization and the increased rigidity of goal setting has been related to the presence of foreign shareholdings (Höpner, 2003b). In its turn, decentralization has led to an increase in communication and to a growing internal competition between different units over strategic resources (Brewster, Hegewisch, Mayne, and Tregaskis, 1994a; Jackson, 2003). These changes and hypothesized cause related to financial globalization are summarized in table 6.11.

<table>
<thead>
<tr>
<th>Elements of internal social control</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized Causes</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of coercion</td>
<td>MBO</td>
<td>More rigid MBO</td>
<td>Foreign shareholdings</td>
<td>Höpner (2003b)</td>
</tr>
<tr>
<td>Internal decision making</td>
<td>Between top-down and bottom-up</td>
<td>Decentralization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>Low volume of communication</td>
<td>Increase in communication</td>
<td>Decentralization</td>
<td>Brewster, Hegewisch, Mayne, and Tregaskis (1994a); Jackson (2003).</td>
</tr>
<tr>
<td>Conflict</td>
<td>Growing internal competition between units over strategic resources</td>
<td>Decentralization</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 6.11** Relevant changes in internal social control in German management and hypothesized causes related to financial globalization.
As the findings show, participation in decision making was relatively extensive but might not have implied the extent of consensus seeking claimed to have existed by *Capitalisme Contre Capitalisme*. The book does not present an analysis of the impact of financial globalization on internal social control practices in Germany. The OECD publications do not contain any statements regarding such practices. Considering the general theories of globalization, the convergence, hybridization, and transformation theories can be considered to be in line with the findings, while the divergence theory is implausible. The argument is summarized in table 6.12.

<table>
<thead>
<tr>
<th>Changes in internal social control up to the early 2000s</th>
<th>Hypothesized cause</th>
<th><em>Capitalisme Contre Capitalisme</em></th>
<th><em>Economic Surveys and Economic Outlooks</em></th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>More rigid MBO</td>
<td>Foreign shareholdings</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, hybridization, or transformation</td>
</tr>
<tr>
<td>Decentralization</td>
<td>Increase in communication</td>
<td>Decentralization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growing internal competition</td>
<td>Decentralization</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>between units over strategic resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 6.12** A comparison of changes in internal social control in Germany and hypothesized causes related to financial globalization to the two perspectives and the overall theories of globalization.

**Legitimation in Germany around 1990**

Few descriptions of legitimation practices in German firms around 1990 were encountered during the process of selection, categorization, synthesis, and interpretation. One finding was that the reputation of the firm was enhanced by the provision of apprenticeships. These provided free advertisement when trainees did well on national exams, the results of which were reported in the business press. Many consumers associated well-trained people with high-quality goods and services (Finegold and Wagner, 2002). In corporate governance, the ‘stakeholder’ concept played a central role (Frick and Lehman, 2005).

**Changes in Legitimation in Germany up to the Early 2000s**

The concept of ‘shareholder value’ has come to be used as a slogan to justify reorganizations. Shareholder-oriented policies have also legitimated an increased orientation towards
shareholder return and rising managerial compensation by means of stock options (Hall and Soskice, 2001).

Interpretation of the Impact of Financial Globalization on Legitimation Practices in Germany and a Comparison to the Two Perspectives and the Theories of Globalization

The emphasis on ‘shareholder value’ is found particularly in firms with large relative shareholdings by foreigners (Höpner, 2003b). This change and hypothesized cause related to financial globalization in indicated in table 6.13.

<table>
<thead>
<tr>
<th>Elements of legitimation practices</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized causes</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
</table>

Table 6.13 Relevant change in legitimation practices in German management and hypothesized causes related to financial globalization.

Neither Capitalisme Contre Capitalisme nor the OECD publications contain any statements about legitimation practices in German management. The finding of the use of the shareholder value concept in legitimation practices is consistent with the convergence, the hybridization, and the transformation theories of globalization. This is indicated in table 6.14.

<table>
<thead>
<tr>
<th>Changes in legitimation practices up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emphasis on ‘shareholder value’ concept</td>
<td>Foreign shareholdings</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, hybridization, or transformation</td>
</tr>
</tbody>
</table>

Table 6.14 A comparison of changes in legitimation practices in Germany and hypothesized causes related to financial globalization to the two perspectives and the overall theories of globalization.

Socialization in Germany around 1990

Socialization practices in German firms included the deliberate creation of a ‘works community’ (Betriebsgemeinschaft). This reinforced long-termism and a paternalistic approach to employees (Ferner and Varul, 2000a; Upchurch, 2000). The commitment of
employees was achieved through the provision of career prospects and in-house training courses (Müller-Jentsch and Sperling, 1995). Vocational training led to the establishment of a professional community. This facilitated communication and cooperation among employees with different positions in the hierarchy, but it encouraged loyalties that competed with loyalty to the firm (Maurice, Sellier, and Silvestre, 1982; O’Sullivan, 2000). The commitment and integration of labor was further supported by participation (Jackson, 2003). Company goals were clarified and status differences between managers and members of the workforce, as well as between skilled and unskilled workers, were to some extent levelled off (Pudelko 2000).

Changes in Socialization in Germany up to the Early 2000s

In Dore’s (2000) view, the restructuring process in German firms is a reflection of a new business ideology stemming from the US, which agitates against the notion of the firm as a community. In contrast, Pudelko (2000) found a tendency in large firms to replace achievement thought by a membership orientation.

Interpretation of the Impact of Financial Globalization on Socialization Practices in Germany and a Comparison to the Two Perspectives

In light of the contradictory claims mentioned above, it is unclear whether or not socialization practices in German firms have changed in response to financial globalization. Neither Capitalisme Contre Capitalisme nor the OECD publications contain any statements regarding socialization practices in German management.

Industrial Relations in Germany

Industrial Relations in Germany around 1990

Around 1990, German employers associations were both representative and powerful (Crouch, 1993a). They helped employers to cooperate, share information, promote innovation, and control competition for skilled workers (Marsden, 1999; Dore 2000; Thelen, 2000; Beyer and Höpner, 2003). In 1988, around 90% of all firms were members (Conrad and...
Pieper, 1990). The main association, the Bundesvereinigung der Deutschen Arbeitgeberverbände (BDA) (the Confederation of German Employers’ Associations) concerned itself with the social and wage interests of employers. Wage bargaining was left to its sectoral and regional member organizations, in which 80% of firms were represented, employing 68% of the workforce (Van Waarden, 1995; Pudelko, 2000). In 1990, the most important BDA association Gesamtmetall represented 46.5% of employers in the metal industry (Tempel, 2001). The Bundesverband der Deutschen Industrie (BDI) (the Federation of German Industries) represented the economic-political interests of the employers, while the Deutscher Industrie- und Handelstag (DIHT) (the German Chambers of Commerce and Industry), which encompassed the regional chambers of industry and commerce, was concerned with regional questions. Membership in the Chambers was compulsory, and about 90% of employers were members. The Chambers provided services and represented business interests on tax issues. They had the power to require firms to share in collective tasks - such as the training of apprentices, R&D, finance, and technology diffusion. General peak associations for small business and handicraft included the Zentralverband des deutschen Handwerks (ZDH) (the German Confederation of Skilled Crafts); the Bund der Selbstständigen/Deutscher Gewerbeeberband (BDS/DGV) (the Association of Self-Employed/Federation of German Handicraft); and the Arbeitsgemeinschaft Selbständiger Unternehmer (ASU) (the Cooperative of Self-Employed Entrepreneurs). These associations served the social and economic interests of their members. The Verband Mittelständiger Unternehmer (VMU) (the Federation of Small Entrepreneurs) also gave voice to the concerns of small and medium-sized firms (Crouch, 1993a, 1995; Van Waarden, 1995; Marsden, 1999; Dore, 2000; Pudelko, 2000; Thelen, 2000).

Unions were strong and centralized, and members identified strongly with their unions (Crouch, 1993b; Pudelko, 2000). Union density in 1990 stood at 37.7% of the labor force (The Japan Institute of Labor, 2003a). The Deutscher Gewerkschaftsbund (DGB) (the German Confederation of Trade Unions) was the largest peak union. More than 80% of unionized employees were members of a regional and sector-wide union belonging to the DGB (Conrad and Pieper, 1990). Its largest member unions were IG Metall (the metalworkers industry union) and ÖTV (the public sector and transport union). Smaller peak unions included the Deutsche Beambtenbund (DBB) representing public employees, the Deutsche Angestellten Gewerkschaft (DAG) representing white-collar workers, the Christlichen Gewerkschaftsbund Deutschlands (CGB) - the small Christian trade union; the ULA -
Deutscher Führungskräfteverband, the managerial union; and numerous independent unions. The individual unions bargained with the employers’ associations, and constituted the power center of the union system. IG Metall had a position of wage leadership. The unions supervised the training system and provided for individual legal protection (Crouch, 1993a, 1993b; Dore, 2000; Ebbinghaus and Visser, 2000; Pudelko, 2000; Hall and Soskice, 2001; Ebbinghaus, 2002). Union aims included employment security; compensation independent from market results and competitive purposes; and equal pay for equal work (Crouch, 2000; Pudelko, 2000; Höpner, 2003b).

Relations between employers and unions were cooperative and trustful. This led to limited flexibility in staffing levels because of the danger of perilizing the state of affairs. It gave firms the incentive to invest in human resources and it made employees willing to accept changes (Gretschmann, 1994; Müller, 1999; Dore, 2000; Pudelko, 2000; Vogel, 2003). The law guaranteed the right of employers and employees to bargain about compensation and working conditions without state interference. Minimum requirements existed for job classifications, working hours, dismissal protection, and vacations (Conrad and Pieper, 1990; Pudelko, 2000). Closed shop agreements were unconstitutional. Strikes were only allowed after the expiration of an agreement and only for the purpose of negotiating a new agreement (Ebbinghaus and Visser, 2000).

Bargaining predominantly took place collectively at the regional industry-level between employers’ associations or single employers and unions. Negotiations involved pattern bargaining: bargaining and wage agreements in metalworking - often in Baden-Württemberg - set the pattern for Germany. Plant-level bargaining was not officially permitted, but in practice works councils could improve on the industrial contract through informal local bargaining (Crouch, 1993a; Western, 1995; Thelen, 2000; Rehder, 2001; Sisson and Marginson, 2002; Höpner, 2003b). In 1992, collective bargaining coverage in Germany was 90% (OECD, 1994). The number of company agreements stood at 25% of all collective agreements in 1989. In 1992, all company agreements diverged from collective agreements (Hassel, 2002; Streeck and Rehder, 2003). When requested by both parties with membership of more than 50% of the industry, collective agreements could be extended to all employees in an industry, but this did not happen often.

The high level of centralization in negotiations led to high wages, income equality, and industrial peace (Crouch, 1993b; Marsden, 1999; Dore, 2000; Ebbinghaus and Visser, 2000; Pudelko, 2000; Hassel, 2002; Kitschelt and Streeck, 2003). Negotiations occurred

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131 Data from the Japan Institute of Labor are used for comparability with US and Japanese data.


10.2870/25906
without much friction, as they were based on trust and cooperation. When negotiations failed, an arbitrator had to be brought in first (Conrad and Pieper, 1990; Pudelko, 2000). Strike activity was limited. The average number of days per year lost in strikes per 1,000 workers for 1993-94 was 11.4.\(^{132}\)

Codetermination was extensive. In firms with over 2,000 employees in the coal and steel industry, employee representatives hold half the seats on the supervisory board, with veto-power over the appointment of the personnel director. In large firms in other sectors, employees have the same number of delegates as shareholders, but the chairman is elected solely by the shareholder representatives, and has, if necessary, an extra vote. In firms with fewer than 2,000 but more than 500 employees, employee representatives are entitled to one-third of the seats on the board. For smaller firms there are no legal requirements, and few employee representatives are elected to supervisory boards (Conrad and Pieper, 1990; Hollingsworth, 1997; Dore, 2000; Ebbinghaus and Visser, 2000; Pudelko, 2000; Vitols, 2001). Workforce representatives on the supervisory boards of large firms are almost always union members (Kitschelt and Streeck, 2003).

In establishments with more than five employees, works councils may be formed if the employees wish to do so. Firms with more than 500 workers are legally required to establish them - one in each establishment and a central council for the firm, the latter consisting of representatives of the local works councils. The works council is elected by and serves as a representative for all employees. Its members are under legal protection from dismissal. The works council is obliged to cooperate in ‘a spirit of mutual trust for the good of the employees and the establishment’, and to negotiate with a desire to reach agreement eschewing ‘acts of industrial warfare’ such as strikes. The works council has codetermination rights regarding job evaluation and classification; guidelines for hiring, transfer, regrouping, and termination; working hours; training; compensation; leave arrangements; appraisal; and health and safety. In some industries, codetermination extends to decisions about investment and technological change. Works councils have to be consulted about structural alterations to the plant, changes in working methods that affect job requirements, manpower planning, and individual dismissals. The employer has to provide the works council with information to enable it to process grievances. And in plants with more than 100 permanent employees an economic or finance committee has to be set up. This body has to be informed on the current and future economic situation of the firm (Conrad and Pieper, 1990; Western, 1995; Muller, 1998; Dore, 2000; Pudelko, 2000; Addison, Schnabel, and Wagner, 2001; Rehder, 2001; Schmitt, 2002).

\(^{132}\) laborsta.ilo.org, my calculation.
In 1990, 59.8% of employees were represented by works councils (Ebbinghaus and Visser, 2000). Union members won some 80% of works council seats (Brewster, 1995). Because it was difficult to make workers redundant without the works council’s agreement, employers emphasized transfers and retraining rather than dismissal (Crouch, 1993a; Jackson, Hüpner, and Kurdelbusch, 2005). A 1985-7 survey of 2,392 firms found that in firms with a works council the dismissal rate was 2.9% lower than in firms without a works council, while the quit rate was 2.4% lower (Frege, 2002). Because of the existence of works councils, the extent of variable pay was limited (Ferner and Varul, 2000a; Kurdelbusch, 2002a). The presence of a works council also led to an average wage higher than that stipulated by collective agreements (Frick and Lehmann, 2005). Works council involvement in appraisal helped to protect workers against manipulation of standards by management (Marsden, 1999). And co-decision making by works councils generated involvement and loyalty among workers (Engelen, 2002). Codetermination improved the acceptance of agreements and the understanding of necessary radical changes. This resulted in a low level of strike activity (Pieper, 1990; Pudelko, 2000). Finally, in case of conflict with management, employees are entitled to the mediating support of works councils. As a result, on the individual work contract level open labor conflict is rare (Conrad and Pieper, 1990).

Changes in Industrial Relations in Germany up to the Early 2000s

Membership of employer associations declined during the 1990s. For SMEs, withdrawing from employer associations to avoid having to pay the collectively bargained wage was popular, and many newly established enterprises - especially in the east - refrained from joining at all (Turner, Wever, and Fichter, 2001; Thelen and Kume, 2003). More recently, several employers’ associations have started to offer the possibility of being a member without submitting to multi-employer agreements (Schmitt, 2003). Possibly in result, the flight from employer associations stopped in the early 2000s (Streeck and Rehder, 2003). The BDA (2003) itself claimed to represent some 2 million firms (an estimated 75% of all firms)133 employing more than 80% of the labor force. Gesamtmetall membership had dropped to 31.8% of metal industry firms in 1998 according to Hassel (2002) - down from 46.5% in 1990.

Table 6.5 shows a decline in union density to 26.6% in 2002, with a temporary jump in density after re-unification. Industrial relations have remained cooperative (Jackson, 2003).
But employers have become more labor-unfriendly as a result of the high levels of wages, holidays, and fringe benefits. Manufacturers have increasingly threatened to vote with their feet (Dore, 2000). From their side, unions have taken a more adversarial stance because of the agenda of labor market deregulation and welfare reform (Regini, 2003).


There has been an increase in company, plant, and individual level bargaining. Since 1993, firms in dire economic straits have been allowed to apply for a temporary exemption to sectoral agreements under the ‘hardship clause’. In addition, the use of ‘opening clauses’ has spread, which organize wage and working time flexibility at firm level in exchange for employment or investment promises. They remain within the framework of sectoral agreements, require the permission of tariff parties, and are to be negotiated with the works councils. Deviations from collective agreements have also been realized by internal company agreements negotiated by management and unions independently from sectoral agreements (Thelen, 2000; Rehder, 2001; Seifert, 2002; Marginson, Sisson, and Arrowsmith, 2003; Streeck and Rehder, 2003).

Collective bargaining coverage dropped from 90% in 1992 to 68% in 2000 (OECD, 2004a). The number of company agreements increased to 39% of all collective agreements in 2000 (up from 25% in 1989). At the same time, the share of employees with a company agreement diverging from the collective agreement dropped to 85.2% in 1999 (down from 100%) (Hassel, 2002; Streeck and Rehder, 2003). In collective negotiations, the possibility for

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133 www.ueapme.com/docs/projects/Project%20Business%20Associations/GERMANY.pdf
134 Data from the Japan Institute of Labor are used for comparability with US and Japanese data.
employers to move production abroad has allowed them to threaten unions with relocation to achieve concessions. This has led unions to agree to wage and working time flexibility and cuts in real wage growth in exchange for job security (Rhodes and Van Apeldoorn, 1998; Rehder, 2003; Vogel, 2003; OECD, 2004a). The number of the 120 largest companies with firm- or plant-level pacts for employment and competitiveness (PECs) increased from 0.9% in 1990 to 46% in 2000. PECs include measures to improve competitiveness and job security through the shortening, lengthening, or flexibilization of working hours; locational and functional labor mobility; reductions in or flexibilization of compensation; or organizational restructurings. Only 18% of PECs were not covered by sectoral agreements (Rehder, 2001, 2002). The 1999/2000 WSI works council survey found that of firms with 20 to 50 employees 12% had a PEC, while in firms with more than 1,000 employees 46% had one. In 14% of cases, works councils reported inconsistencies with central tariff agreements (Seifert, 2002). Non-coverage has become significant among SMEs and in the service sector (Höpner, 2001). But according to Streeck and Rehder (2003), around 40% of firms not covered by collective agreements nonetheless orientate themselves at the agreements. The average number of days per year lost in strikes per 1,000 workers dropped from 11.4 in 1993-94 to 3.1 for 2001-2005.\footnote{laborsta.ilo.org.}

Board-level codetermination has continued but it is threatened by the migration of corporate headquarters to other countries (Jackson, 2003). At the same time, there has been an escalation of codetermination by works councils in exchange for concessions such as the reduction of bonuses or the flexibilization of working time (Rehder, 2001; Frege, 2002; Kurdelbusch, 2002a).

The coverage rate of employees by works councils fell slightly from 59.8% in 1990 to 57.7% in 2001 (Frege, 2002). The 2001 reform of the Works Constitution Act facilitated the election of works councils in small companies. In the round of works councils elections held in Spring 2002, the number of works councillors increased by 11% (Behrens, Fichter, and Frege, 2003). The share of works council members who are union members fell from 80% in 1990 to 66.7% in 1998 (Hassel, 2002). In a survey of works councils of the 40 largest listed firms, Höpner (2003b) found that a majority accepted the increased variabilization of managerial compensation, the introduction of profit goals, and the increased concentration on core businesses (with a potential loss of employment). An explanation is that the advantages are provided to the core workforce, with disadvantages felt only by the peripheral workforce.
Interpretation of the Impact of Financial Globalization on Industrial Relations Practices in Germany and a Comparison to the Two Perspectives and the Theories of Globalization

The clearest impact of financial globalization on industrial relations practices in Germany that can be hypothesized is that which runs through the possibility of offshore outsourcing, which has given employers the power to demand concessions from unions and works councils by threatening to vote with their feet. Such concessions have included wage and work time flexibility, cuts in real wage growth, and restructurings (Rhodes and Van Apeldoorn, 1998; Dore, 2000; Jürgens and Rupp, 2002; Rehder, 2001, 2003; Vogel, 2003; OECD, 2004a; Piazza, 2005; Raess and Burgoon, 2006). The possibility of offshore outsourcing has also been seen to have started to threaten board-level co-determination (Jackson, 2003). These hypothesized impacts of financial globalization and their effects are summarized in table 6.13.

<table>
<thead>
<tr>
<th>Elements of industrial relations practices</th>
<th>Around 1990</th>
<th>Changes up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Studies supporting the hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Character of industrial relations</td>
<td>Cooperative and trustful</td>
<td>Employers have increasingly threatened to move production abroad</td>
<td>Possibility of offshore outsourcing</td>
<td>Rhodes and Van Apeldoorn (1998); Dore (2000); Jürgens and Rupp (2002); Rehder (2001, 2003); Vogel (2003); OECD (2004a); Piazza (2005); Raess and Burgoon (2006).</td>
</tr>
<tr>
<td>Bargaining</td>
<td>Negotiations based on trust and cooperation</td>
<td>Employers have the power to demand concessions from unions in terms of wage and work time flexibility, cuts in real wage growth, and restructurings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Co-determination</td>
<td>Employee representatives on boards</td>
<td>Board-level co-determination is threatened</td>
<td>Jackson (2003).</td>
<td></td>
</tr>
</tbody>
</table>

Table 6.16 Relevant changes in industrial relations practices in German management and hypothesized causes related to financial globalization.

In line with the portrayal of German industrial relations around 1990 in Capitalisme Contre Capitalisme, unions were relatively powerful and collective agreement coverage was widespread. Union membership did decline considerably up to the early 2000s, and this has most likely entailed a loss in power for the labor unions. There has been a relative flight from collective agreements, although this appears to have levelled off. While there has been an increase in the number of company agreements, many of these have to some extent been
agreed under the *aegis* of collective agreements. Whether these changes are due to the way in which financial globalization has affected the economic culture in Germany cannot be determined on the basis of the findings. The labor unions may have aimed at a reduction of the working week during the 1990s, this changed drastically in 2004, when several agreements were made that included an increase in the working week.

The OECD argument that bargaining between employers and employees should be *based on the need* to preserve the equality of bargaining power seems a bit peculiar. The claim that there in fact exists equality of bargaining power would require quite a bit of substantiation by itself, and would seem hard to maintain. While general branch agreements still dominate, their decline in coverage between 1990 and 1999 was considerable - a fact that is not mentioned by the OECD. Opening and hardship clauses had already become important by the time the OECD studies were published, and apart from the trade-offs mentioned by the OECD such clauses have also been concerned with increasing productivity, the extension or reduction of working hours, training, reductions in pay, and commitments to investment. The cost-cutting investment pacts mostly do not have to be referred back to the social partners. In line with the OECD argument, the role of works councils as contracting parties has increased, as has flexibility in bargaining procedures and wage bargains. Opening and hardship clauses and a lower coverage rate of collective agreements have indeed led to greater wage differentiation.

The increase in flexibility in bargaining procedures, wages, and working time did occur mostly under the *aegis* of collective agreements, while there was an escalation of codetermination by works councils. This points to the transformation theory of globalization rather than to convergence, divergence, or hybridization. The argument is summarized in table 6.17.

The Labor Force in Germany

*The Labor Force in Germany around 1990*

The German labor force around 1990 was segmented on the basis of certified occupational skills. A distinction was made between skilled and semi- and unskilled workers. Lower-level managers tended to be graduates of apprenticeships, middle-managers of vocational schools.
### Table 6.17
A comparison of changes in industrial relations practices in Germany and hypothesized causes related to financial globalization to the two perspectives and the overall theories of globalization.

<table>
<thead>
<tr>
<th>Changes in industrial relations practices up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Capitalisme / Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employers have increasingly threatened to move production abroad</td>
<td>Possibility of offshore outsourcing</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
</tr>
<tr>
<td>Employers have the power to demand concessions from unions in terms of wage and work time flexibility, cuts in real wage growth, and restructurings</td>
<td></td>
<td>Establishment of European Single Market leading to deregulation</td>
<td>No analysis</td>
<td></td>
</tr>
<tr>
<td>Board-level co-determination is threatened</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Employers have the power to demand concessions from unions in terms of wage and work time flexibility, cuts in real wage growth, and restructurings. Establishment of European Single Market leading to deregulation. Board-level co-determination is threatened.

| or apprenticeships, and senior managers of university. A distinction was made between tariff employees and employees falling outside of tariff agreements (15 to 20% of the workforce). The latter includes management and tended to receive higher pay than the former. The segmentation into a core and a peripheral workforce was much less established than in the US or Japan, and differences in education and productivity were much smaller than in the US (Brewster, Hegewisch, Mayne and Tregaskis, 1994b; Marsden, 1999; Müller, 1999; Pudelko, 2000; Schmitt, 2002). |

As an indication of the values held by the German labor force in 1988-92, Schwartz (1994, 1999) found a high emphasis on ‘Affective Autonomy’, ‘Intellectual Autonomy’, and ‘Egalitarian Commitment’ (in both his West- and his East-German samples). The high values for affective and intellectual autonomy were interpreted to imply that a person was seen as an autonomous entity entitled to pursue his or her individual interests and desires. As in the US and Japanese case, these findings should be interpreted while taking the social context into account.

Inglehart et al. (2004) found that the percentage of respondents that thought work was very important was 35% in the West and 61% in the East in 1990-93. The percentage that thought family was very important stood at 71% and 85% respectively, while that for leisure time was 40% and 32%. In a job, the following aspects were thought important: good pay (73%, 71%); pleasant people to work with (76%, 72%); job security (73%, 72%); a job respected by people in general (42%, 51%); an opportunity to use initiative (59%, 58%); meeting people (55%, 50%); achieve something (62%, 68%); a responsible job (54%, 49%);
an interesting job (71%, 65%); and a job that meets one’s abilities (70%, 65%). 51% and 47% felt they had a great deal of decision-making freedom. Only 9% and 12% viewed work like a business transaction, with effort depending on pay. 41% and 45% of respondents felt that instructions should be followed always. 85% and 96% thought it fair that a quicker, more efficient, and more reliable employee was paid more than another employee of the same age with the same job. 52% and 74% felt there should be greater incentives for individual effort. For the future, the following developments were considered a good thing: less emphasis on money and material possessions (51%, 49%); greater emphasis on the development of the individual (85%, 88%); and more emphasis on family life (87%, 92%). Confidence in unions was low (36%, 28%), while that in companies was low as well (38%, 46%). On the basis of a 1989/90 sample Ruiz-Quintanilla and England (1993) report that work was seen as more of an entitlement than on obligation. The 1989 ISSP found that 84.4% of respondents were satisfied with their job.\(^{136}\)

Several other characteristics have been ascribed to the German labor force. Streeck ([1996] 1997) found strong cultural support for short working hours. Workers were found to be highly competitive, with limited tolerance for mediocrity (Conrad and Pieper, 1990; Pudelko, 2000). The loyalty and commitment of employees towards the firm was reasonably high. Their identification was with their work or field of occupation (Lincoln and Kalleberg, 1990; Pudelko, 2000). The workforce had high and broad non-firm specific, specialized, and occupational skills (Marsden, 1999; Turner, Wever, and Fichter, 2001).

Among German managers, work was valued but loyalty to the firm was not. There was an emphasis on autonomy, own initiative, and achievement. Managers were relatively collectivist. They had tendencies towards consensus oriented teamwork, harmony, and integration. The importance of personnel was internalized, and the skills, contributions, and initiatives of workers were valued. Managers also trusted the workers’ will to work (Jepperson and Meyer, 1991; Lenssen, 1996; Pudelko, 2000). Top executives mostly conceived of themselves as experts in a technical field. Functional specialization was characteristic. Managers were relatively old, passive, and deliberative (Pudelko, 2000; Höpner, 2001). University and vocational school graduates accounted for the majority of managers, but there was a sizeable minority of non-graduates, accounting for 50% of department heads, 40% of division heads, and 30% of managing directors. Only 10-12% of managers had MBAs (Finegold and Keltner, 2001; Höpner, 2003b).

\(^{136}\)www.za.uni-koeln.de/data/en/issp/codebooks/s1840cdb.pdf; my calculations.
Changes in the Labor Force in Germany up to the Early 2000s

The distinction between a core and peripheral workforce has become more established, with the former shrinking in size (Jackson, 2003).

The most relevant results of the 1999-2002 world values survey performed by Inglehart et al. (2004) - in comparison to the findings of the 1990-93 wave - are shown in table 6.18. The survey found that in Germany the importance attached to work stood at 45%, the importance of family at 81%, and that of leisure time at 32% (the latter constituting a decrease). Regarding job aspects, there was a slight increase in the importance of good pay (75%); a decrease in the importance of pleasant people to work with (65%); an increase in the importance of job security (79%); a decrease in the importance of having a job respected by people in general (43%); a decrease in the importance of having an opportunity to use initiative (53%), of meeting people (52%), and of achieving something (52%). The importance of having a responsible job stayed about stable at 55%, as did the importance of having an interesting job (70%). The importance of having a job that meets one’s abilities dropped to 54%. Figures regarding decision-making freedom, the view of work as a business transaction, whether instructions should be followed always, and whether there should be greater incentives for individual effort were not available. 64% of respondents saw work as a duty towards society (figures for 1990-93 were not available). The percentage of respondents that thought it fair that a quicker, more efficient, and more reliable employee was paid more than another employee of the same age with the same job stood at 88%. For the future, the importance of a lower emphasis on money and material possessions increased to 53%; that of a greater emphasis on the development of the individual increased to 89%; while that of more emphasis on family life stood at 90%. Confidence in unions increased to 38%, while that in major companies dropped to 36%.

The 1997 ISSP found that the percentage of respondents that were satisfied with their job had decreased to 79.4% (down from 84.4% in 1989). The survey also found affective commitment expressed by 60.8% and 52.7% to the two relevant questions. Continuance commitment stood at 26.0%. Schmitt (2003) found that employees were still strongly attached to collective bargaining and co-determination.

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<table>
<thead>
<tr>
<th>Human beliefs and values</th>
<th>1990-93 (%)</th>
<th>1999-2002 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work very important</td>
<td>35/61</td>
<td>45</td>
</tr>
<tr>
<td>Family very important</td>
<td>71/85</td>
<td>81</td>
</tr>
<tr>
<td>Leisure time very important</td>
<td>40/32</td>
<td>32</td>
</tr>
<tr>
<td>Important in job:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Good pay</td>
<td>73/71</td>
<td>75</td>
</tr>
<tr>
<td>- Pleasant people to work with</td>
<td>76/72</td>
<td>65</td>
</tr>
<tr>
<td>- Job security</td>
<td>73/72</td>
<td>79</td>
</tr>
<tr>
<td>- Job respected by people in general</td>
<td>42/51</td>
<td>43</td>
</tr>
<tr>
<td>- An opportunity to use initiative</td>
<td>59/58</td>
<td>53</td>
</tr>
<tr>
<td>- Meeting people</td>
<td>55/50</td>
<td>52</td>
</tr>
<tr>
<td>- Achieve something</td>
<td>62/68</td>
<td>52</td>
</tr>
<tr>
<td>- A responsible job</td>
<td>54/49</td>
<td>55</td>
</tr>
<tr>
<td>- An interesting job</td>
<td>71/65</td>
<td>70</td>
</tr>
<tr>
<td>- A job that meets one’s abilities</td>
<td>70/65</td>
<td>54</td>
</tr>
<tr>
<td>Great deal of decision-making freedom</td>
<td>51/47</td>
<td>n.a.</td>
</tr>
<tr>
<td>Work viewed like a business transaction, with effort depending on pay</td>
<td>9/12</td>
<td>n.a.</td>
</tr>
<tr>
<td>Instructions should be followed always</td>
<td>41/45</td>
<td>n.a.</td>
</tr>
<tr>
<td>Work is a duty to society</td>
<td>n.a.</td>
<td>64</td>
</tr>
<tr>
<td>Fair that a quicker, more efficient, and more reliable employee is paid more than another employee of same age and job</td>
<td>85/96</td>
<td>88</td>
</tr>
<tr>
<td>There should be greater incentives for individual effort</td>
<td>52/74</td>
<td>n.a.</td>
</tr>
<tr>
<td>Good thing for the future:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Less emphasis on money and material possessions</td>
<td>51/49</td>
<td>53</td>
</tr>
<tr>
<td>- Greater emphasis on the development of the individual</td>
<td>85/88</td>
<td>89</td>
</tr>
<tr>
<td>- More emphasis on family life</td>
<td>87/92</td>
<td>90</td>
</tr>
<tr>
<td>Confidence in unions</td>
<td>36/28</td>
<td>38</td>
</tr>
<tr>
<td>Confidence in companies</td>
<td>38/46</td>
<td>36</td>
</tr>
</tbody>
</table>


US to Germany. A number of businessmen once prominent in US is now in influential positions in German industry (Dore, 2000; Garrett, 2001). According to Jackson (2003), such exposure to US business schools and corporate practices has promoted new management paradigms. But Höpner (2001) found that in compensation and codetermination, internationally oriented employers have become more conflict-averse. The share of chief executives without a university degree declined from 14% in 1990 to 0% in 1998 and the share of top managers who went through the apprenticeship system declined from 30% in 1990 to 15% in 1999. The percentage of CEOs who can be classified as financial experts rose from 24% in 1990 to 29% in 1999 (Höpner, 2003b).

\(^{138}\) Earlier data for commitment were not available.
Interpretation of the Impact of Financial Globalization on the German Labor Force and a Comparison to the Two Perspectives

The findings give important indications of changes in the characteristics of the German labor force, but for many of these changes it is difficult to determine which are the result of financial globalization. The stronger segmentation between a core and a peripheral workforce is similar to that found in Japan and could be a result of the introduction of Japanese management practices, but whether this is truly the case is open to research. The characteristics of the German labor force do give an indication of potential sources of support for or resistance against the changes in German management occurring under the impact of financial globalization - as will be discussed in the concluding section of this chapter.

While commitment to the firm was reasonably high, the idea in Capitalisme Contre Capitalisme that the firm constituted a community of interest is contradicted by the finding that identification tended to be with the occupation rather than with the firm. The book’s claims about changes in the values and beliefs of the German workforce could not be affirmed or disaffirmed due to insufficient data. The OECD does not make any claims about the characteristics in the German labor force or changes therein.

Management Systems in Germany

Management Systems in Germany around 1990

The German management system was characterized by task flexibility; diversified quality production; long-term employment; internal labor markets; high and broad functional and occupational skills based on publicly certified apprenticeship schemes; high wages; low wage disparity; long-term financing; no takeovers; network monitoring; aims including the benefit of shareholders as well as that of employees; consensual work organization; consensual industrial relations; a loyal workforce that was well-motivated, well-disciplined, and felt a duty of self-development; the will of managers to utilize the abilities of workers; and the commitment of insider managers to and their identification with the long-term future of the firm (Hollingsworth, [1996] 1997; Ferner, 1997; Marsden, 1999; Dore, 2000; Ferner and Varul, 2000a; Lane, 2000; Upchurch, 2000; Bluhm, 2001; Hall and Soskice, 2001).
Managerial autonomy was restricted by vocational training, collective bargaining, and co-determination. Decisions made by collective bargaining parties, the state, and the chambers of industry and commerce were imposed, or aspects of management had to be negotiated with employee representatives (Müller, 1999). In addition, legal regulation was extensive. Hiring and dismissal, training, and compensation were subject to legal prescriptions or arrangements to be made with the works council. Working hours were regulated by working time regulations. Together with strong worker representation and consensus decision-making, this made management stable and inflexible (Conrad and Pieper, 1990; Pudelko, 2000; Hall and Soskice, 2001; Tempel, 2001).

*Changes in Management Systems in Germany up to the Early 2000s*

For German management systems up to the early 2000s, Jackson (2003) notes a growing heterogeneity of organizational practices. According to Thelen and Kume (2003), the intensification of traditional practices for core workers is linked to the exclusion of a growing number of firms and workers from such practices. Schuman (2000) discusses the introduction of the high-commitment innovative Arbeitspolitik since the 1980s. Apart from Japanese-style high-commitment practices this included the mobilization of the creative potential of individuals through an elimination of hierarchical levels, decentralization to autonomous subunits, and internal targets. The goal was to make increases in productivity, problem solving, optimization, and innovation a task for all employees. The way it turned out, the innovative Arbeitspolitik has not been implemented by all companies. In fact, Schuman argues that a countertendency has emerged in terms of attempts to reintroduce traditional hierarchical organizational structures, standardization, and repetitive and specialized work. Initiative, participation, and responsibility are thought to have become obsolete.

*Interpretation of the Impact of Financial Globalization on German Management Systems and a Comparison to the Two Perspectives and the Theories of Globalization*

The increased heterogeneity of management practices has been related to globalization pressures deriving from foreign shareholdings - as shown by Höpner (2003b). This relevant change in the German management system and the hypothesized impact of financial globalization on such systems is summarized in table 6.19.
Elements of management systems  | Around 1990  | Changes up to the early 2000s  | Hypothesized causes  | Studies supporting the hypothesis
---|---|---|---|---
Types of management systems  | Stable and inflexible management system  | Growing heterogeneity with intensification of traditional practices for core workers and the exclusion of a growing number of firms and workers from such practices  | Foreign shareholdings  | Höpner (2003b).

Table 6.19 Relevant changes in the German management system and interpreted causes related to financial globalization.

Neither *Capitalisme Contre Capitalisme* nor the OECD publications provide encompassing discussions of German management systems. The growing heterogeneity in management systems is compatible with either the hybridization or the transformation theory. This is summarized in table 6.20.

<table>
<thead>
<tr>
<th>Changes in management systems up to the early 2000s</th>
<th>Hypothesized cause</th>
<th><em>Capitalisme Contre Capitalisme</em> Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growing heterogeneity with intensification of traditional practices for core workers and the exclusion of a growing number of firms and workers from such practices</td>
<td>Foreign shareholdings</td>
<td>No analysis</td>
<td>No analysis</td>
</tr>
</tbody>
</table>

Table 6.20 A comparison of changes in management systems in Germany and hypothesized causes related to financial globalization to the two perspectives and the overall theories of globalization.

Conclusion

This chapter has indicated many improvements on the preconceptions regarding German management with which I started my research, as represented by two of the three popular perspectives discussed in chapter 3. The most important improvements regarding the understanding of German management practices include the finding of: a residual hierarchy based on certifications; the use of teams, QCCs, and job rotation; broadened jobs; the (limited) introduction of lean production; the remaining strong commitment to long-term employment; the continuing exceptionality of compulsory dismissals; the continuing low level of turnover; the diversity of promotion criteria; the fact that career paths are still often in single firms; the way in which fast careers are still regarded with some suspicion; the introduction of diluted variable pay systems, often based on collective agreements that limit...
the increase in pay inequality; the importance of internal financing; the failure of the *Neuer Markt*; the great many unlisted large firms; the *Allfinanz* strategy of banks; the use of ‘hostile stakes’; the fact that important causes for the relative absence of hostile takeovers are the low volume of the stock exchange and concentrated ownership; the continuing resilience of the system of supervisory boards; the increase in the power of management; the increased variance in corporate governance arrangements; the fact that profit and shareholder value goals already existed for firms around 1990; the drop in popularity of a shareholder value orientation after the burst of the stock market bubble; the support of core workers for shareholder value practices; the provision of apprenticeships to attain legitimacy; the use of ‘shareholder value’ to legitimate rising managerial compensation through stock options; collective agreements that included an increase in the working week; the wide scope of opening and hardship clauses; the increase in the scope of codetermination by works councils; the stronger segmentation between a core and a peripheral workforce; high affective and intellectual autonomy; low work centrality; identification with the occupation rather than the firm; and the growing heterogeneity of management systems.

Table 6.21 summarizes the overall state of saturation reached at the time of writing regarding relevant changes in German management and the causal factors related to financial globalization that were hypothesized to have led to those changes. A number of channels for the impact of financial globalization appear similar to those for the Japanese case: foreign share ownership; financial deregulation due to competition on financial markets; and the possibility of offshore outsourcing. Additional channels include the way in which FDI has affected attempts to improve global competitiveness; actions taken by the European legislature to improve the single market for financial services and products; and new sources of funding from foreign stock exchanges. The presence of an increasing share of foreign shareholdings has been hypothesized to have led to an increased willingness to sell shares to hostile takeover parties as well as to an increased transparency which has reduced hurdles against such hostile takeovers. In firms with an increasing share of foreign shareholdings, changes were found to have included: a further flattening and decentralization of structures; the setting up of semi-autonomous units; the introduction of individual PRP and stock-based compensation; the implementation of short-term profit requirements, international accounting standards, increased dividends, improved investor relations, and quarterly reporting; more rigid MBO; decentralization of decision-making; an increase in communication; growing internal competition between units over strategic resources; and an emphasis on shareholder
### Table 6.21 A comparison of changes in German management practices and hypothesized causes related to financial globalization to the two perspectives and the overall theories of globalization (continued on next page).

<table>
<thead>
<tr>
<th>Changes from around 1990 up to the early 2000s</th>
<th>Hypothesized cause</th>
<th>Capitalisme Contre Capitalisme</th>
<th>Economic Surveys and Economic Outlooks</th>
<th>Convergence, divergence, hybridization, or transformation?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Work flow</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal organization</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Further flattening and decentralization of structures; setting up of semi-autonomous units</td>
<td>FDI by US MNCs into Germany and by German MNCs abroad has impacted on the way in which German management has attempted to improve its global competitiveness</td>
<td>Pressures on international financial markets towards practices inspired by US management</td>
<td>No analysis</td>
<td>Convergence, hybridization, or transformation</td>
</tr>
<tr>
<td>Further introduction of teams</td>
<td>FDI by US and Japanese MNCs into Germany and by German MNCs abroad has impacted on the way in which German management has attempted to improve its global competitiveness</td>
<td>Pressures on international financial markets towards practices inspired by US management</td>
<td>No analysis</td>
<td>Convergence, hybridization, or transformation</td>
</tr>
<tr>
<td>Further introduction of QCCs</td>
<td>Possibility of offshore outsourcing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Further introduction of broad jobs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Further introduction of job rotation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Introduction of lean production</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Much outsourcing of production to low-wage countries</td>
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<tr>
<td><strong>Compensation</strong></td>
<td></td>
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</tr>
<tr>
<td>Introduction of individual PRP and stock-based compensation in particular for managers</td>
<td>High foreign shareholdings</td>
<td>No analysis</td>
<td>Pressures on international financial markets towards increased wage differentiation</td>
<td>Transformation</td>
</tr>
<tr>
<td>FDI by US MNCs into Germany and by German MNCs abroad</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td></td>
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</tr>
<tr>
<td><strong>Corporate governance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial deregulation</td>
<td>Need for more competitive securities markets; actions taken by European legislature for European Single Market</td>
<td>Need for more competitive securities markets</td>
<td>Establishment of European Single Market</td>
<td>Transformation</td>
</tr>
<tr>
<td>The largest firms have attained increased financial autonomy from banks. This has weakened bank influence which has led to an increase in management pay</td>
<td>New sources of funding from international financial markets</td>
<td>New sources of funding from international financial markets</td>
<td>No analysis</td>
<td></td>
</tr>
<tr>
<td>Changes from around 1990 up to the early 2000s</td>
<td>Hypothesized cause</td>
<td>Capitalisme Contre Capitalisme</td>
<td>Economic Surveys and Economic Outlooks</td>
<td>Convergence, divergence, hybridization, or transformation?</td>
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<tr>
<td>---------------------------------------------</td>
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<tr>
<td><strong>Governance</strong></td>
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</tr>
<tr>
<td>Corporate governance (cont.)</td>
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</tr>
<tr>
<td>Increased willingness to sell shares to hostile takeover parties</td>
<td>Internationalization of share ownership</td>
<td>Financial globalization has affected economic culture</td>
<td>No analysis</td>
<td>Transformation</td>
</tr>
<tr>
<td>Increased transparency has reduced hurdle against hostile takeovers</td>
<td>Pressures from foreign institutional investors</td>
<td>No analysis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leading German firms shifted to US GAAP or IAS, implying an increase in disclosure</td>
<td>New sources of funding from foreign stock exchanges</td>
<td>No analysis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In a small group of the largest companies, short-term shareholder-value policies have been implemented, including: restructuring, individual PRP and stock-based compensation, short-term profit requirements, international accounting standards, increased dividends, investor relations, and quarterly reports</td>
<td>Rise of foreign institutional investors</td>
<td>No analysis</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Internal social control</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>More rigid MBO</td>
<td>Foreign shareholdings</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, hybridization, or transformation</td>
</tr>
<tr>
<td>Decentralization</td>
<td>Decentralization</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in communication</td>
<td></td>
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<tr>
<td>Growing internal competition between units over strategic resources</td>
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<tr>
<td><strong>Legitimation</strong></td>
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<tr>
<td>Emphasis on ‘shareholder value’ concept</td>
<td>Foreign shareholdings</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Convergence, hybridization, or transformation</td>
</tr>
<tr>
<td><strong>Industrial relations</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Employers have increasingly threatened to move production abroad</td>
<td>Possibility of offshore outsourcing</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Transformation</td>
</tr>
<tr>
<td>Employers have the power to demand concessions from unions in terms of wage and work time flexibility, cuts in real wage growth, and restructurings</td>
<td>Establishment of European Single Market leading to deregulation</td>
<td>No analysis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board-level co-determination is threatened</td>
<td></td>
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</tr>
<tr>
<td><strong>Management systems</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growing heterogeneity</td>
<td>Foreign shareholdings</td>
<td>No analysis</td>
<td>No analysis</td>
<td>Hybridization or transformation</td>
</tr>
</tbody>
</table>

Table 6.21 (Cont.) A comparison of changes in German management practices and hypothesized causes related to financial globalization to the two perspectives and the overall theories of globalization.
value. Where traditional managers have stayed entrenched, the traditional German stakeholder model has been maintained.

FDI by US, Japanese, and German MNCs has affected the way in which German management has attempted to improve its global competitiveness. This has led to the implementation of practices inspired by US and Japanese management. US-inspired practices include: the further flattening and decentralization of structures; the setting up of semi-autonomous units; and the introduction of individual PRP and stock-based compensation. Japanese-inspired management practices include: the further introduction of teams, QCCs, broad jobs, and job rotation, and the introduction of lean production.

The possibility of offshore outsourcing has been interpreted to have allowed employers to threaten to move production abroad. This has given them the power to demand concessions from unions in terms of wage and work time flexibility, real wage growth, and restructurings. The possibility to ‘outsource’ headquarters has started to threaten board-level codetermination. The need for more competitive securities markets together with actions taken by the European legislature to improve the single market for financial services and products has led to financial deregulation. New sources of funding from foreign stock exchanges have allowed the largest firms to increase their autonomy from banks which has weakened bank influence and has led to an increase in management pay. Such sources of funding have also led leading German firms to shift their accounting standards to US GAAP or IAS, implying an increase in disclosure.

Several causal forces exist resisting or supporting the changes induced by globalization. Beginning with the characteristics of the labor force, there exist contradictions between the importance attached to ‘Autonomy’ on the one hand and teams and collective pay on the other; and the importance attached to ‘Egalitarian Commitment’ on the one hand, and flattening and decentralization of structures; the setting up of semi-autonomous units; a increased income inequality, top-down decision-making, distinction between core and peripheral workforce, and heterogeneity on the other. A contradictory relationship also exists between the importance attached to job security and relaxed hire and fire rules, contingent employment, and layoffs. These contradictions potentially resist the impact of globalization. No such contradictions exist between the importance attached to ‘Egalitarian Commitment’ and flat and decentralized hierarchies, and between ‘Autonomy’ on the one hand, and independent profit centers, job rotation, the increased use of the external labor market, flexible working hours, variable pay, individual PRP, the dissolution of the main network and the Hausbank system, individual decision-making and evaluation, increased internal
competition, and the increase in company, plant, and individual level bargaining on the other hand. There is also no contradiction between the high percentages of respondents supporting the idea that a more efficient employee be paid more and that there be a greater emphasis on the development of the individual, and the increased use of individual PRP. The importance attached to the use of initiative on the one hand, and the increased use of individual decision-making and evaluation and the expanded role of the works councils are also compatible, as are the existing low continuance commitment and the increase of contingent employment, the relaxation of hire and fire rules, and the increase in the layoff rate. Such compatibilities potentially support the impact of financial globalization.

Contradictions exist between the introduction of lean production and qualification-based jobs, identities, and hierarchies; and between the increased use of teams and the increased emphasis on individualistic practices. Again, this may constitute some source of resistance against the impact of financial globalization. As in the case of Japan, the introduction of individual PRP need not contradict long-term employment as it has mainly been introduced to save on labor costs. The change toward short-term shareholder value and transparency is resisted by the high level of internal financing, the fact that the vast majority of firms has remained unlisted, high ownership concentration, the Allfinanz strategy of the banks, and the bursting of the stock market bubble. It is supported by the dissolution of the main business network and the Hausbank system, the use of IAS, and the support by unions, works councils, and core employees.

Again, then, the overall picture that emerges is fairly complex. The predictions of Capitalisme Contre Capitalisme and the OECD publications are only partially confirmed. The introduction of US management practices on the one hand, and Japanese management practices on the other appears to have been partial and subject to a certain modification. For example, the staffing system appears to have developed into some kind of mixture of German, US, and Japanese elements, with an increase in layoffs and contingent work but with high tenure levels. This also holds for other aspects of the developments portrayed above. All in all, the process is complex as it results from many different causal forces and contradictions. As for the discussion of US and Japanese management, the depiction above provides a number of new theories, hypotheses, and subjects for future research. As in the US and Japanese case, the only general theory of globalization that is consistent with all the findings is the transformation theory. Again, important specification of this theory is provided, thus making this theory more nuanced.
7 Management in US, Japanese, and German MNCs

As discussed in chapter 3, both Trading Places and Capitalisme Contre Capitalisme claimed that the activities of MNCs led to a transmission of country-of-origin management practices to host countries. But while Trading Places argued that US management practices would become ‘Japanized’, according to Capitalisme Contre Capitalisme, the impact of MNCs would be overwhelmed by that of international financial markets.

In order to improve on this contradictory core of my preconceptions regarding the impact of MNCs, I used the extended version of grounded theory proposed in chapter 2 to synthesize all kinds of relevant plausible empirical and theoretical findings from many different sources concerning management in US, Japanese, and German MNCs - with a special look at their practices in the US, Japan, and Germany as host countries. The findings were selected, contrasted, categorized, and synthesized on the basis of the categories of management presented in chapter 2, while interpreting causal forces. What resulted were systematized depictions of the state of saturation reached at the time of writing regarding management practices in US, Japanese, and German MNCs. Before I present these results, a number of categorized elements of management specific to MNCs are discussed first - as an addition to the management categories discussed in chapter 2. These extended categories are subsequently used to structure the discussion.

Material regarding management practices in US, Japanese, and German MNCs and in MNCs in general appeared more difficult to find than material regarding management practices in the US, Japan, and Germany. As such, the discussion below is somewhat limited and fragmented. But it nonetheless provides sufficient material to test and improve upon the ideas contained within Trading Places and Capitalisme Contre Capitalisme. In addition, the images are by necessity less patchy than those implicit in the studies from which I derived the empirical and theoretical claims, as these claims were all incorporated in the current study.

The findings show that US, Japanese, and German MNCs do not fully implement home country practices - which falsifies the arguments of Trading Places and Capitalisme Contre Capitalisme. The MNCs also do not fully implement host country practices. In contrast, some mixture of transformed home-country and host-country practices is found. This finding is consistent with the transformation theory of globalization, and it brings nuance into this theory by providing an important specification.
Management in MNCs

Multinational corporations (MNCs) may be defined as enterprises controlling assets of entities in countries other than their home countries, usually by owning a certain equity capital stake. An equity stake of 10% or more is normally considered a threshold for control and is counted by the UNCTAD (2003) as foreign direct investment (FDI). In 2005, the 77,000 existing MNCs with 770,000 foreign subsidiaries were estimated to directly employ more than 62 million people abroad (UNCTAD, 2006), constituting some 2% of total world employment.139

Work Flow in MNCs

In addition to the work flow category presented in chapter 2, for MNCs an idealypical distinction has been made between a global, a geocentric, and a polycentric model of organization. In the global model, functions and processes are integrated across national boundaries. Resources, responsibilities, and decision-making are centralized in headquarters. In the geocentric model (the ‘transnational corporation’), functions and processes are integrated across national boundaries in a network of interdependent units. Decision making, resources, and capabilities are spread about the company in centres of excellence, responsible for particular activities. Subsidiaries have the freedom to adapt products and strategies to local conditions. The polycentric firm carries all functional activities independently in each country. HQs establishes broad guidelines within which subsidiaries manage their own affairs (Robinson, 1994; Ruigrok and Van Tulder, 1995; Ferner and Quintanilla, 1998; Tempel, 2001).

Human Resource Flow in MNCs

Staffing practices in MNCs may be global, geocentric, or polycentric. In the global approach, headquarters hires a cadre of managers from the home country and provides criteria to subsidiaries for other hires. In the geocentric approach, the firm searches for employees on a

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regional or worldwide basis. In the polycentric approach, only top managers are assigned by HQs, while other hires are performed by subsidiaries (Robinson, 1994; Gómez-Mejía, Balkin, and Cardy, 2001). In career development in MNCs, there may or may not be a ‘glass ceiling’, referring to a situation in which mostly expatriates occupy managerial positions (Kopp, 1994). Training practices in MNCs may again be global, geocentric, or polycentric. In the global approach, headquarters trains an international cadre of managers and it provides criteria for subsidiaries’ training programs. In the geocentric approach, centers of expertise develop criteria for worldwide application. In the polycentric approach, each subsidiary trains its employees locally (Robinson, 1994). In all approaches, special training programs may be used for expatriates and locals (Tung, 1998).

Compensation in MNCs

In MNCs, differences may exist in compensation between expatriates and host country nationals. The provision of pay and/or benefits may or may not be the same worldwide. An Arthur Andersen study found that 34% of a group of global and geocentric companies offered world-wide benefits plans, while only 15% of multi-domestic firms offered such plans (Cuthill, 2000).

Governance in MNCs

Corporate Governance in MNCs

MNCs may or may not raise finance primarily in their home base. If they do raise finance primarily domestically, strategic decisions are open mainly to influence from domestic stakeholders (Ruigrok and Van Tulder, 1995; Ferner and Quintanilla, 1998; Edwards and Ferner, 2002). But MNCs are often independent in their financing, as they tend to have a large capability for internal financing. MNCs are, therefore, rather independent in deciding on their strategies (Cerny, 1991). Abroad, they may expand their control through FDI flows entailing voice in management (Dunning, 1993). Subsidiaries may thus receive funds from their parents, but they may also finance their activities by borrowing in local and international markets, and by receiving funds from local firms and governments (Castells, 2000).
Internal Social Control in MNCs

Within MNCs, parent firms may exert pressures on subsidiaries to replicate parent practices. In addition to the social control practices mentioned in chapter 2, subsidiaries may be controlled through the use of expatriates. Expatriates in top management may help to transmit organizational policies, practices, procedures, knowledge, and corporate culture from headquarters to affiliates. Alternatively, locals may be hired to manage foreign subsidiaries. This is less costly and increases local knowledge. Subsidiaries comprised exclusively, or almost exclusively, of local employees may well adopt local management practices (Robinson, 1994; Prahalad and Libeathal, 1998; Gómez-Mejía, Balkin, and Cardy, 2001; Tempel, 2001; Schuler, Budhwar, and Florkowski, 2002).

In their decision making, MNCs may be global, geocentric, or polycentric. In global MNCs, decision making power is centralized at headquarters, and foreign operations are managed by expatriates. Geocentric MNCs have less centralized operations. Units are free to make personnel decisions under loose control. The board of directors is often composed of people of different nationalities. In polycentric MNCs, decision making is decentralized; foreign operations are managed as a portfolio of independent companies (Kopp, 1994; Gómez-Mejía, Balkin, and Cardy, 2001; Tempel, 2001). Subsidiaries may influence decisions by exerting pressure on HQs (Zanfei, 2000). From its side, HQs may threaten to relocate its operations to another country (Pot, 2000).

Appraisal in global MNCs is centralized with an emphasis on capability and adaptability to HQs. HQs provides criteria and performance evaluation. In geocentric MNCs, evaluation criteria are developed by centers of expertise for worldwide application. In polycentric MNCs, each subsidiary evaluates its employees locally (Kopp, 1994; Robinson, 1994).

Legitimation in MNCs

The legitimacy of a subsidiary’s management practices can be influenced by whether or not these practices are defined as rational and legitimate by the parent firm and/or the host government. Subsidiaries may conform to local expectations in order to gain legitimacy and acceptance, but they may bypass them in practice (Robinson, 1994; Gooderham, Nordhaug, and Ringdal, 1998; Schmitt and Sadowski, 2001). The latter is more difficult for large MNCs than for smaller firms, as large MNCs tend to be more intensively monitored. Because of this,
deviations from formal and informal rules more easily lead to a loss of legitimacy (Schmitt, 2002).

**Socialization in MNCs**

MNCs may try to develop a global corporate culture to smooth over cultural differences and increase cooperation. Alternatively, they may allow foreign subsidiaries to adapt to local culture (Gómez-Mejía, Balkin, and Cardy, 2001). To establish an overall corporate culture, MNCs may use expatriates, the use of a single language, training at HQs, management and/or development programs with rotation through the various parts of the MNC. Alternatively, the employment of local nationals can serve to inculcate local norms in the subsidiary (Robinson, 1994; Ferlie and Pettigrew, [1996] 1998; Ferner and Quintanilla, 1998; Tempel 2001).

**Industrial Relations in MNCs**

In industrial relations practices, employers in MNCs can enhance their bargaining position by: (the threat of) transfer of production abroad; less authority for local subsidiaries in bargaining; and limited access for unions to financial data (Ruigrok and Van Tulder, 1995; Tung, 1998). But as many industrial relations issues are subject to legal or customary regulations, the discretion of MNCs in host countries may be limited (Ferner and Quintanilla, 1998).

**The Labor Force in MNCs**

The labor force in MNCs may consist of expatriates, host country nationals, and/or third country nationals. To the extent that the affiliate is comprised of expatriates, its management practices may be more like those of the parent firm (Robinson, 1994). But a neglect of the preferences of the local workforce may lead to motivation and productivity losses, dissatisfaction, as well as to problems in recruitment and increases in turnover (Schmitt, 2002). Host country managers are more familiar with the local environment, develop stronger rapport with other local managers, and develop a stronger identification with and commitment to the local subsidiary than to the parent. Locals are generally more concerned with their own unit than with the organization as a whole. Subsidiaries composed exclusively, or almost exclusively, of local employees may follow local management practices (Robinson, 1994; Gómez-Mejía, Balkin, and Cardy, 2001).
Management Systems in MNCs

Management systems in MNCs may again be global, geocentric, or polycentric. In a global system, management is centralized, and detailed policies are developed to shape the behavior of subsidiaries. In a geocentric system, subsidiaries collaborate with headquarters to establish universal standards and permissible local variations. In a polycentric system, management is decentralized to locally recruited management and adapted to the local environment. Headquarters is only responsible for executive recruitment (Robinson, 1994; Tempel, 2001).

The different management practices in management systems may be diffused from the home country to subsidiaries, they may be local in nature, or they may be diffused from subsidiaries to the home country. When an MNC injects management practices from its home country into the behavior of its affiliates, there exists a ‘country-of-origin’ effect. Practices or policies that are subject to few regulations in the host country are more likely to be diffused to the subsidiary. Subsidiaries also experience pressures for ‘local responsiveness’ from host country government regulations and demands, firms, unions, management culture, employee preferences and expectations, labor markets, and public opinion. Practices affecting the ‘rank-and-file’, and those more subject to local norms, tend to be more like local practices. Finally, practices may diffuse from subsidiaries back to the home country through ‘reverse diffusion’. Such reverse diffusion is facilitated by a geocentric structure and management style. Strong economic performance in one country creates pressure for the diffusion of management practices to other countries. In general, the greater the power of units, the greater the likelihood of multi-directional flows of influence and knowledge and hence of practices. But the flow of practices is not straightforward: transferred practices may acquire a different meaning within a different business context (Robinson, 1994; Pucik, 1994; Ferner, 1997; Gooderham, Nordhaug, and Ringdal, 1998; Muller, 1998; Ferner and Varul, 2000b; Schmitt and Sadowski, 2001; Tempel, 2001; Edwards and Ferner, 2002).

Management in US MNCs

FDI outflows from the US and outward FDI stock are shown in table 7.1. The table shows that while FDI outward stock showed a large increase from $560 bln in 1993 to $2,051 bln in
<table>
<thead>
<tr>
<th>Year</th>
<th>FDI outflows (Smln)</th>
<th>Relative FDI outflow (% of world FDI outflow)</th>
<th>Outward FDI stock (Smln)</th>
<th>Relative share of total world stock of outward FDI (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987-92 (average)</td>
<td>29,839</td>
<td>15.0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1993</td>
<td>74,837</td>
<td>30.2</td>
<td>559,688</td>
<td>26.2</td>
</tr>
<tr>
<td>1994</td>
<td>73,252</td>
<td>25.7</td>
<td>610,061</td>
<td>25.7</td>
</tr>
<tr>
<td>1995</td>
<td>92,074</td>
<td>25.7</td>
<td>699,015</td>
<td>24.1</td>
</tr>
<tr>
<td>1996</td>
<td>74,833</td>
<td>19.7</td>
<td>794,102</td>
<td>25.0</td>
</tr>
<tr>
<td>1997</td>
<td>95,769</td>
<td>20.1</td>
<td>860,723</td>
<td>25.1</td>
</tr>
<tr>
<td>1998</td>
<td>131,004</td>
<td>19.1</td>
<td>980,565</td>
<td>24.1</td>
</tr>
<tr>
<td>1999</td>
<td>209,391</td>
<td>19.2</td>
<td>1,131,466</td>
<td>23.8</td>
</tr>
<tr>
<td>2000</td>
<td>142,626</td>
<td>12.0</td>
<td>1,316,247</td>
<td>20.3</td>
</tr>
<tr>
<td>2001</td>
<td>124,873</td>
<td>17.3</td>
<td>1,381,674</td>
<td>21.9</td>
</tr>
<tr>
<td>2002</td>
<td>134,946</td>
<td>20.7</td>
<td>1,839,995</td>
<td>25.5</td>
</tr>
<tr>
<td>2003</td>
<td>129,352</td>
<td>23.1</td>
<td>2,069,013</td>
<td>25.2</td>
</tr>
<tr>
<td>2004</td>
<td>222,437</td>
<td>27.4</td>
<td>2,128,205</td>
<td>20.7</td>
</tr>
<tr>
<td>2005</td>
<td>-12,714</td>
<td>-1.6</td>
<td>2,051,284</td>
<td>19.2</td>
</tr>
</tbody>
</table>


2005, the relative share of total world stock of outward FDI decreased over the same period from 26.2% to 19.2%. In 2005, US MNCs employed 9.0 million workers abroad,\(^{140}\) amounting to some 0.3% of total world employment.\(^{141}\) 242,000 workers were employed in Japan - some 0.4% of total Japanese employment;\(^{142}\) and 590,000 workers in Germany - some 1.5% of total German employment.\(^{143}\)

**Work Flow in US MNCs**

**Formal Organization in US MNCs**

Compared to Japanese and German MNCs, US MNCs are relatively geocentric, formalized, and organized according to functions. Only core competencies are centralized. Headquarters sets or influences policies regarding training, compensation, and industrial relations (Robinson, 1994; Ferner, 1997; Muller, 1998; Ferner and Quintanilla, 1998; Harzing, 1999; Edwards and Ferner, 2002). US MNCs often use autonomous work groups, project teams,
quality circles, and team briefings. They have a preference for clearly defined and narrow
tasks. They have attempted to organize work and production in their foreign subsidiaries
along the lines of mass production (Ferner and Varul, 2000b; Edwards and Ferner, 2002;
Lam, 2003). In German subsidiaries, many US MNCs have cross-functional work and

**Human Resource Flow in US MNCs**

**Staffing in US MNCs**

US MNCs have been found to predominantly use external labor markets for their recruitment
(Ferner and Varul, 2000b). They recruit both locally and globally (Lam, 2003).

Robinson (1994) found that US MNCs in Japan recruited life-time employees just out
of college and mid-career hires as a source of expertise and innovation from external labor
markets. Large US firms in Japan have tried to develop relations with universities to recruit
graduates. They have depended on mid-career recruits to fill management positions.

In Germany, large US MNCs have guaranteed employment stability and they have
tended to provide internal labor markets. For entry positions, recruitment aimed at school and
university graduates, while in a study of 119 US and 46 UK large MNCs in Germany, Schmitt
(2002) found that 73.9% recruited managers internally. Compulsory dismissals are used only
in exceptional cases. Instead, reductions are achieved by halting recruitment, early retirement,
and voluntary redundancies. According to Schmitt, these host country effects may be due to
German employment protection legislation. In contrast, small US MNCs in Germany have
been found not to have FILMs. They have compulsory redundancies and high turnover
(Muller, 1998; Müller, 1999). For the 1990s, Edwards et al. (2006) found that a negative
perception of US senior management of the German business system in terms of inflexibility,
high labor costs, and long decision making time due to collective bargaining and
codetermination had led to workforce reductions in US MNCs in Germany.

**Career Development in US MNCs**

Traditional career ladders have seized to exist in US MNCs due to corporate downsizing and
the flattening of hierarchies. But internal labor markets still exist albeit in a much more
competitive and less sheltered fashion (Almond, Colling, Edwards, and Ferner, 2006). The
‘glass ceiling’ appears limited in scope, as local managers in US affiliates are often promoted to high ranks (Kono and Clegg, 2001). 54% of the US MNCs surveyed by Kopp (1994) indicated that they maintained a centralized roster of all their managerial employees throughout the world at headquarters in order to facilitate worldwide managerial development.

US MNCs in Japan have promotion systems based on ability, or on a mixture of Japanese and US criteria. Employees can often advance their careers by developing functional or product expertise and by moving from firm to firm. Japanese managers have been promoted to all the top posts. But fast careers are only available inside a small financial sector for those young Japanese who are quasi-native speakers of English. In 1991, 38% of US subsidiaries in Japan had some form of career development program (Robinson, 1994; Dore, 2000; Kono and Clegg, 2001).

In US MNCs in Germany, cross-functional job rotation has been essential for career advancement for managers. While German subsidiaries of large US MNCs are committed to a policy of internal promotion using a system of job posting, small firms do not follow an internal labor market policy (Müller, 1999).

Training in US MNCs

In general, US MNCs offer little training (Schuler, Budhwar, and Florkowski, 2002). But a considerable percentage of US MNCs (33%) did have a training program to groom local nationals for advancement into management. 54% often transferred local nationals to headquarters or other international operations so that they could gain experience and learn more about the company (Kopp, 1994).

In 1991, no less than 88% of US firms in Japan offered formal training programs. 82% provided training outside Japan. The high provision of formal training can be interpreted to constitute ‘local responsiveness’. Such local responsiveness also existed in the provision of informal coaching by supervisors, and formal mentoring programs (Robinson, 1994).

In German subsidiaries of large US MNCs, company specific training is extensively provided - in contrast to the general characteristic of US MNCs world-wide. On-the-job training is popular, more so than in German-owned firms. Small US MNCs do not invest much in their workforce (Müller 1999; Schmitt and Sadowski, 2001). Muller (1998) found that newly recruited graduates in US subsidiaries in Germany received structured induction. But apprentice ratios were smaller than in German-owned firms. Consistent with this, Schmitt
and Sadowski (2001) found that 75% of Anglo-Saxon subsidiaries in Germany participated in vocational training versus 88.4% of German firms. The share of trainees in the workforce in Anglo-Saxon subsidiaries was 2.6% whereas in German firms it was 5.3%. For advanced vocational training, most US MNCs were found to invest as much as indigenous firms. Only small firms offered little further training (Muller, 1998; Müller, 1999). In managerial development, job rotation through foreign assignments was an important technique (Muller, 1998).

**Compensation in US MNCs**

In 1998, a majority of US MNCs had implemented parent company compensation policies abroad including job evaluation, merit-based pay systems, PRP, employee share ownership, and pay above market rates (Edwards and Ferner, 2002). Expatriates receive home-country benefits, while benefits are limited for other employees (Schuler, Budhwar, and Florkowski, 2002).

The sub-set of US firms in Japan have rate-for-the-job pay or some mixture of Japanese and US practices (Dore, 2000). Employees of US subsidiaries can move from firm to firm to gain salary increases (Robinson, 1994).

In the sub-set of US MNCs in Germany with collective bargaining, the major determinant for wages and benefits are multi-employer or company-level collective agreements. In US MNCs that avoid collective bargaining there is a wider use of PRP: annual bonuses are linked to individual performance. Salaries for individual employees are determined by supervisors on the basis of salary surveys (Müller, 1999). The findings of Schmitt’s (2002) survey of compensation practices in Anglo-Saxon subsidiaries in Germany are shown in table 7.2. The table shows that the use of variable pay, individual PRP, profit-related pay, capital participation, and productivity related group bonuses for exempts were more extensive in German subsidiaries of US/UK MNCs than in German firms. Only productivity related group bonuses for non-exempts were more extensive in German firms. Overall, therefore, Schmitt found primarily home-country effects in compensation practices.
### Compensation policies

<table>
<thead>
<tr>
<th>Compensation policies</th>
<th>US/UK MNCs in Germany (%)</th>
<th>German firms (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of employees receiving variable pay</td>
<td>56.4</td>
<td>35.3</td>
</tr>
<tr>
<td>Share of variable pay in gross compensation for exempts</td>
<td>13.9</td>
<td>10.1</td>
</tr>
<tr>
<td>Share of variable pay in gross compensation for non-exempts</td>
<td>7.9</td>
<td>6.2</td>
</tr>
<tr>
<td>Share of firms providing individual PRP to exempts</td>
<td>45.5</td>
<td>38.9</td>
</tr>
<tr>
<td>Share of firms providing individual PRP to non-exempts</td>
<td>62.4</td>
<td>55.7</td>
</tr>
<tr>
<td>Share of firms providing productivity-related group bonuses to exempts</td>
<td>7.9</td>
<td>5.3</td>
</tr>
<tr>
<td>Share of firms providing productivity-related group bonuses to non-exempts</td>
<td>17.9</td>
<td>29.0</td>
</tr>
<tr>
<td>Share of firms providing profit related pay to exempts</td>
<td>74.8</td>
<td>56.9</td>
</tr>
<tr>
<td>Share of firms providing profit related pay to non-exempts</td>
<td>31.3</td>
<td>15.4</td>
</tr>
<tr>
<td>Share of firms providing capital participation to exempts</td>
<td>27.2</td>
<td>7.8</td>
</tr>
<tr>
<td>Share of firms providing capital participation to non-exempts</td>
<td>21.0</td>
<td>6.3</td>
</tr>
<tr>
<td>Share of employees with capital participation</td>
<td>6.9</td>
<td>1.6</td>
</tr>
<tr>
<td>Share of firms offering capital participation of more than DM 2,000</td>
<td>50.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

**Table 7.2** Findings of Schmitt’s (2002) survey of compensation practices in US/UK MNCs in Germany compared to compensation practices in German firms.

#### Governance in US MNCs

US MNCs have a considerable internationalization of share ownership. They are subject to pressures for short-term shareholder returns as a result of uncommitted and distant relationships between firms and shareholders (Ruigrok and Van Tulder, 1995; Edwards and Ferner, 2002; Yeung, 2002). But in their foreign investments, they prefer unrivaled equity ownership, with related managerial control (Robinson, 1994).

While lower than in Japanese and German MNCs, there is a high use of expatriates in key positions (Ruigrok and Van Tulder, 1995; Harzing, 1999; Edwards and Ferner, 2002). Kopp (1994) found that 31% of top managers consisted of expatriates, 49% of locals, and 18% of third country nationals. 88% of lower-level managers and 98% of non-managers were locals. In a sample of 44 US MNCs, Harzing (2001) found that 20.5% of subsidiary managing directors were expatriates. Expatriates are used to protect company interests; provide expertise; orchestrate career planning; build local talent through training; and transmit corporate cultural values. Expatriate assignments, which usually last 2 or 3 years, serve to develop an international orientation among managers. Host country nationals are used for familiarity with the culture, knowledge of the language, reduced costs, and public relations purposes. Third country nationals are used for expertise and as the best person for the job (Tung, 1998; Schuler, Budhwar, and Florkowski, 2002; Ferner et al., 2006).

The overall corporate aim of US MNCs is shareholder value (Edwards and Ferner, 2002). While subsidiaries are provided with a large degree of autonomy in managerial
decision making (Lam, 2003), at the same time, tight control takes place through formal world-wide policies in compensation, training, budget-setting, monitoring systems, appraisal, communication, and industrial relations - all oriented at short-term financial performance. Written policies and guidelines and formalized reporting are used to impose US practices, and target rates of return on investment are established centrally (Ferner, 1997; Ferner and Quintanilla, 1998; Harzing, 1999; Edwards and Ferner, 2002; Schmitt, 2003; Almond, Muller-Camen, Collings, and Quintanilla, 2006; Ferner et al., 2006). Kopp (1994) found that for 58% of US MNCs performance evaluation measures were the same in all subsidiaries.

Only in Japan, there are more US subsidiaries with minority equity ownership than with majority ownership. Robinson (1994) found that in almost 90% of US MNCs in Japan all managers were Japanese, while in the other 10% more than two thirds of the managers were Japanese. Over two thirds had Japanese general managers. In performance appraisal, there was a strong emphasis on the use of formal systems. Performance indicators were quantitative, long-term, and multiple, and MBO was popular. Performance appraisal practices of parents and subsidiaries were relatively similar.

US MNCs in Germany have a strong emphasis on quarterly financial performance (Edwards and Ferner, 2002). They implement organizational change more rapidly than indigenous firms, even if that leads to conflicts with employee representatives (Muller, 1998). Muller (1998) found a high proportion of expatriates in management of US subsidiaries in Germany. Consistent with this, in a survey of around 160 US/UK subsidiaries in Germany, Schmitt (2002) found that 59.1% used expatriates in management. Strategic decisions or decisions with financial implications were primarily taken by headquarters, whereas operational matters were almost always decided by the subsidiary. Recruitment of top management was primarily performed by HQs. Large adjustments in employment size were carried through by the subsidiary or by HQs and the subsidiary together, while recruitment methods and working hours for non-exempts and compensation practices were determined by subsidiaries. Performance appraisals were frequent and they emphasized individual achievement. Individual goal setting techniques were introduced in the early 1990s (Kurdelbusch, 2002a).

Because of their will to maintain legitimacy, US MNCs are more strongly oriented to host country than to home country practices. For US subsidiaries in Germany, maintaining legitimacy requires the compliance with German practices. This results in a dominance of host-country effects, especially for large subsidiaries (Schmitt, 2002).
In their socialization practices, US MNCs have been found to use a strong corporate culture (Harzing, 1999; Edwards and Ferner, 2002). Formal statements of values and missions are developed at the international level modelled on US versions (Edwards et al., 2006).

**Industrial Relations in US MNCs**

US MNCs are uncomfortable with employers’ organizations. While there is anti-unionism, many US-based firms accept local norms concerning union recognition and membership - influenced either by legal regulations or the perceived costs of departing from established traditions in terms of morale, bad publicity, or industrial action. Thus in 1996, union recognition was not significantly lower in US MNCs than in Japanese or German MNCs (Muller, 1998; Ferner and Varul, 2000a; Edwards and Ferner, 2002).

In a study of more than 160 US/UK subsidiaries in Germany, Schmitt (2003) found that 62.2% were members of employers’ associations, about the same as native German firms. 58.0% were covered by sectoral agreements for the entire firm and 3.7% for parts of the firm. 8.0% were covered by single-employer agreements, while 30.3% had no collective agreements. Additional works agreements concerning working time were found in 66.3% of firms; concerning remuneration in 3.6%; and concerning redundancies in 12.2%. Overall, these numbers were seen to indicate local responsiveness.

Schmitt (2003) also found that 84.9% of firms in his sample of US MNCs had a works council. But in his study of small US subsidiaries in Germany, Müller (1999) found that many did not have a works council. Yet even these small subsidiaries are constrained by the German system, as they have to offer functional equivalents and/or favorable terms and conditions so that employees have few incentives to form a works council. Works councils can make it more difficult for US MNCs to transfer practices from the parent company to the subsidiary, such as PRP and goal-appraisal systems (Muller, 1998). But US firms may threaten to transfer production from Germany to overcome the resistance of the works council (Müller, 1999).

**The Labor Force in US MNCs**

In US subsidiaries in Japan, management-track employees make up the majority of employees. Managers with experience in Japanese firms bring their previous company’s norms, methods of operation, and training into the foreign affiliate, particularly if they are
from joint venture partners or prestigious firms to whom they feel a strong attachment (Robinson, 1994).

For US MNCs in Germany, Schmitt (2002) found that the higher the number of academic employees, the more US/UK subsidiaries used anglo-saxon management practices. Higher-level employees are less subject to labor regulation, are more internationally mobile, and hold work-related attitudes more favorable to the Anglo-Saxon approach to management than non-exempts, who are more imprinted with local culture (Schmitt and Sadowski, 2001).

**Management Systems in US MNCs**

US MNCs have geocentric management systems. In addition to the transfer of home-country practices to foreign subsidiaries, the use of institutionalized procedures for reverse diffusion has also been characteristic (Ferner and Varul, 2000b; Edwards and Ferner, 2002; Edwards et al., 2006). Overall, US subsidiaries are seen to have hybrid forms of home and host country management practices (Schmitt, 2002; Almond, Colling, Edwards, and Ferner, 2006).

In Japan, wholly owned greenfield US subsidiaries are often set up in the image of their parent firm. Over time, these subsidiaries may adopt a number of local practices, but they tend to continue to bear a strong resemblance to their parent. In contrast, wholly-owned brownfield subsidiaries tend to resemble local firms, even if they may over time establish consistency with the MNC’s parent on some key practices. In joint ventures, US subsidiaries are forced to change their practices by their partners, who can exercise dominance due to vague contracts, knowledge of the Japanese market, and gaps in preparation or knowledge on the US side. Overall, compensation and performance appraisal practices are most likely to show a country-of-origin effect. The most obvious adaptation to the local environment is the practice of staffing operations almost wholly with Japanese employees (Robinson, 1994).

For Anglo-Saxon MNCs in Germany, Schmitt and Sadowski (2001) found that host-country effects were more pronounced than country-of-origin effects. In addition to legal regulations, implicit norms and customs force subsidiaries to comply with German rules in order to maintain legitimacy in the eyes of governments, employers associations, and unions. Host-country effects were found for non-exempt compensation, non-financial employee participation, and collective bargaining. Training activity and policies for exempts rather resembled those of HQs. Large subsidiaries were more likely to adapt to local practices than small subsidiaries, because the management policies of large subsidiaries were under stronger scrutiny by local interests - providing a strong drive to maintain legitimacy. Personnel policy
in brownfield sites is more locally imprinted than in greenfield sites. And a high trade-union density also translates into stronger host-country effects.

Müller (1999) found that large US subsidiaries in Germany were more likely to have an internal job posting system and to offer training than small firms. Small firms used external labor markets, offered little training, emphasized PRP, and were less likely to have works councils and to be involved in collective bargaining. But even these firms were constrained by the German system. Labor-market pressures prevented them from offering radically different working conditions and terms of employment. Edwards et al. (2006) found that reverse diffusion from German subsidiaries to the US occurred only to a limited extent.

Analysis

In contrast to the claim made by *Capitalisme Contre Capitalisme*, US MNCs do not appear to have a long-term orientation in a general sense. But in both Japan and Germany, they do provide relatively long-term employment as well as career plans. The claim that employees are provided with permanent training only appears valid for US subsidiaries in Japan. Training in US MNCs in general appears limited, and in Germany, US MNCs provide less vocational training than do local firms. Co-responsibility may exist for operational decisions, but strategic decisions appear to have been taken mainly by US HQs. Finally, and in line with *Capitalisme Contre Capitalisme*, the use of corporate culture does appear important. Overall, it does not seem that US MNCs really implement a ‘Rhénan’ type of management. Rather, management practices in US MNCs appear to constitute some combination of home- and host-country practices.

The complexities of the transfer of management practices across borders in US MNCs is most clearly illustrated by the differences between management practices in Japanese and German subsidiaries. Thus, while tasks are usually clearly defined and narrow, US subsidiaries in Germany often have a cross-functional work organization. Recruitment practices in Japan are relatively similar to those of Japanese firms, while staffing practices in large US MNCs in Germany are similar to those of German firms. Promotion in subsidiaries in Japan is based on a mix of US and Japanese criteria, while large US MNCs in Germany rely on internal promotion based on cross-functional expertise. And the provision of training by US MNCs in general is limited, but this is not so in the case of Japanese subsidiaries. Compensation in US subsidiaries in Japan includes a number of Japanese compensation practices, but in Germany, it often depends on collective agreements. In governance, the
control of US subsidiaries tends to be based on unrivaled equity ownership and the high use of expatriates in key positions, but US subsidiaries in Japan often have minority equity ownership and most top managers are Japanese. Large US MNCs in Germany are subject to pressures to maintain legitimacy by adopting host-country practices, especially in industrial relations. And employer association membership and collective agreement coverage in US MNCs in Germany are similar to those of local firms, while works councils are even more frequently present than in local firms. Overall, home-country effects coincide with host-country effects.

The fact that in US subsidiaries in Japan, managers with experience in Japanese firms retain a strong feeling of attachment to their previous company and its culture shows a contradiction to the possible imposition of home-country practices. Other factors impeding the imposition of such practices include existing management systems in brownfield sites, and, in Germany, the presence of legal regulations, implicit norms, unions, and works councils. In contrast, the capacity for relocation gives US MNCs bargaining leverage over their workforces which potentially supports the transmission of home-country practices. Thus, causality is complex, if not exceedingly so. Of the overall theories of globalization, the resulting interpretation as presented here is most consistent with the transformation theory. It can serve as a new theory or set of hypotheses for future research.

Management in Japanese MNCs

The FDI outflows from Japan and outward FDI stock are shown in table 7.2. The table shows that while FDI outflows were high in the late 1980s and the early 1990s, there was a clear drop in FDI outflows during the 1990s. But FDI outflow peaked again in 2001 and 2005. Meanwhile, the relative share of total world stock of outward FDI dropped from 12.2% in 1993 to only 3.6% in 2005. In 2003, Japanese MNCs employed 4.2 million workers worldwide,\textsuperscript{144} i.e. some 0.15% of total world employment.\textsuperscript{145} Of these, 740,000 were

\textsuperscript{144} These are the most recent data on employment by Japanese MNCs, made available by RIETI. See http://www.rieti.go.jp/jp/database/d08_ data/Table1.pdf

\textsuperscript{145} The ILO (2006) estimates total world employment in 2003 at 2.75 billion.

employed in the US, amounting to 0.5% of total US employment. 146 55,500 employees were employed in Germany, constituting some 0.1% of total German employment. 147

Work Flow in Japanese MNCs

Formal Organization in Japanese MNCs

Japanese MNCs are global and heavily centralized. During the 1990s, subsidiaries were mostly limited to assembly, sales, and service divisions implementing parent company strategies (Kagono and Campbell, 1994; Robinson, 1994; Morgan, 2001). Features such as teamworking and QCCs are transferred to subsidiaries. But the number of QCCs is much smaller than in Japan. And while there is job rotation, the jobs among which employees are rotated are more narrowly defined than in Japan. Japanese MNCs have also transferred features of lean production (Dirks, 1994; Ferner and Varul, 2000b; Kono and Clegg, 2001; Edwards and Ferner, 2002). Japanese MNCs often have a core-periphery relationship with their foreign subsidiaries in which the latter perform low value-added activities as subcontractors (Dedoussis, 1994; Ferner, 1997).

147 The Statistisches Bundesamt Deutschland estimates total employment in 2003 at 38.7 million. See http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/EN/Content/Statistics/Arbeitsmarkt/Erwerbstae tige/Tabellen/Content50/InlaenderInlandskonzept,templateId=renderPrint.psml
In a study of 28 Japanese transplants in the US on the basis of 1991-93 survey data, Doeringer, Lorenz, and Terkla (2003) found that 46% of subsidiaries had self-managing teams; 64% quality circles; and 36% job rotation. 82% of firms had at least one of these practices, 53.6% had two or more, 46.4% three or more and 14% had all four. Jenkins and Florida’s (1999) study of 601 Japanese transplants in the US based on 1994 survey data found that 43.7% had self-directed teams with 31.5% of employees participating; 77.5% had quality circles with 41.7% participation; and 63.1% had job rotation.

**Human Resource Flow in Japanese MNCs**

**Staffing in Japanese MNCs**

Japanese MNCs have global staffing practices and policies. They provide life time employment to an employee-elite. But the extension of the home-based internal labor market to the global arena is limited. Because employees abroad are sometimes lured to another company by higher pay, and more generally turnover rates may be high, Japanese MNCs do not see local hires as permanent members. Recruitment practices include the direct recruitment of young high-school graduates. For them, adaptability and ability to work in teams are crucial selection criteria. Mature-age candidates are hired on the basis of specialist knowledge and expertise. Employees are not readily laid off (Dedoussis, 1994; Kopp, 1994; Lincoln, Kerbo, and Wittenhagen, 1995; Matsuo, 2000; Kono and Clegg, 2001; Lam, 2003).

Many Japanese MNCs in the US have a difficult time recruiting and retaining US managers. A vicious cycle has developed where because US executives often leave the firm, Japanese firms refuse to invest in them, and US executives leave because their firms do not invest in them (Beechler and Bird, 1994; Gómez-Mejia, Balkin, and Cardy, 2001; Jones and Gálvez-Muñoz, 2002). Japanese subsidiaries in the US often have a no lay-off policy: in a study of Japanese transplants in the US based on 1991-93 data, Doeringer, Lorenz, and Terkla (2003) found a no lay-off policy in 42.9% of establishments; on the basis of a 1994 survey of 601 Japanese transplants in the US, Jenkins and Florida (1999) found such a policy in 52.1% of establishments.
Career Development in Japanese MNCs

Seniority is of little importance for promotion in subsidiaries of Japanese MNCs. The ceiling for local employees is low because most managerial positions are filled with Japanese. Because of slow promotion, local employees are sometimes lured to other companies. Only 18% of Japanese MNCs maintain a centralized roster of all their managerial employees throughout the world at headquarters in order to facilitate worldwide managerial development (Dedoussis, 1994; Kopp, 1994; Kono and Clegg, 2001).

In Japanese subsidiaries in the US, the absence of a career path for local managers to reach a top position has made it difficult to attract and retain high quality US managers (Jones and Gálvez-Muñoz, 2002). In Germany as well, the glass ceiling on the upward mobility of German managers in Japanese subsidiaries leads to low morale among German middle managers. In their study of 31 Japanese MNCs in Düsseldorf in 1992-93, Lincoln, Kerbo, and Wittenhagen (1995) found that this was the reason for a number of managers to seek jobs elsewhere.

Training in Japanese MNCs

Japanese MNCs provide considerable training as a means of standardizing procedures and information across foreign subsidiaries, as well as to enhance coordination (Robinson, 1994; Urata, Matsuura, and Wei, 2006). Training occurs both on- and off-the-job. Factories in Japan function as training sites for employees of foreign subsidiaries (Kono and Clegg, 2001). Kopp (1994) found that 24% of Japanese MNCs had a training program to groom local nationals for advancement in the company’s managerial ranks. 15% often transferred local nationals to headquarters or other international operations to gain experience and learn more about the company as a whole.

On the basis of 1991-93 survey data, Doeringer, Lorenz, and Terkla (2003) found cross-training and team training in 42.9% of Japanese establishments in the US. Introductory training was more extensive than in US firms and was used as a substitute for job rotation to create a broad exposure to job skills. Jenkins and Florida (1999) found off-the-job training for production workers in 79.2% of the 601 establishments they surveyed in 1994, with a 39.7% participation rate.
Compensation in Japanese MNCs

According to Dedoussis (1994), compensation of the local workforce in Japanese MNCs is based on market rates, while bonus payments are practically absent and benefits are few. But expatriates receive the same salary as they would in Japan, plus an overseas allowance. They also receive the same benefits as employees in Japan (Kono and Clegg, 2001; Schuler, Budhwar, and Florkowski, 2002).

For 28 Japanese subsidiaries in the US in 1991-93, Doeringer, Lorenz, and Terkla (2003) found that pay tended to be job-based. In addition, pay for knowledge was found in 11% of establishments; collective or team bonuses in 29%; and profit and gain sharing in 18%. 46% of establishments had at least one of these three practices. In their 1994 survey of 601 Japanese subsidiaries in the US, Jenkins and Florida (1999) found pay for skills in 45.6% of establishments; group incentive compensation in 13.4%; and profit sharing in 50.3%.

Governance in Japanese MNCs

Corporate Governance in Japanese MNCs

Most Japanese firms have only a very small proportion of their shares listed abroad. Relationships with shareholders are stable, enabling Japanese MNCs to pursue long-term goals such as increases in market share (Mason and Encarnation, 1994; Ruigrok and Van Tulder, 1995; Dore, 2000; Kono and Clegg, 2001; Edwards and Ferner, 2002). In the early 1990s, the bulk of Japanese overseas operations were greenfield investments fully owned by parent companies (Dore, 2000). But during the 1990s, there was a shift to joint ventures. The percentage of wholly owned subsidiaries (95-100%) decreased from over 60% in 1990 to 55.4% in 1999. Majority owned subsidiaries (51-94%) constituted 19.1%, co-owned (50%) 5.7%, and 19.9% of subsidiaries were minority owned (5-49%) (Delios, Beamish, and Makino, 2001). Japanese MNCs often have keiretsu-like relations with domestic or transplanted suppliers. Many banking services are provided by group banks (Whitley, 1999; Yasumuro, 2002). There is long-term planning coupled with informal and ‘personal’ control and feedback methods (Ferner, 1997; Ferner and Quintanilla, 1998). But from a local perspective, Pucik (1994) did not find a long-term focus in Japanese overseas subsidiaries.

Key posts tend to be occupied by Japanese managers and expatriate presence is high (Harzing, 1999; Kono and Clegg, 2001). Kopp (1994) found that 74% of top managers in
overseas operations were Japanese, 26% were local nationals, and 0.2% were third country nationals. 48% of lower-level managers were local nationals, while 81% of non-managers were local nationals. In her sample of 38 Japanese MNCs, Harzing (2001) found that 76.5% of subsidiary managing directors were expatriates. And a 2001 survey by METI found that some 10-30% of overseas affiliates had local personnel as CEOs, 30-50% had local deputy CEOs, and 60-75% had local staff in charge of labor management (Urata, Matsuura, and Wei, 2006). Finally, Delios, Beamish, and Makino (2001) found that 21% of Japanese subsidiaries did not have any expatriate employees, while only 7% had more than 10 expatriate employees. Newer subsidiaries used fewer expatriates than older ones, and the greater the equity holding of the Japanese partner, the greater the use of expatriates (Beamish and Inkpen, 2001).

Expatriate managers have typically been with the company for at least 10 years, and they have been socialized in the corporate culture (Tung, 1998). They serve to exert control over foreign subsidiaries and to assure a transfer of resources to and from the parent company. The informal channels of communication controlled by expatriates contribute to the integration of subsidiaries into the global MNC (Dirks, 1994; Pucik, 1994; Ferner and Quintanilla, 1998). But the use of expatriates and the low ceilings for local employees has been found to have led to friction between parent and host country managers (Ferner, 1997).

Japanese firms in the US tend to have majority ownership to avoid potential constraints on decision-making. In a 1998 survey of 138 subsidiaries, Matsuo, Bosch, and McIntyre (2003) found a mean percentage of investment by the parent company of 91%. 78% were independent investments or joint ventures with a Japanese company, while 22% were joint ventures with US firms. 78% of subsidiaries were start-ups, while 22% were takeovers. Being a start-up and the percentage of direct investment were positively related to the use of expatriates. The use of expatriates was extensive: 87% of surveyed subsidiaries had a Japanese CEO, and the mean percentage of Japanese managers in management was 33%.

Branches of Japanese companies in Germany were found to have even less autonomy than those in the US. A 1992 publication of the Japanese Chamber of Commerce in Düsseldorf reports only one Japanese subsidiary with a German in the top executive position. At a lower level, local managers do form an interface between the Japanese management team and lower-level hires (Lincoln, Kerbo, and Wittenhagen, 1995).
Internal Social Control in Japanese MNCs

According to several scholars, Japanese top management exercises centralized decision making (Dedoussis, 1994; Kagono and Campbell, 1994; Hui and Luk, 1997; Ferner and Quintanilla, 1998). But according to others, shared decision-making through intensive communication aimed at consensus is a common practice. Participation of employees is thought to take place in QCCs and suggestion schemes (Lincoln, Kerbo, and Wittenhagen, 1995; Kono and Clegg; 2001). As is the case for Japanese management in general - as described in chapter 5 - these differences of opinion are as yet unreconcilable.

Kopp (1994) found that 24% of Japanese MNCs had the same performance evaluation measures in all of their international operations. Overseas operations are evaluated on their contribution to the integrated strategy of the company (Morgan, 2001). Communication is enhanced by the use of open-plan offices for office workers and their heads of department. But the number of suggestions made is much lower than in Japan. And local employees do not pass on their knowledge to subordinates as this may lead the subordinates to be promoted faster than their superiors (Kono and Clegg, 2001).

Pucik (1994) found that primary responsibility for most decisions in US subsidiaries rested with Japanese. 47% involved only Japanese staff, including 22% where decision-making responsibility was located exclusively in Japan. In contrast, US executives maintained exclusive decision-making prerogatives in only 18% of cases. When the US managers were involved in headquarters’ decision making, it was mostly together with their Japanese colleagues in the US. Even then, local executives were not involved in more than 53% of all decisions. The involvement of local executives in strategic planning was determined as much by the ‘credibility’ of individuals as by their formal position in the organizational hierarchy. Credibility was personalized and dependent on a combination of managerial traits and behaviors and on sponsorship by influential Japanese. The most effective route to participation was through a mentoring partnership with a Japanese manager (Lincoln, Kerbo, and Wittenhagen, 1995).

Operational autonomy is widespread. Doeringer, Lorenz, and Terkla (2003) found that 50% of surveyed Japanese subsidiaries in the US gave employees responsibility for quality control. Considerable authority is also provided to shop floor employees to organize work and solve production problems (Rhodes and Van Apeldoorn, 1998). Doeringer, Lorenz, and Terkla (2003) found frequent meetings with employees in all surveyed Japanese subsidiaries in the US. Open communication channels aim to secure cooperation.
In Japanese subsidiaries in Germany, decision making is top-down, consensus-oriented, and lengthy. Performance appraisal is informal. Japanese managers keep a large distance from the local workforce (Lincoln, Kerbo, and Wittenhagen, 1995).

Legitimation in Japanese MNCs

Few studies address legitimation techniques in Japanese MNCs. Lincoln, Kerbo and Wittenhagen (1995) found that in US subsidiaries, Japanese managers commonly justified their reluctance to shift control and responsibility to US managers by pointing to the lack of corporate loyalty (Lincoln, Kerbo, and Wittenhagen, 1995).

Socialization in Japanese MNCs

Japanese MNCs tend to have a clear corporate philosophy. Many companies communicate their creed to all employees. Morning meetings are held, during which the company song may be sung and the corporate creed recited. This increases the identification of employees with the job and the company. Another socialization technique is the use of an open-plan office for office workers and their heads of department. There is no differentiation between white- and blue-collar workers: all wear the same uniform, including the director of the plant and the president of the subsidiary. The president frequently visits the production line and uses the same canteen as other employees. But in contrast to Japan, managers in Japanese subsidiaries do not meet colleagues and subordinates informally after work (Kono and Clegg, 2001). Overall, values are not widely shared throughout the firm (Harzing, 1999).

In Japanese subsidiaries in the US, shared norms are developed through corporate culture, job rotation, training, and managerial guidance (McMillan, 1989). An attempt is made to secure commitment and cooperation through high levels of job security (Doeringer, Lorenz, and Terkla, 2003). But in the individualist US culture, it is hard to transplant small group activities, the singing of company songs, and a single, company-wide uniform. Japanese management culture, with its ambiguity and egalitarianism, violates the usual privileges of US managers (Dirks, 1994).

In socialization practices in Japanese subsidiaries in Germany, a limit is set to tangible perquisites of management standing - such as high pay, stock options, or private offices (Lincoln, Kerbo, and Wittenhagen, 1995).
Industrial Relations in Japanese MNCs

In Japanese MNCs, company unionism is promoted (Ferner and Varul, 2000a). Japanese subsidiaries in the US try to avoid unions because Japanese managers have a very adversarial image of unions (Gómez-Mejía, Balkin, and Cardy, 2001). While Yasumuro’s (2002) survey of Japanese subsidiaries in the US found that respondents expressed only average importance to the absence of labor unions for their location decision, Doeringer, Lorenz, and Terkla (2003) found a lack of unions in 96.4% of surveyed Japanese subsidiaries in the US in 1991-93. Japanese transplants in the US were twice as likely as new domestic plants to locate in states with little unionization.

Japanese MNCs in Germany have not shown much resistant to the formation of works councils. But when in place, cooperation has been less than complete. Negotiations between management and works councils take a long time - as a result of the Japanese penchant for long discussion and analysis and the dependence on the overseas parent firm. Wage agreements are sometimes violated by assigning a lower classification than an employee’s job justifies, and not all issues that the law required are taken before the works council (Lincoln, Kerbo, and Wittenhagen, 1995).

The Labor Force in Japanese MNCs

In Japanese MNCs, expatriates exhibit commitment to the parent organization (Gong, 2003). Local employees are less imbued with company loyalty and commitment. They may be inflexible and competitive. Moreover, they may leave the company if they can get better pay elsewhere (Kono and Clegg, 2001).

In US affiliates of Japanese firms, workers tend to focus on short-term rewards and do not hold expectations of long-term affiliation with the firm (Beechler and Bird, 1994). But they do tend to welcome long-term employment and shop-floor participation (Lincoln, Kerbo, and Wittenhagen, 1995). The existing attitudes of US workers in different areas of the country influence the location decisions of Japanese MNCs: Doeringer, Lorenz, and Terkla (2003) found that Japanese transplants in the US were six times more likely than new domestic plants to locate in areas where they believed workplace attitudes were accommodating to Japanese-style management.

Pucik (1994) found that morale among US executives in Japanese subsidiaries was adversely affected by the difference between where the key decisions were made and where
executives felt they should be made. The lack of input into the strategic planning process was a common source of frustration. This was often attributed to the Japanese unwillingness to share strategic information because of their fears that local managers may leave the firm and take the knowledge with them. Thus a vicious circle was created: local managers leave because they object to being excluded from the inner core, which then serves as a justification for the exclusion of their successors. This process is strengthened further by the limited time horizon of many US executives in Japanese subsidiaries, by their unwillingness to live outside the country for a prolonger period of time, and by their strong emphasis on autonomy and independence (Jones and Gálvez-Muñoz, 2002).

In German subsidiaries, the skill and efficiency of German workers made it acceptable to Japanese firms to live with workrule rigidities and high labor costs. Germans in executive positions were found to match the Japanese in work commitment. The Japanese praised the efficiency and diligence of Germans on the job (Lincoln, Kerbo, and Wittenhagen, 1995).

**Management Systems in Japanese MNCs**

Japanese MNCs have global management practices: they are likely to try to impose parent company management practices (Campbell, 1994; Kopp, 1994; Harzing, 1999). According to Ferner (1997), they ‘export’ patterns of work organization based on functional flexibility, teamworking, the integration of quality into work operations, careful recruitment and selection of greenfield workforces, and continuous training. But according to Whitley et al. (2003), only certain home country features appear to be widely applied in other countries, including quality control, broad jobs, standard procedures, and a limited role for labor unions. Job rotation and participation in problem solving seem less often to be transferred.

According to Dedoussis (1994), while employment conditions for core expatriates are determined by internal labor market procedures, this is not the case for local employees, especially in small firms and for white-collar workers. Rather, for them, the peripheral model of Japanese management is seen to pertain, including the following practices: 1) job rotation is widely practiced for blue-collar workers in large manufacturing firms, while its use is less frequent in small subsidiaries and among white-collar personnel; 2) flexible assignments and work allocated to groups are practised among blue-collar employees in manufacturing firms, but these practices are less evident among white-collar personnel; 3) small group activities, such as QCCs and suggestion schemes, are either absent or poorly developed; 4) young employees with no previous work experience are recruited for shop floor positions in
manufacturing firms; recruitment of white-collar workers focuses on mature-age and experienced candidates; 5) adaptability and ability to work in teams are important selection criteria for blue-collar employees, while specialist knowledge is highly valued in the case of white-collar employees; 6) security of employment is higher in large firms and in firms experiencing growth; 7) internal promotion based on seniority is practised only for blue-collar workers; 8) induction programmes for locally recruited employees are absent; 9) internal, on-the-job training is the dominant type of training for blue-collar employees in large manufacturing firms, but internal training is less developed among small firms and for white-collar employees; 10) seniority is not important in the compensation system, and only a small bonus is offered to local employees; 11) the range of benefits provided to local employees is limited, especially in small firms; 12) decision making by consensus and open communication are common, but as the decision-making process is dominated by Japanese managers, the involvement of local staff is minimal. According to Dedoussis (1994), the deployment of these non-core employees at the global level helps to safeguard the interests of the core workforce at home.

Beechler and Bird (1994) distinguish three management strategies of Japanese subsidiaries in the US: a traditional Japanese ‘Accumulator’ strategy that is based on maximum employee involvement and skilled execution of tasks; a hybrid ‘Facilitator’ strategy that encourages and supports employees to develop the skills and knowledge which they believe are important; and a US ‘Utilizer’ strategy predicated on minimal employee commitment and high skill utilization. They find that most affiliates adopt either an Accumulator or a Facilitator approach. Accumulators have more expatriates (an average of 6) in middle management than either Facilitators (3.0) or Utilizers (2.6). 51% of all Accumulator managers are Japanese, while 30% of Facilitator managers and 8% of all managers in Utilizers are Japanese. These results are consistent with the argument that in order to transfer ‘Japanese-style’ management overseas, a high concentration of expatriates is necessary since these individuals act as transfer agents. Accumulators have the greatest proportion of greenfield investments, the highest levels of participation, the longest time horizon, the highest level of formalization, and the strongest concern with equality. Utilizers score lowest on all these variables, with Facilitators falling in between. The Accumulator strategy does not readily accommodate individual employee needs and leads to difficulties in hiring and retaining US employees. In contrast, Japanese affiliates that have the Utilizer strategy have relied almost exclusively on US personnel managers and have given them complete discretion over management policies and practices.
On the basis of their 1994 survey data of 601 Japanese transplants, Jenkins and Florida (1999) conclude that 40.7% used an ‘innovative’ work system constituted largely of Japanese management practices, while 44.7% used a Taylorist work system. 14.6% of the respondents used a mixture of both systems. Doeringer, Lorenz, and Terkla (2003) found that the most frequently used Japanese-style practices in the US were teams, quality circles, and employee responsibility for problem-solving and quality control. These practices were strengthened by team training and cross-training.

The weak unions, cultural diversity, and political fragmentation of the US allows Japanese firms much leeway to apply their standard practices to a local workforce (Lincoln, Kerbo, and Wittenhagen, 1995). But the high global integration of Japanese MNCs in the US has been found to have a negative impact on morale and job satisfaction among local executives (Pucik, 1994). And Japanese subsidiaries in the US often get into conflict with host country norms because of anti-unionism and discriminatory practices (Schmitt, 2002). Occasional reverse diffusion has been found to exist, as in the case of some Japanese banks’ investments in New York that provide for the learning of new competitive advantages that are generalized throughout the organization (Whitley, 2001).

Japanese subsidiaries in Germany have been found to transfer only few Japanese management practices to Germany. The presence of such Japanese management practices decreases in time, as older subsidiaries are more likely than newer ones to comply with German institutions (Muller, 1998).

**Analysis**

The state of saturation depicted above indicates several divergencies from the claims made by *Trading Places* and *Capitalisme Contre Capitalisme*. In its prediction of the ‘colonization’ of the US, *Trading Places* did not foresee the relative drop in FDI flows from Japan to the US in the 1990s. In addition, Japanese FDI does not necessarily entail the transmission of Japanese management practices. Foreign subsidiaries are found to have been used as sub-contractors with a peripheral status. Quality control circles are to some extent implemented in Japanese subsidiaries in the US, but self-managing teams are used less extensively and the figures for job rotation are inconclusive. In staffing practices, it has shown to be difficult to retain US managers, even if employment security is offered, while in career development, glass ceilings exist for local managers. Similar to management practices in Japan, training is extensive. But compensation is market- or, in the US, job-based, and benefit provision is limited. Decision-
making is much less consensual than in Japan, but communication is again extensive. Meanwhile, the lack of delegation is legitimized by pointing to a lack of corporate loyalty. Socialization includes the practice of managers and office staff eating lunch together, but unlike in Japan, managers and office staff do not socialize after hours. In industrial relations practices, unions are avoided. The presence of Japanese core management practices also depends on the characteristics of the workforce. While Japanese MNCs tend to try to impose home-country management practices, this is not always possible due to contradictions with characteristics of the workforce. In Germany, this effect is absent, but here, the imposition of Japanese-style management appears limited, probably due to legal and normative rules. Finally, a peripheral management system is used for local employees in small firms and for white-collar workers. All in all, the conclusion is that Japanese MNCs only partially transfer their core management practices to the US, and there appears to have been some transformation of such practices.

Like Trading Places, Capitalisme Contre Capitalisme also overestimated the impact of Japanese FDI into the US. Lifetime employment is offered only to an employee elite. Careers are offered almost exclusively to Japanese employees, while the ceiling for local employees is low. Training is indeed extensive, and in the US, profit sharing is offered to a core workforce, but whether Japanese MNCs have a long-term focus depends on the perspective taken. The extent to which there is co-responsibility also constitutes a subject for debate. Japanese MNCs aim at implementing a corporate culture, but this runs into some trouble in the US as a result of the individualist US culture. Overall, Japanese MNCs do not really implement a ‘Rhénan’ type of management, but rather some kind of combination of Rhénan practices and ‘neo-American’ practices. In light of the complexity of the findings, the transformation theory of globalization appears to be the most plausible overall theory of globalization.

Management in German MNCs

FDI outflows from Germany are shown in table 7.3. The table shows that the relative share of total world stock of outward FDI has remained fairly stable since 1993 - which means that it has increased relative to that of the US and Japan. In 2005, German MNCs employed some
<table>
<thead>
<tr>
<th>Year</th>
<th>FDI outflows ($mln)</th>
<th>Relative FDI outflow (% of world FDI outflow)</th>
<th>Outward FDI stock ($mln)</th>
<th>Relative share of total world stock of outward FDI (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987-92 (average)</td>
<td>17,112</td>
<td>8.6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1993</td>
<td>17,200</td>
<td>7.0</td>
<td>185,048</td>
<td>8.7</td>
</tr>
<tr>
<td>1994</td>
<td>18,857</td>
<td>6.6</td>
<td>205,608</td>
<td>8.6</td>
</tr>
<tr>
<td>1995</td>
<td>39,052</td>
<td>10.9</td>
<td>258,142</td>
<td>8.9</td>
</tr>
<tr>
<td>1996</td>
<td>50,819</td>
<td>13.4</td>
<td>288,398</td>
<td>9.1</td>
</tr>
<tr>
<td>1997</td>
<td>41,797</td>
<td>8.8</td>
<td>303,499</td>
<td>8.9</td>
</tr>
<tr>
<td>1998</td>
<td>88,823</td>
<td>12.9</td>
<td>370,311</td>
<td>9.1</td>
</tr>
<tr>
<td>1999</td>
<td>108,692</td>
<td>10.0</td>
<td>420,908</td>
<td>8.8</td>
</tr>
<tr>
<td>2000</td>
<td>56,557</td>
<td>4.8</td>
<td>541,861</td>
<td>8.4</td>
</tr>
<tr>
<td>2001</td>
<td>36,855</td>
<td>5.1</td>
<td>553,315</td>
<td>8.8</td>
</tr>
<tr>
<td>2002</td>
<td>15,171</td>
<td>2.3</td>
<td>619,939</td>
<td>8.6</td>
</tr>
<tr>
<td>2003</td>
<td>6,174</td>
<td>1.1</td>
<td>622,499</td>
<td>7.6</td>
</tr>
<tr>
<td>2004</td>
<td>1,883</td>
<td>0.2</td>
<td>833,651</td>
<td>8.6</td>
</tr>
<tr>
<td>2005</td>
<td>45,634</td>
<td>5.9</td>
<td>967,298</td>
<td>9.1</td>
</tr>
</tbody>
</table>


5.0 million employees,\(^{148}\) amounting to 0.2% of total world employment.\(^{149}\) Of these, 788,000 were employed in the US,\(^{150}\) which is some 0.55% of total US employment.\(^{151}\) 76,000 workers were employed in Japan,\(^{152}\) amounting to some 0.1% of total Japanese employment.\(^{153}\)

**Work Flow in German MNCs**

**Formal Organization in German MNCs**

In the 1990s, German MNCs had a decentralized network structure consisting of central strategic management and a number of independent cost and profit centers. Outsourcing to low-wage countries was extensive, and 15% of R&D staff was employed in foreign affiliates (Lane, 2000, 2001; Schmitt, 2002). In some cases, headquarters was located outside Germany and world-wide production centers were used (Ferner and Quintanilla, 1998).

\(^{148}\)http://www.bundesbank.de/statistik/statistik_zeitreihen.php?lang=de&open=aussenwirtschaft&func=row&tr=RJ2210


\(^{150}\)http://www.bundesbank.de/statistik/statistik_zeitreihen.php?lang=de&open=aussenwirtschaft&func=row&tr=RJ2240


\(^{152}\)http://www.bundesbank.de/statistik/statistik_zeitreihen.php?lang=de&open=aussenwirtschaft&func=row&tr=RJ2236

Informal Organization in German MNCs

The need to orchestrate operations and staff across national borders, a role for which the traditional notion of Betriebsgemeinschaft (‘works community’) was unsuited, appears to have led to the partial ‘Anglo-Saxonization’ of culture within German MNCs. At the same time, some MNCs have maintained the idea of the Betriebsgemeinschaft and specific German cultural traditions. In addition, a number of German MNCs are closed family companies whose success is built on a German-flavored corporate ethos of partnership and cooperation (Ferner and Varul, 2000a, 2000b).

Human Resource Flow in German MNCs

In staffing, the aim of getting flexible, responsive managers capable of leading the internationalization process has led to the recruitment of German managers - for key roles in headquarters and for senior posts as expatriates - with a US business background and a ‘generalist’ mindset. Restructuring has been accompanied by the reduction of workforces at home. But although German workforces have fallen relative to those employed outside Germany, MNCs are still concerned to secure home-country jobs. Radical downsizing has been virtually absent (Ferner and Quintanilla, 1998). Regarding training practices, Kopp (1994) found that German MNCs were relatively likely to use training programs for managers about to be posted overseas.

Compensation in German MNCs

German MNCs have played a vanguard role in the increased use of variable pay in German management, through reverse diffusion of this practice from their foreign subsidiaries (Kurdelbusch, 2002a). They have been found to relocate production to the US because wages are much lower than in Germany (Taylor, 1998).

Governance in German MNCs

Ruigrok and Van Tulder (1995) found that many large German MNCs had a large percentage of shares abroad. But this was largely limited to German-speaking neighboring countries,
partly inspired by tax reasons, and partly the result of the fact that industrial districts and
national industrial systems did not overlap. Since 1993, however, quotation by German
MNCs on foreign stock exchanges has increased (Lane, 2001; Höpner, 2003b). But Ferner
and Varul (2000b) note the predominance of family-owned medium-sized German MNCs.

German MNCs have stable relationships with shareholders, enabling them to pursue
long-term goals such as increases in market share (Edwards and Ferner, 2002). But as German
MNCs have expanded abroad, they have turned to foreign banks and international share and
bond markets for finance. This has led to greater scrutiny by external investors and more
emphasis on shareholder value, although longer-term goals have been maintained. The new
emphasis on shareholder value is reinforced in some companies by new forms of executive
remuneration related to personal and corporate performance targets. But employees are still
seen as important stakeholders (Ferner and Quintanilla, 1998). To increase the transparency
and flexibility valued by capital markets, organizations have restructured towards a network
structure. Several companies have introduced international accounting standards and quarterly
reports (Lane, 2000, 2001).

There has been some reliance on expatriate managers (Kopp, 1994; Ferner and
Quintanilla, 1998). For a sample of 279 German MNCs, Harzing (2001) found that 40.9% of
subsidiary managing directors abroad were expatriates, a higher percentage than that for US
MNCs (20.5%) but a lower percentage than that for Japanese MNCs (76.5%). Initially, most
foreign German subsidiaries are closely supervised and integrated into parent activities
(Harzing, 1999; Whitley, 1999). But affiliates have been allocated more and more valuable
resources and competences, as well as being granted more organizational and financial
autonomy (Lane, 2000). Overall, subsidiaries of German MNCs are relatively autonomous
(Ferner and Varul, 2000a). While Anglo-Saxon systems of performance management have
become increasingly evident, German MNCs have relatively non-stringent short-term
performance requirements, and they rely more on informal feedback (Ferner, 1997; Ferner
and Quintanilla, 1998).

In their socialization practices, many German MNCs no longer emphasize their
German identity (Lane, 2000). But German MNCs do rely on socialization for their
coordination mechanisms (Edwards and Ferner, 2002).
Industrial Relations in German MNCs

German MNCs have moved production outside Germany to overcome legal regulations and improve their bargaining position. They have attempted to force unions and works councils into concessions on the grounds that otherwise jobs may be lost to overseas workers (Ruigrok and Van Tulder, 1995; Morgan, 2001). But managers that are too aggressive towards their works councils have found that the reputation of their company has suffered and have had to change their ways (Lane, 2000). In the US, German transplants have mostly opted for a union-free environment (Jürgens, 2003). In general, there has not been a transfer of German codetermination practices to subsidiaries in the US (Schmitt, 2002).

Management Systems in German MNCs

According to Lane (2000), the strategy of German MNCs is one of glocalization, i.e. a tendency to establish networks in foreign sites and to make efforts to become recognized as local by the region. To this end, valuable resources and competences are transferred to affiliates.

In the US, German MNCs are seen to have adopted host country structures and practices. This ‘Anglo-Saxonization’ includes moves to international business divisions with fully devolved responsibilities; the development of a mobile international cadre of senior managers; the embracement of the concept of shareholder value; the strengthening of international management control systems; and policy generation through international working groups (Ferner and Quintanilla, 1998; Ferner and Varul, 2000b; Edwards and Ferner, 2002). In many areas, diffusion of Anglo-Saxon practices has taken place within German MNCs from Anglo-Saxon subsidiaries to the corporate centre. This is to some extent inhibited by co-determination, which gives works councils the ability to resist the introduction of new reward systems and forms of teamwork (Ferner and Quintanilla, 1998; Ferner and Varul, 2000b; Lane, 2001; Tempel, 2001). Practices disseminated from subsidiaries of German MNCs may become transmuted into elements within a managerial repertoire that remains German. For example, many companies have adopted the ‘mission statement’, and such statements often retain obeisance to shareholder value. But its significance is very different where shareholders are family members and house banks, rather than arm’s-length institutions and individuals looking to maximize short-term returns (Ferner and Varul, 2000b). In general,
Anglo-Saxon practices have been argued to work differently in German MNCs from the way they operate in the US (Edwards and Ferner, 2002).

**Analysis**

Practices in German MNCs, then, have become more anglo-saxon, though, apparently, with a German ‘twist’. Again, the claims made by *Capitalisme Contre Capitalisme* cannot be fully upheld. First of all, while German FDI has certainly remained steady, this has so far not led to an important introduction of German management practices in the US. Clearly, there is a process of transformation, through a process of reverse diffusion stimulated by investors on international financial markets and offshore outsourcing, and impeded by the predominance of family-owned medium-sized firms, works councils, and home country legal and normative regulations.

At the same time, German MNCs do have long-term goals. They do provide long-term employment in Germany, but whether they do so abroad is unclear from the data. Training appears to be provided to some extent. Whether or not German MNCs use profit sharing is unclear from the data, but co-responsibility through delegation appears extensive. There appears to exist some sort of socialization based on a form of corporate culture. These findings are compatible with the picture painted by *Capitalisme Contre Capitalisme*.

**Discussion**

The analysis of management in US, Japanese, and German MNCs has shown that the term ‘transformation’ is most appropriate if the impact of MNCs on management practices is considered. In contrast to the claims made by *Trading Places* and *Capitalisme Contre Capitalisme*, FDI by MNCs does not lead to the full implementation of home country practices nor to that of host country practices. In other words, Japanese FDI into the US has not always implied ‘Japanization’, while MNCs do not always have ‘Rhénan’ practices. The neglect of an analysis of the impact of MNCs in the OECD perspective is due to the focus on national management practices of the publications that were used to reconstruct the perspective. It does seem that some attention to MNCs and their impact on national management systems would be warranted. While it is clear from the figures on the relative employment by MNCs in their host countries that the direct impact of MNCs on management
practices in those countries is relatively limited, *indirectly*, the impact of MNCs on such management practices appears to be much wider. As discussed above, management practices by MNCs have often been copied by local firms, leading to the implementation of management practices mostly taken from Japan and the US. Moreover, the possibility of offshore outsourcing has enhanced the power of management to implement desired management techniques.
8 A Case Study: Management Practices of Japanese MNCs in the US: A Country-of-Origin Effect or Local Responsiveness?\footnote{This chapter has benefited from reviews by Hisako Matsuo.} \footnote{The data (and tabulations) utilized in this paper were made available (in part) by the archive or agency which distributed the data. The data for the 1996-1997 National Organizations Survey were originally collected by the Minnesota Center for Survey Research at the University of Minnesota. Neither the original sources or collectors of the data nor the distributor of the data bear any responsibility for the analyses or interpretations presented herein. \footnote{www.icpsr.umich.edu}}

As shown in chapter 3, *Trading Places* claims that Japanese FDI into the US entails the transmission of an industrial structure reflecting Japanese values. *Capitalisme Contre Capitalisme* similarly argues that ‘Rhénan’ firms set up their subsidiaries according to their own culture. But the previous chapter has contradicted these claims. To have a closer look at whether Japanese MNCs transmit Japanese values through their direct investments into the US, or whether they adjust to the local context, I performed a case study on the basis of survey data gathered from Japanese subsidiaries in the US, comparative survey data from firms in Japan, and survey data from a representative sample of firms in the US. The gathered survey data were categorized into different management categories, after which they were statistically analyzed. In line with the findings presented in the previous chapter, the results indicate a partial country-of-origin effect as well as partial local responsiveness. They are most consistent with the hybridization and transformation theories of globalization.

**Method**

To study the management practices of Japanese multinationals in the US in comparison to those found in Japan and in the US, I analyzed 1998 survey data regarding Japanese subsidiaries in the US collected by Hisako Matsuo, comparative 1998 survey data from firms in Japan collected by Haruhiko Kanegae, and 1996-97 survey data regarding a representative sample of US firms collected by the *National Organizations Survey* (NOS) (Kalleberg, Knoke, and Marsden, 2001).\footnote{www.icpsr.umich.edu} The first two data sets were kindly made available to me by Hisako Matsuo, while the NOS was downloaded from the website of the Inter-university Consortium for Political and Social Research.\footnote{www.icpsr.umich.edu}
In collecting survey data from Japanese subsidiaries in the US, Hisako Matsuo first constructed an English-language survey followed by a content validity test with 7 CEOs at large Japanese subsidiaries in the US. The survey covered aspects of work flow, human resource flow, compensation, governance, and industrial relations. It used a 5-point Likert scale with 1 representing ‘strongly disagree’ and 5 ‘strongly agree’. In some cases, an extended 7-point scale was used to allow for a wider range of choice. The survey was sent to 600 US subsidiaries of Japanese multinational corporations with 50 or more employees, drawn from the section on the US of *Kaigai Shishutsu Kigyo Soran (List of Japanese Corporations Abroad)* (Toyokeizai Shimpo, 1997). Of the 163 responses Hisako Matsuo was able to collect, I could use 108 cases after adjusting for missing data. This implies an effective response rate of 18%. The survey was carefully translated into Japanese and sent by Haruhiko Kanegae to 721 companies in Japan, including the parent companies of the sampled subsidiaries. I was able to use all 95 back-translated responses for this study, implying an effective response rate of 13%. To the extent possible, I obtained compatible data regarding US management from the NOS. Gathered in 1996-97 from a representative sample of 1,002 US work establishments, this survey addressed several organizational practices in the US, including aspects of work flow, human resource flow, compensation, governance, and industrial relations. A variable format was used, varying from a binary scale of ‘Yes’ and ‘No’ to 3-, 4-, or 5-point Likert scales. While trying to stay as close as possible to the original formats used, occasional reversed coding (i.e., making a higher score indicate presence rather than absence of a practice) proved necessary for reasons of clarity and consistency in the interpretation of results.

In order to compare the findings from Japanese MNCs in the US, firms in Japan, and US organizations, the different findings were categorized in terms of specific practices and compatibility. While the questions used in the NOS were not exactly the same as in the case of the surveys of Japanese MNCs and firms in Japan, a number of questions were highly compatible. In order to increase compatibility still further, the phrasing of the questions was changed slightly without altering their technical meaning. Next, in the case of Likert scales, t-tests were performed to determine whether or not a practice was significantly different from the average of the Likert values. For example, in case of a 5-point scale question, a t-test was performed to see if the average of responses in, say, Japan was significantly different from 3, so that it could be said to be significantly present or absent. For binary data, z-test approximations were used to determine whether proportions were significantly different from 0.5. A 95% confidence interval was used. Possible outcomes are ‘Yes’ (when a practice was
found to be significantly present), ‘Neutral’ (when there was no significant difference to the average), and ‘No’ (when a practice was significantly absent).

Having thus created a compatible three-point score for the different management practices in the case of Japanese MNCs in the US, firms in Japan, and US organizations, the following questions were addressed:

(1) Which practices of Japanese MNCs are the same as in Japan but different from the US? This may be taken to indicate a country-of-origin effect.
(2) Which practices of Japanese MNCs are different from those in Japan but the same as those in the US? This indicates local responsiveness.
(3) Which practices of Japanese MNCs are the same as those in Japan and the US? In the case in which practices differ from those traditionally found in Japan, Japanese management may have become more similar to US management (whether or not through reverse diffusion). If the practices differ from those traditionally found in the US, organizations in the US may have implemented practices similar to those in Japan.
(4) Which practices of Japanese MNCs in the US differ from practices in Japan and the US? This may be the result of idiosyncratic policies in Japanese multinationals in the US.

Results

The statistical scores indicating the presence or absence of management practices are shown in tables 8.1 through 8.3. A comparison between management practices in Japan, the US, and Japanese MNCs in the US is presented in table 8.4. To restate, the score ‘Yes’ indicates that a particular practice is significantly present; ‘No’ that a practice is significantly absent; and ‘Neutral’ that a practice can neither be said to be significantly present nor significantly absent.

As mentioned before, the different data are categorized into aspects of work flow, human resource flow, compensation, governance, and industrial relations.

In the case of work flow, job and task rotation is most common in firms in Japan, only common for factory workers in Japanese MNCs, and not common in US organizations. As a first result, therefore, there is partial local responsiveness in management practices towards US practices in Japanese MNCs. This also includes the transfer of office employees among departments. Quality control is found in all three cases. Proactive management in teams
Table 8.1 Presence or absence of selected management practices in Japan ($P < 0.05$).

(Jishu Kanri) is found in firms in Japan, it is found missing in the US, with Japanese MNCs showing a partial adjustment.

For human resource flow, some significant differences are found between practices in Japan and those in Japanese MNCs with regard to recruitment. In firms in Japan, young college graduates are recruited once a year. This regular practice was not found in Japanese MNCs. Firms in Japan relatively often use temporary workers, a practice somewhat less
<table>
<thead>
<tr>
<th>Selected management practices in the US</th>
<th>N</th>
<th>Mean</th>
<th>Test value</th>
<th>Sign. (2-tailed)</th>
<th>Practice present?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Work flow</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jobs are rotated among core employees</td>
<td>950</td>
<td>1.42</td>
<td>1.5</td>
<td>.000</td>
<td>No</td>
</tr>
<tr>
<td>Core employees are transferred among groups of jobs with different skills and duties</td>
<td>951</td>
<td>2.05</td>
<td>2.5</td>
<td>.000</td>
<td>No</td>
</tr>
<tr>
<td>Clerical employees are transferred among groups of jobs with different skills and duties</td>
<td>649</td>
<td>2.05</td>
<td></td>
<td>.000</td>
<td>No</td>
</tr>
<tr>
<td>Quality control is used by committees of workers and managers</td>
<td>967</td>
<td>1.68</td>
<td>1.5</td>
<td>.000</td>
<td>Yes</td>
</tr>
<tr>
<td>Proactive management in teams used by core employees</td>
<td>951</td>
<td>1.53</td>
<td></td>
<td>.052</td>
<td>Neutral</td>
</tr>
<tr>
<td>Proactive management in teams used by clerical employees</td>
<td>644</td>
<td>1.27</td>
<td></td>
<td>.000</td>
<td>No</td>
</tr>
<tr>
<td><strong>Human resource flow</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uses full-time temporary workers</td>
<td>832</td>
<td>1.21</td>
<td></td>
<td>.000</td>
<td>No</td>
</tr>
<tr>
<td>Uses part-time temporary workers</td>
<td>595</td>
<td>1.31</td>
<td></td>
<td>.000</td>
<td>No</td>
</tr>
<tr>
<td>Layoffs when demand for product or service falls</td>
<td>931</td>
<td>1.09</td>
<td></td>
<td>.000</td>
<td>No</td>
</tr>
<tr>
<td>Management positions are filled through internal promotions</td>
<td>614</td>
<td>2.73</td>
<td>2.5</td>
<td>.000</td>
<td>Neutral</td>
</tr>
<tr>
<td>Newly hired core employees receive training</td>
<td>946</td>
<td>1.64</td>
<td>1.5</td>
<td>.000</td>
<td>Yes</td>
</tr>
<tr>
<td>Newly hired clerical employees receive training</td>
<td>636</td>
<td>1.55</td>
<td>1.5</td>
<td>.010</td>
<td>Yes</td>
</tr>
<tr>
<td>Newly hired managers receive training</td>
<td>583</td>
<td>1.51</td>
<td>1.5</td>
<td>.804</td>
<td>Neutral</td>
</tr>
<tr>
<td><strong>Compensation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonuses or profit-sharing offered to core employees</td>
<td>960</td>
<td>1.37</td>
<td>1.5</td>
<td>.000</td>
<td>No</td>
</tr>
<tr>
<td>Bonuses or profit-sharing offered to clerical employees</td>
<td>646</td>
<td>1.33</td>
<td></td>
<td>.000</td>
<td>No</td>
</tr>
<tr>
<td>Assistance in caring for elderly family members</td>
<td>923</td>
<td>1.18</td>
<td></td>
<td>.000</td>
<td>No</td>
</tr>
<tr>
<td>Paid parental leaves</td>
<td>915</td>
<td>1.44</td>
<td></td>
<td>.001</td>
<td>No</td>
</tr>
<tr>
<td>Costs of day care for children covered</td>
<td>936</td>
<td>1.14</td>
<td></td>
<td>.000</td>
<td>No</td>
</tr>
<tr>
<td>Health insurance</td>
<td>945</td>
<td>1.87</td>
<td></td>
<td>.000</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No compatible data found</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Industrial relations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees belong to a union</td>
<td>996</td>
<td>1.26</td>
<td>1.5</td>
<td>.000</td>
<td>No</td>
</tr>
</tbody>
</table>

**Table 8.2** Presence or absence of selected management practices in the US ($P < 0.05$).

common in Japanese MNCs, and - according to the 1996-97 NOS - not common in the US. Here again, a slight adjustment is found of management practices in Japanese MNCs in the direction of US management. US organizations indicated that they go to great lengths to avoid layoffs during recessions. Of course what is said may not be in accordance with what is done in practice. But this potentially holds for all answers to all survey questions ever used, and any *ad hoc* deviation from a survey result - no matter how plausible - risks making any conclusion drawn on the basis of other survey results seem pointless. Of course, there are different solutions to this problem, such as better surveys or other or multi-method research techniques. Since these fall outside the scope of this study, the choice is made to adhere fully to the results of the survey - while acknowledging that these may not be consistent with reality. The lack of layoffs during recessions in firms in Japan is well-known, and apparently in 1998, there had not been a change in that practice. Japanese MNCs indicated not to implement such large scale layoffs either. According to the survey results, employee...
<table>
<thead>
<tr>
<th>Selected management practices in Japanese MNCs in the US</th>
<th>N</th>
<th>Mean</th>
<th>Test value</th>
<th>Sign. (2-tailed)</th>
<th>Practice present?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work flow</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jobs and tasks rotated among workers in office</td>
<td>108</td>
<td>2.44</td>
<td>3</td>
<td>0.000</td>
<td>No</td>
</tr>
<tr>
<td>Jobs and tasks rotated among factory workers</td>
<td>96</td>
<td>3.27</td>
<td></td>
<td>0.15</td>
<td>Yes</td>
</tr>
<tr>
<td>Office employees transferred among departments</td>
<td>107</td>
<td>2.50</td>
<td></td>
<td>0.000</td>
<td>No</td>
</tr>
<tr>
<td>Quality control used by factory workers</td>
<td>96</td>
<td>4.02</td>
<td></td>
<td>0.000</td>
<td>Yes</td>
</tr>
<tr>
<td>Proactive management used by factory workers</td>
<td>95</td>
<td>3.15</td>
<td></td>
<td>0.179</td>
<td>Neutral</td>
</tr>
<tr>
<td>Human resource flow</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company recruits young college graduates</td>
<td>107</td>
<td>2.53</td>
<td></td>
<td>0.000</td>
<td>No</td>
</tr>
<tr>
<td>Company recruits once a year</td>
<td>108</td>
<td>1.81</td>
<td></td>
<td>0.000</td>
<td>No</td>
</tr>
<tr>
<td>Uses temporary workers in office</td>
<td>102</td>
<td>3.02</td>
<td></td>
<td>0.882</td>
<td>Neutral</td>
</tr>
<tr>
<td>Uses temporary workers in factory labor</td>
<td>95</td>
<td>3.19</td>
<td></td>
<td>1.145</td>
<td>Neutral</td>
</tr>
<tr>
<td>Large scale layoffs take place during recessions</td>
<td>106</td>
<td>2.09</td>
<td></td>
<td>0.000</td>
<td>No</td>
</tr>
<tr>
<td>Employee promotions based on length of service</td>
<td>107</td>
<td>1.94</td>
<td></td>
<td>0.000</td>
<td>No</td>
</tr>
<tr>
<td>Management positions are filled through internal promotions</td>
<td>105</td>
<td>3.15</td>
<td></td>
<td>0.081</td>
<td>Neutral</td>
</tr>
<tr>
<td>New recruits to receive training</td>
<td>108</td>
<td>3.95</td>
<td></td>
<td>0.000</td>
<td>Yes</td>
</tr>
<tr>
<td>Compensation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonuses offered to office employees</td>
<td>107</td>
<td>3.74</td>
<td></td>
<td>0.000</td>
<td>Yes</td>
</tr>
<tr>
<td>Bonuses offered to factory employees</td>
<td>100</td>
<td>3.50</td>
<td></td>
<td>0.002</td>
<td>Yes</td>
</tr>
<tr>
<td>Company offers stock options</td>
<td>106</td>
<td>1.86</td>
<td></td>
<td>0.000</td>
<td>No</td>
</tr>
<tr>
<td>Managers’ housing expenses covered</td>
<td>108</td>
<td>1.85</td>
<td></td>
<td>0.000</td>
<td>No</td>
</tr>
<tr>
<td>Employees’ housing expenses covered</td>
<td>107</td>
<td>1.49</td>
<td></td>
<td>0.000</td>
<td>No</td>
</tr>
<tr>
<td>Commuting expenses</td>
<td>108</td>
<td>1.82</td>
<td></td>
<td>0.000</td>
<td>No</td>
</tr>
<tr>
<td>More dependents more pay</td>
<td>107</td>
<td>1.66</td>
<td></td>
<td>0.000</td>
<td>No</td>
</tr>
<tr>
<td>Health insurance</td>
<td>108</td>
<td>4.68</td>
<td></td>
<td>0.000</td>
<td>Yes</td>
</tr>
<tr>
<td>Company has recreation facilities</td>
<td>108</td>
<td>2.03</td>
<td></td>
<td>0.000</td>
<td>No</td>
</tr>
<tr>
<td>Governance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees informed of management conditions and future plans</td>
<td>105</td>
<td>3.26</td>
<td></td>
<td>0.027</td>
<td>Yes</td>
</tr>
<tr>
<td>Company uses suggestion system</td>
<td>101</td>
<td>3.59</td>
<td></td>
<td>0.000</td>
<td>Yes</td>
</tr>
<tr>
<td>Suggestion boxes are put out</td>
<td>108</td>
<td>3.15</td>
<td></td>
<td>0.265</td>
<td>Neutral</td>
</tr>
<tr>
<td>Decisions made by all departments</td>
<td>108</td>
<td>3.10</td>
<td></td>
<td>0.261</td>
<td>Neutral</td>
</tr>
<tr>
<td>Morning meetings are held in each department</td>
<td>106</td>
<td>2.79</td>
<td></td>
<td>0.076</td>
<td>Neutral</td>
</tr>
<tr>
<td>Morning meetings are held for factory workers</td>
<td>94</td>
<td>3.03</td>
<td></td>
<td>0.792</td>
<td>Neutral</td>
</tr>
<tr>
<td>Managers and office staff eat lunch together</td>
<td>107</td>
<td>3.59</td>
<td></td>
<td>0.000</td>
<td>Yes</td>
</tr>
<tr>
<td>Managers and office staff have dinner after work together</td>
<td>107</td>
<td>2.56</td>
<td></td>
<td>0.000</td>
<td>No</td>
</tr>
<tr>
<td>Fun events held for employees and families</td>
<td>106</td>
<td>3.56</td>
<td></td>
<td>0.000</td>
<td>Yes</td>
</tr>
<tr>
<td>Industrial relations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office staff belongs to union</td>
<td>101</td>
<td>1.35</td>
<td></td>
<td>0.000</td>
<td>No</td>
</tr>
<tr>
<td>Factory laborforce belongs to union</td>
<td>94</td>
<td>1.85</td>
<td></td>
<td>0.000</td>
<td>No</td>
</tr>
<tr>
<td>Roushi Kyougi (labor-management discussions) annually</td>
<td>100</td>
<td>1.96</td>
<td></td>
<td>0.000</td>
<td>No</td>
</tr>
<tr>
<td>Dantai Koushou (collective bargaining) annually</td>
<td>100</td>
<td>1.44</td>
<td></td>
<td>0.000</td>
<td>No</td>
</tr>
<tr>
<td>Employee strikes have taken place in last 3 yrs</td>
<td>104</td>
<td>1.35</td>
<td></td>
<td>0.000</td>
<td>No</td>
</tr>
</tbody>
</table>

Table 8.3 Presence or absence of selected management practices in Japanese MNCs in the US ($P < 0.05$).

promotions were not based on length of service either in firms in Japan or in Japanese MNCs. This result may hide a diversity in practices, as when promotions early in a career are based on length of service, while at a later stage this is no longer the case. As in the case of layoffs in the US, the choice is made here to adhere strictly to the survey results. Management positions were found to be filled through internal promotions both in Japanese firms and in US organizations, but somewhat less in Japanese MNCs, indicating an idiosyncratic element of management in Japanese MNCs. New recruits receive training in all three cases.
<table>
<thead>
<tr>
<th>Selected management practices</th>
<th>Japan</th>
<th>US</th>
<th>Japanese MNCs in the US</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Work flow</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jobs and tasks rotated among workers in office</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Jobs and tasks rotated among factory workers</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Office employees transferred among departments</td>
<td>Neutral</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Quality control used by factory workers</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Proactive management used by factory workers</td>
<td>Yes</td>
<td>No</td>
<td>Neutral</td>
</tr>
<tr>
<td><strong>Human resource flow</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company recruits young college graduates</td>
<td>Yes</td>
<td>-</td>
<td>No</td>
</tr>
<tr>
<td>Company recruits once a year</td>
<td>Yes</td>
<td>-</td>
<td>No</td>
</tr>
<tr>
<td>Uses temporary workers in office</td>
<td>Neutral</td>
<td>No</td>
<td>Neutral</td>
</tr>
<tr>
<td>Uses temporary workers in factory labor</td>
<td>Yes</td>
<td>No</td>
<td>Neutral</td>
</tr>
<tr>
<td>Large scale layoffs take place during recessions</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Employee promotions based on length of service</td>
<td>No</td>
<td>-</td>
<td>No</td>
</tr>
<tr>
<td>Management positions are filled through internal promotions</td>
<td>Yes</td>
<td>Yes</td>
<td>Neutral</td>
</tr>
<tr>
<td>New recruits to receive training</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Compensation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonuses offered to office employees</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Bonuses offered to factory employees</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Company offers stock options</td>
<td>No</td>
<td>-</td>
<td>No</td>
</tr>
<tr>
<td>Managers’ housing expenses covered</td>
<td>Yes</td>
<td>-</td>
<td>No</td>
</tr>
<tr>
<td>Employees’ housing expenses covered</td>
<td>Yes</td>
<td>-</td>
<td>No</td>
</tr>
<tr>
<td>Commuting expenses</td>
<td>Yes</td>
<td>-</td>
<td>No</td>
</tr>
<tr>
<td>More dependents more pay</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Health insurance</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Company has recreation facilities</td>
<td>Yes</td>
<td>-</td>
<td>No</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees informed of management conditions and future plans</td>
<td>Yes</td>
<td>-</td>
<td>Yes</td>
</tr>
<tr>
<td>Company uses suggestion system</td>
<td>Yes</td>
<td>-</td>
<td>Yes</td>
</tr>
<tr>
<td>Suggestion boxes are put out</td>
<td>No</td>
<td>-</td>
<td>Neutral</td>
</tr>
<tr>
<td>Decisions made by all departments</td>
<td>Yes</td>
<td>-</td>
<td>Neutral</td>
</tr>
<tr>
<td>Morning meetings are held in each department</td>
<td>Neutral</td>
<td>-</td>
<td>Neutral</td>
</tr>
<tr>
<td>Morning meetings are held for factory workers</td>
<td>Yes</td>
<td>-</td>
<td>Neutral</td>
</tr>
<tr>
<td>Managers and office staff eat lunch together</td>
<td>Yes</td>
<td>-</td>
<td>Yes</td>
</tr>
<tr>
<td>Managers and office staff have dinner after work together</td>
<td>Yes</td>
<td>-</td>
<td>Yes</td>
</tr>
<tr>
<td>Fun events held for employees and families</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Industrial relations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office staff belongs to union</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Factory laborforce belongs to union</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Roushi Kyougi (labor-management discussions) annually</td>
<td>Yes</td>
<td>-</td>
<td>No</td>
</tr>
<tr>
<td>Dantai Koushou (collective bargaining) annually</td>
<td>Yes</td>
<td>-</td>
<td>No</td>
</tr>
<tr>
<td>Employee strikes have taken place in last 3 yrs</td>
<td>No</td>
<td>-</td>
<td>No</td>
</tr>
</tbody>
</table>

Table 8.4 Presence or absence of selected management practices in Japan, the US, and Japanese MNCs in the US.

In the case of compensation in firms in Japan and in Japanese MNCs, bonuses are offered to employees. Such bonuses were not found in US organizations, which indicates a transfer of Japanese practices by Japanese MNCs. Japanese firms and MNCs do not offer stock options; compatible data were missing for the US. Firms in Japan offer a host of fringe benefits, including housing and commuting expenses, pay increasing with the number of dependents, health insurance, and company recreation facilities. Most of these practices were found missing in Japanese MNCs, except for health insurance. In US organizations, no pay

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increase related to dependents was found, although health insurance was normally offered. Overall, for fringe benefits there has been an adjustment of practices in Japanese MNCs towards US practices.

In Japanese management, employees are informed of management conditions and future plans - both in firms in Japan and in Japanese MNCs. Suggestion systems are also used in both cases, while Japanese MNCs sometimes use suggestion boxes. In firms in Japan, decisions are made by all departments (Ringi), a practice that is somewhat less common in Japanese MNCs. Organizational socialization is important in firms in Japan. Thus, morning meetings are held, especially for factory workers, and managers and office staff have lunch and dinner together. Morning meetings are somewhat less important in Japanese MNCs, and managers and office staff do not tend to have dinner together. Fun events held for employees and families are only found in Japanese MNCs. Unfortunately, no truly compatible data regarding governance was found in the NOS regarding US management.

Industrial relations in Japanese firms are significantly different from those in Japanese MNCs. Thus, in firms in Japan, employees tend to belong to unions. Labor-management discussions (Roushi Kyougi) take place, and there is collective bargaining on an annual basis (Dantai Koushou). In contrast, all these characteristics are missing in management practices in Japanese MNCs. And the NOS indicates that employees do not often belong to unions in US establishments. This indicates that in the field of industrial relations there is an adjustment of practices in Japanese MNCs to US management. A final finding from the surveys is that strikes are not very common in firms in Japan and in Japanese MNCs.

To what extent do the data indicate a country-of-origin effect? This has partially been the case with job rotation. There has also been a partial introduction of proactive management. The use of temporary workers and bonuses have largely been transferred to the US. With the partial transfer of Japanese management practices to the US comes a partial local responsiveness to US management. Thus, there is a lower incidence of job rotation, transfer of employees, temporary workers, and proactive management. A full adjustment to US practices occurs with the lack of increase in pay related to the number of dependents, and the fact that employees do not often belong to unions. One idiosyncratic management practice is found in Japanese MNCs, namely in the relative lack of internal promotions of managers. The findings give little indication of an adjustment in Japanese management in the direction of US management. The only surprise in this regard was the finding that employee promotions are said not to be based on length of service. In contrast, certain practices were found in US management that are similar to traditional Japanese practices. Thus, quality
control is found in the US, as well as an alleged attempt to avoid layoffs during recessions. Management positions are filled through internal promotions, new recruits receive training, and US firms provide health insurance.

Discussion

This study finds a partial home-country and a partial host-country effect in management practices of Japanese MNCs in the US. No evidence was found of reverse diffusion. These findings imply that the perspectives of Trading Places and Capitalisme Contre Capitalisme cannot be upheld: FDI by Japanese MNCs only partially leads to a transmission of Japanese practices. But there is no full adjustment to host-country practices either. The results are most consistent with the hybridization and transformation theories of globalization.

A number of reservations to this study has to be mentioned. In the first place, the use of the NOS for US data has only led to compatible data for a number of practices and not for others. Unfortunately, there are few other surveys that have a sample that is as representative of the entire population of US establishments as the NOS. Because of the lack of compatible data, the current study should be seen more as a study of management practices in firms in Japan and in Japanese MNCs in the US than as a study of management in firms in the US. Secondly, the scope of the study could have been more extensive as a number of management practices were not included in the surveys. This means that the overall comparison could change significantly once other practices are included. But the comparison of single practices still remains valid, as do the conclusions regarding the transfer or adjustment in the practices studied. And thirdly, the data were collected in 1998, and practices may have changed in the meantime.
9 Conclusions: The Importance of Attention to Detail and Nuance and Discarding Simple Linear Extrapolation

In comparison to the core of the preconceptions with which I started my research - as represented by the three popular perspectives discussed in chapter 3 - this study has brought considerable nuance into the debate regarding the impact of financial globalization. The more accurate picture that was presented allows a number of conclusions to be drawn.

First of all, different sources of causality were hypothesized that more or less contradict each other and that appear to lead to some kind of transformation. The introduction of US-style management practices in Japan and Germany stimulated by large foreign shareholdings, attempts to improve global competitiveness with a relation to international finance, financial deregulation due to competition on financial markets, offshore outsourcing, and - in the case of Germany - actions taken by the European legislature, and new sources of funding from foreign stock exchanges, is more or less contradicted or supported by characteristics of labor forces as well as by existing structures and practices, leading to a transformation of such US-style practices. In addition, Japanese practices have to some extent been introduced in Germany channeled through FDI, apparently to improve competitiveness - but only to some extent and with certain adaptations. The same ‘competitiveness constraint’ appears to have been at work in the US, where introduced Japanese management practices contradict the effects resulting from the possibility of offshore outsourcing. The introduction of universal banking in the US - most likely copied from German management - does not seem to work quite the same way as in Germany, although it would seem to hold considerable potential to influence future developments.

In addition to these processes of ‘cross-fertilization’, a number of domestic developments seem relevant, such as the developments in corporate governance in US management, the role of the state and the future role of the banks (now that the bad debt problem appears solved) in Japan, and the contradiction between the collective industrial relations system and individualized management practices in Germany. Moreover, important differences exist between values and beliefs of the labor force in the US, Germany, and Japan, influencing the direction of change. As Schwartz (1994, 1999) has shown, values may be compatible or plainly contradictory, making it highly unlikely that particular practices work the same way in different cultures. This is consistent with the general conclusion that
management practices of MNCs in host countries should best be seen as the outcome of a process of transformation of both home- and host-country practices. All in all, causality is multifarious and the resulting transformation process is complex.

**Testing the Three Popular and Influential Perspectives**

Several improvements were made on the core of the preconceptions with which I started my research, as represented by the three influential perspectives discussed in chapter 3. In this section, I will summarize these improvements for *Trading Places*, followed by those for *Capitalisme Contre Capitalisme*, and for the *OECD Economic Surveys* and *Economic Outlooks*.

**Trading Places**

Starting with management in the US, *Trading Places* does not discuss work flow practices. This is a major shortcoming in light of the important changes that have occurred in formal organization in US firms. The ideas in *Trading Places* regarding staffing and compensation are largely confirmed, although the 1991 NOS showed there to be some importance of FILMs in the selection of managers. As for governance, equity was not the main source of capital for firms. Rather, the most important source of finance for firms was internal financing, and credit was more important than equity. In line with *Trading Places*, M&A activity - and the coincident threat of takeovers - has been at a high level. In effect, short-term shareholder value has been an important goal, although there appears to be a shift in the direction of a focus on long-term shareholder value. In contrast to Prestowitz’s ideas regarding venture capital, IPOs of successful start-ups have in fact provided financial staying power. Regarding industrial relations, unions are industry-wide but only where they exist. With density at 16.1% in 1990, it is more accurate to say that union representation was low in general. The independence and individualism of the labor force was not confirmed by the scores on Schwartz’s two Autonomy-scales. The arrogance, greediness, and narrowness of managers may seem plausible to some, but difficult to substantiate.

In its description of Japanese management, *Trading Places* is proven right with its emphasis on the importance of the informal organization. But the book neglects the importance of the formal organization - with its many hierarchical levels, centralization, lack
of functional specialization, team-based organization, QCCs, competence rank classification, broad jobs, job rotation, and lean production system. Whether personal ties are far more important than contracts or professional obligations would appear hard to judge, as personal ties in firms often exist on the basis of contracts or professional obligations. In the description of staffing practices, the importance of the extensive contingent workforce is neglected, and the external recruitment of specialists is not mentioned. The idea that promotion is based on seniority neglects some other criteria that were used: group-oriented behavior; generalism; academic qualifications and potential long-term ability; transfers between jobs and departments; training; after-work activities; age; family situation; and individual long-term abilities and performance at higher management levels. The idea of compensation by seniority and bonuses neglects the importance of educational qualifications at entry, merit, age, sex, family situation, individual performance, and internal training. It also neglects the compensation system used for contingent workers.

While debt has certainly been an important source of financing for Japanese firms, the importance of internal financing is neglected. In its depiction of the *keiretsu* system, *Trading Places* is largely accurate. But while survival, market share, and giving purpose to the lives of employees were of the highest importance as aims for large firms, productivity, profitability, and cash flow were certainly not unimportant. Internally, the firm clearly had an authoritarian nature and total dedication was expected from subordinates, but at the same time, the participation of subordinates was seen by some to have been extensive - although other scholars saw participation as more appearance than substance. In any case, the dependence between superordinate and subordinate was mutual, as the superordinate was expected to support, inform, and stimulate subordinates. In its description of internal social control, *Trading Places* further neglects the importance of characteristics of the formal organization; staffing, career development, training, and compensation practices besides special benefits; certain types of coercion and inducement; and group decision-making. The importance of maintaining a good external reputation is not discussed. And the description of socialization practices appears accurate but somewhat limited. As in the case of the US, the unionization rate in Japan was low enough with a density rate of 25.2% in 1990 to say that union representation was low in general. While in line with *Trading Places* the core labor force was stable, this did not hold for much of the contingent labor force. Dedication, cooperation, and organizational identification were high, but values on Schwartz’s Autonomy scales were relatively high as well, and employees rated ‘other activities’ as more important than work.

Finally, while the high-commitment management system applying to the core workforce

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discussed by Trading Places indeed aimed at consensus, this was not necessarily the case for
the market-type management system pertaining to two-thirds of the Japanese workforce,
which was characterized by job insecurity and low compensation.

As for the predicted ‘colonization’ of the US, Prestowitz did not foresee the relative
drop in FDI flows from Japan to the US in the 1990s. In addition, Japanese FDI does not
necessarily entail the transmission of Japanese management practices for core workers. While
quality control circles are to some extent implemented in Japanese subsidiaries in the US,
self-managing teams are used less extensively and the figures for job rotation are
inconclusive. The use of temporary workers is to some extent transferred. Recruitment is less
oriented toward graduates and it is difficult to retain US managers, even if employment
security is offered. Promotion is not based on seniority and glass ceilings exist. Training is
extensive and bonuses are paid, but benefit provision is much more limited than in Japan. In
general, the extent of transmission of Japanese core management practices was found to
depend on the mode of investment and the extent to which Japanese managers were present.
Decision-making appears much less consensual than in Japan, although communication is
extensive. While managers and office staff eat lunch together, they do not socialize after
hours. Unions are avoided. The presence of Japanese core management practices also depends
on the characteristics of the workforce. All in all, the conclusion is that Japanese MNCs only
partially transfer their core management practices to the US.

What is the overall conclusion regarding Trading Places? First of all, Trading Places
makes the mistake of a linear extrapolation of Japanese FDI flows into the future. It is
precisely this linear extrapolation of the recent past where many studies of globalization go
awry. Secondly, Trading Places overestimates the extent to which Japanese FDI in fact leads
to the transmission of Japanese core management practices. This appears to depend on control
through the mode of investment and the presence of Japanese managers. In addition, Trading
Places largely neglects Japanese management systems for the contingent workforce, which
may also be transplanted to the US, and which may be rather similar to US management
systems. Finally, the depiction of US and Japanese management can best be described as
caricatures. It would not be fair to criticize Trading Places too harshly on this point, as the
book did not mean to provide a full description of US and Japanese management practices.
But if we want to arrive at a more scientific understanding of US and Japanese management,
it is important to take note of certain nuances. One might argue that Trading Places is
outdated, and that it does not make sense to discuss it further. That view is not held here. The
mechanism Prestowitz refers to in his publication (transmission of management practices by
MNCs) is highly relevant today, and it makes sense to historically analyze to what extent certain theories or claims regarding this mechanism are in fact in accordance with the data. In addition, Trading Places was a highly influential publication at its time, and Prestowitz’s newest bestseller Three Billion New Capitalists (2005) could easily have a similar impact. Therefore, it is important to critically assess the arguments implicit in Trading Places.

*Capitalisme Contre Capitalisme*

In its depiction of US staffing practices around 1990, *Capitalisme Contre Capitalisme* neglects the importance of employment stability for managers and white-collar workers up to the 1990s and the relative importance of FILMs. Income differences between directors and regular employees are large indeed, but the fact that fixed regular pay accounted for about 67% of pay in 1992-94, and that much compensation in the US was based on job evaluation, competence, and seniority is not acknowledged. In line with *Capitalisme Contre Capitalisme*, individual PRP existed in 47% of firms – which was high by international standards. But the occasional existence of collective PRP is not mentioned. And whether or not the income of directors is *de facto* linked to the success of the firm has been questioned. *Capitalisme Contre Capitalisme*’s description of labor unions in the US is confirmed.

As for the description of corporate governance, it appears an open question whether or not stockholders actually demand maximal short-term profits. It seems more plausible that stockholders react to the difference between reported and expected profits, while paying attention to the explanation provided by corporate management and to expectations for the future. While this means managers may not have to do everything to maximize short-term profits, managers were relatively highly concerned with share prices and forms of investment for which returns are measurable. Corporate goals did include short-term profits and investor returns, but also long-term profitability, firm enlargement, and diversification. And M&A activity has been at a high level. The findings do not allow for a judgment of the extent to which takeover transactions were necessary for the status of the CEO, the reputation of the firm, or to avoid that the CEO was judged cowardly or conservative. In contrast to the claim made by *Capitalisme Contre Capitalisme*, risk taking appears to have been extensive, in particular in firms financed by venture capital. But the profit target does appear indeed to have led to the shedding of labor.

In line with *Capitalisme Contre Capitalisme*, Japanese firms around 1990 did provide employment security, but only for about one-third of the labor force. For the core workforce,
there indeed existed a planned slow and orderly career path which promoted harmony because
it decreased competition. But whether the largely qualification and seniority-based promotion
system actually enhanced economic efficiency is unclear. To advance in the hierarchy it may
not have been as important to increase one’s level of education as is argued in Capitalisme
Contre Capitalisme, although it did seem to help. Promotion was also based on loyalty,
motivation, efficiency, potential long-term ability, general abilities, after-work activities, age,
and family situation - all factors that are not mentioned. In addition, at higher management
levels, only the ability to perform, actual performance, and long-term dedication were of
importance. Whether or not the contingent workforce received training is unclear from the
data, but it seems unlikely - and this is not mentioned by Capitalisme Contre Capitalisme.
While basic salaries in large firms were relatively stable as argued by Capitalisme Contre
Capitalisme, the variable bonuses were extensive - constituting one-third up to half of yearly
income - with a small part depending on individual performance. Apart from seniority and
qualifications, basic salaries were also based on merit, age, sex, family situation, training, and
sometimes individual performance.

The depiction in Capitalisme Contre Capitalisme of Japanese corporate governance
practices largely holds. But while the role of banks was important in corporate financing,
internal finance was even more important. And while core stockholders could sanction
inefficient managers to a certain extent, this did not necessarily imply the protection of small
stockholders. Rather, intervention by banks aimed to protect loans instead of investor returns,
even if the banks could be important (though small) shareholders. It is questionable whether
banks actually had the power to coopt management. Rather, it seems that top management
cooted its own members under some sort of acceptance by personnel and other stakeholders.
While the idea of joint management was supported by many scholars, others saw consensual
decision-making as more appearance than substance. In the latter case, it would have been
management alone that de facto determined management practices. In contrast to the claim
made by Capitalisme Contre Capitalisme, labor unions did not seem to have the power to take
account of the idea of collective responsibility - at least on a national scale and as far as the
interests of their members were concerned. Agreements were firm-based rather than national,
and the existing segmentation in the Japanese labor force is not mentioned.

In the case of German management around 1990, the depiction of Rhénan capitalism is
more accurate. This is not surprising if seen in the light that in a later publication, Albert
(2001) equates the Rhénan capitalism he described in Capitalisme Contre Capitalisme with
German capitalism. But it is unfortunate that in his book he equates the Japanese type of
capitalism with the German type when there are important differences. In any case, the
depictions of human resource flow and compensation in Germany are largely accurate,
although in promotion, criteria also included experience, individual performance, and social
competences. Additional criteria for higher-level managers included decision making and
perseverance ability; the ability to convince, motivate, and set the example; integrity;
analytical thought ability; a systematic and methodic way of working; entrepreneurial
thinking; a team- and co-worker orientation; leadership strength and ability; and natural
scientific and technical knowledge. Again, whether the slow and orderly career paths were
actually economically efficient is an open question.

Financing was largely internal and banks did not often hold more than 25% of equity
in firms. While this means the power of banks based on credit provision and stock ownership
was less than implied by Capitalisme Contre Capitalisme, banks were in a position of power
as a result of their voting of proxies and seats on supervisory boards. They could fulfil the role
of controller and countervailing power to management - together with the major blockholders.
Whether this type of external control led to the protection of small stockholders seems
questionable. Participation in decision making was relatively extensive but might not have
implied the extent of consensus seeking claimed to have existed by Capitalisme Contre
Capitalisme. Unions were relatively powerful and collective agreement coverage was
widespread. Commitment to the firm was reasonably high, but identification tended to be with
the occupation rather than with the firm.

It is a pity that Albert does not indicate the changes he expects in management in the
US apart from the changes implemented by Japanese and German MNCs. Because of this it
becomes a bit tricky to determine what the transmission of neo-American capitalism entails.
Neo-American capitalism as it was around 1990, or some ideal typical form of capitalism that
may still be in the process of developing in the US? In fact, Albert’s depiction of management
in the US around 1990 appears more similar to management in the US at the end of the 1990s.
While this may seem like a compliment for Albert’s clairvoyance, it actually means that his
depiction of US management around 1990 is inaccurate.

As for the relaxation and the removal of barriers on financial exchanges, this appears
to be a process that continued after 1990. Interestingly, in the US the Gramm-Leach-Bliley
Act of 1999 forms an important break with the US management model as depicted by
Capitalisme Contre Capitalisme. The new possibility for financial institutions to perform
universal banking activities appears to have been prompted by the German model. What its
effects will be remains to be seen, but it is important to note Capitalisme Contre
Capitalisme’s neglect of existing networks between banks and large corporations in the US. The ‘Big Bang’ program of deregulation in Japan is of course very much in line with Capitalisme Contre Capitalisme’s argument, as is the process of deregulation in Germany. But the financial markets have not been without any constraint or police.

Whether or not the hierarchical structure in Japanese firms has been judged cumbersome and paralyzing as argued by Capitalisme Contre Capitalisme, there has been some flattening and decentralization of organizational structures - although the head office has remained strong. For some employees, careers have become somewhat faster - but it appears that the seniority principle is still important. And most large firms still have a competence-rank compensation system, with individual PRP amounting only to a maximum of 7.5% of annual compensation. While the gap between managerial pay and that of the average manufacturing employee has risen, it has remained relatively small. Union density has declined further from a relatively low level around 1990. While this clearly does not increase the power of the unions, it is a question whether the unions were in fact powerful around 1990 as argued by Capitalisme Contre Capitalisme. There has been an increase in company/plant level bargaining, but collective negotiation has remained stable. Employee commitment to work and the firm has decreased somewhat, and there has been an increase in the value of leisure. There has also been some increase in the percentage of employees that would like to see compensation become more dependent on individual performance while enlarging pay inequality. Overall, then, changes have been in the direction of the predictions of Capitalisme Contre Capitalisme, but they have not been as dramatic. It remains to be seen what will happen in this regard if the economic situation in Japan were to improve durably. A return to the practices of 1990 does not seem impossible at this stage, although things may also develop further in the direction Capitalisme Contre Capitalisme predicted. For now, however, Capitalisme Contre Capitalisme’s ideas only seem partially confirmed.

The predictions regarding developments in Germany are more important than those in the US and Japan, as Capitalisme Contre Capitalisme is actually mainly about Germany. As the depiction of management practices in Germany around 1990 was fairly accurate, it is interesting to see to what extent the predictions have become reality. Firms in Germany have become flatter and independent profit centers have been set up, but this does not necessarily imply a decrease in formalization. For managers there has been an increase in the extent of job hopping in career paths. Fast careers appear to have become more frequent but are still regarded with some suspicion. There has been an increase in the use of individual PRP, but this has quite often been based upon collective agreements. The effect of seniority on pay has

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been limited, but qualification still appears important. Pay inequality has increased somewhat, but has remained very much smaller than in the US around 1990.

The role of the banks for large firms has decreased, but their role has increased in importance for SMEs. At the same time, the large banks have remained important shareholders and proxy voters for large firms and the ratio of bank loans has remained high. Their Allfinanz strategy and their role in M&As has sustained an important role for the banks. While the power of shareholders appears to have increased, this seems to have coincided with a loss in power for the banks and company networks. The power of management rather appears to have increased. Small shareholders may have been interested in making a fortune through betting on the right horse in the late 1990s, but it seems unlikely that this interest remained after the stock market crash of the early 2000s. And although there has been an increase in M&A activity, it remains to be seen whether this trend will actually reach the extent of M&A activity in the US. Of particular importance here is the question of the legitimacy of such activity, which has remained unresolved after the court case concerning the Mannesmann takeover. The system of supervisory boards has so far remained in place.

In line with Capitalisme Contre Capitalisme, union membership in Germany has declined considerably, which has most likely entailed a loss in power for the labor unions. Up to the early 2000s, there was a relative flight from collective agreements, but this appears to have levelled off. While there has been an increase in the number of company agreements, many of these have to some extent been agreed under the aegis of collective agreements. The labor unions may have aimed at a reduction of the working week during the 1990s, this changed drastically in 2004, when several agreements were made that included an increase in the working week. The ideas of Capitalisme Contre Capitalisme concerning the values and beliefs of the German workforce could not be substantiated. Overall, as in the case of Japan, Capitalisme Contre Capitalisme’s predictions have received only partial confirmation. Whether developments will go further into the direction predicted by Capitalisme Contre Capitalisme only time will tell, although the chance that this could happen would seem to increase the longer the difficult economic situation in Germany persists. But that also depends on the possibility of other solutions to Germany’s economic troubles and the democratic wish of its citizens - a political influence rather strikingly neglected by many authors.

In contrast to the argument of Capitalisme Contre Capitalisme, US MNCs do not appear to have a long-term orientation in general. But in both Japan and Germany, US MNCs do offer relatively long-term employment as well as career plans. On a world scale, training in US MNCs appears limited, but in Japan training is extensive. In Germany, however, US
MNCs provide less vocational training than do local firms. While operational decisions may have allowed for co-responsibility, strategic decisions have been taken mainly by US HQs. The use of corporate culture is important. Overall, it does not seem that US MNCs really implement a ‘Rhénan’ type of management. Rather, management practices in US MNCs constitute some combination of home- and host-country practices.

Japanese MNCs do seem to have a long-term perspective. But lifetime employment is offered only to an employee elite. Careers are offered almost exclusively to Japanese employees, while the ceiling for local employees is low. Training is extensive. The extent to which there exist profit sharing and co-responsibility appears a subject of debate. Japanese MNCs aim at implementing a corporate culture, but this runs into some trouble in the US as a result of the individualist US culture. The case study presented in chapter 8 showed that Japanese MNCs in the US have a mixture of management practices common in Japan and those more popular in the US. Overall, Japanese MNCs do not seem to really implement a ‘Rhénan’ type of management either, but rather some kind of combination of Rhénan practices and practices labelled by Albert as ‘neo-American’.

German MNCs have long-term goals. They provide long-term employment in Germany, but whether they do so abroad as well is unclear from the data. Training appears to be provided to some extent. Whether or not German MNCs use profit sharing is unclear from the data, but co-responsibility through delegation appears extensive. There appears to exist some sort of socialization based on a form of corporate culture. Thus, the (admittedly limited) data indicate that German MNCs to a considerable extent fit the picture painted by Capitalisme Contre Capitalisme.

How important is Japanese and German FDI into the US? Just like Trading Places, Capitalisme Contre Capitalisme appears to have overestimated the extent to which the huge Japanese FDI inflow in the US would continue. And while German FDI has certainly remained strong, this so far does not seem to have led to an important introduction of German management practices in the US.

In conclusion, Albert’s depiction of US management is caricatural, while his depiction of Japanese management is inaccurate. For Germany, his description is more or less accurate while somewhat incomplete. As for his predictions, the transmission of neo-American capitalism appears more muted than implied by Capitalisme Contre Capitalisme. In addition, the book’s analysis of MNCs comes across as rather simplistic and inaccurate.
In contrast to the argument of the OECD, the material presented in chapter 4 indicates that job turnover in the US around 1990 was high in general. It may well be that the percentage of the workforce who held their job for five years or less was not significantly higher in the US than in other OECD countries, but if so, its turnover rate was higher than in Japan and Germany - which would explain the much lower average tenure levels. In contrast to the claims made by the OECD, training efforts and expenses appear to have been relatively limited. Fixed regular pay has been an important part of compensation - which is not mentioned by the OECD - although compensation was more flexible than in Japan and Germany.

The sources of corporate financing mentioned by the OECD are confirmed by the data, although the relative importance of credit is not mentioned. The number of strikes may indeed have dropped during the 1990s, but it was still higher than in Japan and Germany. The US labor force is mobile and flexible but only in the sense that employees change jobs often. As employees are relatively specialized, they are not mobile and flexible once employed in a single firm. There exists a strong chasm between highly skilled and lowly skilled workers that is not mentioned by the OECD. Schwartz’s finding of a high score on Mastery is in line with ‘the American drive and energy and attitudes towards risk-taking’ noted by the OECD. And being self-employed or working in small innovative firms is seen as attractive. Thus, in contrast to what the OECD claims, it is in fact possible to establish whether or not ‘entrepreneurial spirit’ exists in a particular place.

The OECD depiction of work flow and human resource flow in Japan around 1990 is supported - although other methods than only recruitment freezes are used to adjust employment levels. Compensation is not solely based on seniority, but also on merit, educational qualifications, ability, age, sex, family situation, and performance. In addition, bonuses form an important part of compensation. Firms may not be as dependent on bank loans as claimed by the OECD, as firms have had a strong capacity for internal financing, and financing through credit has dropped drastically since 1998. While managerial decisions are certainly subject to the influence of the main bank, other stakeholders - in particular fellow keiretsu firms and employees - have influence as well. Managers also appear to have a broad scope of discretion. The other aspects of corporate governance described by the OECD are supported by the data, although a statement such as “the board has ... ceased to be an effective body for making strategic decisions” (OECD 1998c: 163) appears hard to substantiate. The OECD statements regarding the Japanese workforce are supported by Schwartz’s finding of a
lower score on Mastery than in the US, but contradicted by the low score on Conservatism and the high score on Intellectual Autonomy.

For German management around 1990, the OECD depiction of staffing and the extensiveness of regulation and its effect in terms of rigidity are supported. Wage differentiation was certainly limited, but whether one wants to label this ‘deficient’ would seem to depend on one’s normative position - it hardly constitutes a scientific statement. The description of corporate governance is largely supported, although the Neuer Markt has ceased to exist. That bargaining between employers and employees should be based on the need to preserve the equality of bargaining power seems a bit peculiar. The claim that there in fact exists equality of bargaining power would require quite a bit of substantiation by itself, and would seem hard to maintain. While general branch agreements still dominate, their decline in coverage between 1990 and 1999 had been important - a fact that is not mentioned by the OECD. Opening and hardship clauses had already become important by the time the OECD studies were published, and such clauses have also been concerned with increasing productivity, the extension or reduction of working hours, training, reductions in pay, and commitments to investment. The cost-cutting investment pacts mostly do not have to be referred back to the social partners.

As to the predicted changes, deregulation on financial markets in Japan has certainly been extensive - thus partly supporting the OECD argument about the impact of international finance on Japanese management practices. The question is to what extent the deregulation of financial markets has led to a deregulation of other markets relevant for Japanese management. Flexibility in the formal organization has increased through the establishment of semi-autonomous units and groups. Impediments to inter-company labor mobility have diminished, in particular for specialists. There has been a significant increase in the turnover rate. Individual capability and performance have become more important in career development and the use of individual PRP has to some extent expanded. Layoffs have attained some legitimacy.

But many practices in Japan appear not to have shifted as far in the direction of the ‘entrepreneurial climate’ as the OECD argument seems to imply. In formal organization, centralization at the head office has remained important, and decentralization has been based on units and groups rather than individuals. Lifetime employment for the core workforce is still valued, and there exists a possibility that this practice regains its former popularity when
economic growth picks up durably.\textsuperscript{157} Internal labor markets are still important and mid-career recruitment may drop when firms succeed in the development of internal specialist career paths. Legal employment protection is still important and large-scale layoffs have remained rare. Individual PRP only constitutes a relatively low level of overall compensation, and anecdotal evidence suggests the possibility of a return to more traditional compensation practices. And while there is a group of firms that increasingly depends on capital markets, there is also still a group of firms that maintains cross-shareholding relationships and depends on bank borrowing. Other connections between \textit{keiretsu} firms are still extensive as well. Decision-making is still based on a group process and corporate creeds have retained a collective focus. Industrial relations have remained cooperative rather than individualist. And Schwartz already found relatively high scores on Intellectual Autonomy and Mastery; whether there has been a shift in attitudes of the labor force in the direction of further individualism is unclear.

In Germany, deregulation on financial markets has been extensive. As in the case of Japan, the question is whether deregulation on financial markets has led to deregulation relevant for other management practices. In this regard, employment protection was eased slightly, the possibility to employ temporary or part-time workers was facilitated, and employment contracts and opening and hardship clauses have allowed an increase in working time flexibility. The role of the works councils as a contracting party has increased in general, as has flexibility in bargaining procedures and wage bargains. Opening and hardship clauses and a lower coverage rate of collective agreements have led to greater wage differentiation - as has the introduction of variable pay, including individual PRP and employee stock options.

To what extent do these changes imply the coming into being of an ‘entrepreneurial climate’? In work flow, decentralization has led to the creation of profit centers increasing flexibility. Teams and lean production have to some extent been introduced - in line with Japanese rather than US practices. A countertendency appears even to have emerged to reintroduce traditional hierarchical organizational structures. Regarding human resource flow, commitment to long-term employment has remained strong. Compulsory dismissals appear to have remained relatively exceptional and turnover has been relatively low. While job hopping has increased, career paths are still often in a single firm. Individual PRP has been strictly regulated by collective agreements. Ties between banks and corporations and among corporations appear to have loosened somewhat, but many large firms continue to have a

\textsuperscript{157} Anecdotal evidence indicates that with the recent economic upswing such is indeed the case (\textit{Nihon Keizai Shim bun}, September, 2005).

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handful of major, long-term shareholders who control at least a blocking minority of the firm’s shares. The *Neuer Markt* was discontinued. With regard to attitudes concerning industrial relations, employees still appear strongly attached to collective bargaining.

Overall, the OECD depictions of elements of management in the US, Japan, and Germany in the 1990s have a number of shortcomings when compared to the material presented in chapters 4, 5, and 6. In addition, the prediction of financial deregulation leading to the encouragement of an entrepreneurial climate is only partially supported. In light of the strong influence of OECD publications on public debates and policies, it is of the highest importance that such shortcomings be pointed out.

**Changes in Management Practices in the US, Japan, and Germany**

What, then, can be said about changes in management practices in the US, Japan, and Germany, and about management practices in their respective MNCs? First of all, often important aspects of management are neglected in unsystematic caricatural depictions. Thus, US management around 1990 was found to have quite a few characteristics deviating from the oft presented neo-liberal caricature. And while there has to some extent been a shift in the neo-liberal direction, things are not as straightforward as they seem. In fact, there has been an increase in the use of a number of characteristics of Japanese, and to some extent, German management. Now, one could be tempted to call this a hybridization process, but practices do not necessarily function the same way in different cultural contexts. Some cultural adaptation seems likely. A hybridization thesis would also run the risk of presuming a linear introduction of elements from other systems, while it is clear that things did not develop in a linear manner - management-union cooperation was attempted but appears to have failed, aspects of high commitment systems were introduced and subsequently abolished, and so on. All in all, the conclusion regarding changes in the US is that while many changes were in the direction of a caricatural neo-liberal model, far from all changes have been in that direction. Elements more commonly found in Japan and Germany have to some extent been introduced.

Popular depictions of Japanese management similarly often do not mention the many findings deviating from the caricature. While several ‘neo-liberal’ management practices have been introduced, many practices common in large firms around 1990 have remained in wide use. In fact, it seems that there has been an increase in the heterogeneity of practices, with practices remaining relatively stable for firms with strong *keiretsu* and main bank relations. In
contrast, where a high percentage of shares was held by foreigners, there was an increased emphasis on shareholder value practices; a reduction of core workforces, age-based salaries, and length-of-service awards; and an expansion of PRP and flexible working hours. Meanwhile, universal banking (‘German style’) has been introduced, while SME dependence on bank loans has increased. To label the developments in Japanese management ‘Americanization’ would clearly be simplistic. It is reasonable to say that the subset of large Japanese firms where foreigners have had an impact through their shareholdings has seen the introduction of some ‘neo-liberal’ practices. These practices will probably have undergone some cultural adaptation. And in fact, the majority of Japanese employees already worked under a system with many ‘neo-liberal’ characteristics, so it would also be possible to make the argument that there has been an expansion of the management system for peripheral workers. But that would also be too easy of course.

Many findings regarding German management also deviated from popular caricatures. While there has been an introduction of a number of ‘neo-liberal’ management practices, management practices more common in Japan were adopted as well. Meanwhile, important elements of German management have remained in place. As in the case of Japan, there appears to have been an increase in the heterogeneity of practices, with a large share of (foreign) institutional ownership, a high degree of dispersed ownership, and the presence of management teams with international and financial expertise leading to an increase in shareholder value orientation. And an increase in shareholder value orientation has led to an increase in the use of variable pay; de-diversification; an increase in managerial compensation; the use of profit targets; quarterly reporting and international accounting standards; and an increase in dividend payments.

The data show important differences between Japanese and German management - in contrast to what has often been argued (e.g. Albert, 1991; Hall and Soskice, 2001). The failure of popular and influential publications to make a clear distinction between Japanese and German management may be due to the neglect of that two-thirds of the labor force in Japan that constitutes the contingent workforce. If one includes this ‘nuance’, it immediately becomes apparent that Japanese management around 1990 had in fact quite a bit in common with US management. After all, Japanese management for that large majority of the workforce was characterized by: scientific management in production; an in-and-out staffing system; dead-end career paths; low wages and benefits; no union membership; and a lack of skills - all very similar to the situation of blue-collar and lower-level white-collar employees in the US. And certain aspects of Japanese management for core workers - a sense of
community; long-term employment; FILMs; promising career prospects; high levels of
training; high wages and benefits; and high skills - were similar to aspects of US management
for higher-level white-collar workers and managers. Of course, important differences with US
management existed as well, such as the fact that core workers did not change firms, the slow
career paths for core workers, the importance of the keiretsu and the main banks, the
extensive socialization efforts, and the power of employers’ associations. But important
differences with German management existed as well. Thus, German management practices
were much less based on scientific management; long-term employment, promising career
paths, good wages and benefits existed for a much larger part of the workforce; industry-wide
unions were relatively strong; and many employees were highly skilled. In fact, an important
difference between Japan and Germany consisted in the lack of power of Japanese union
federations. One could be tempted to make the somewhat maverick argument that, from the
perspective of the relative power of corporations versus that of labor, Japan and Germany
form the two poles of the ‘varieties of capitalism’ with the US somewhere in between. After
all, corporations in Japan clearly had more power over their employees than in the US - even
to the extent that it was impossible for those higher-level employees with long-term
employment to switch firms if they did not want to become part of the contingent workforce!
In contrast, the real participation of labor in German management is hard to deny.

But the important issue is not where US, Japanese, and German management around
1990 are to be placed along whichever continuum. Rather, systematic attention to important
characteristics of management in these countries indicates that there were clear differences -
and this should be portrayed as such. And if the aim is to analyze how management practices
have changed overtime, it is essential to at least start from a basis that can be reasonably
substantiated.

In comparing the developments in the US, Japan, and Germany, it appears there have
been a number of parallel processes. In all three cases, a number of ‘neo-liberal’ practices has
become more common as a result of globalization, due to the possibility of offshore
outsourcing, financial deregulation, and (in Japan and Germany) foreign shareholders. But the
extent to which these practices have been introduced has varied. At least some cultural
adaptation is likely to have occurred, while certain practices may already have been common
in Japan and Germany - thus indicating an expansion of local practices rather than the
introduction of ‘neo-liberal’ ones. In addition, elements of Japanese management have been
introduced in the US and Germany - most likely due to competitiveness constraints and
related to FDI, while universal banking has been introduced in the US and Japan.
Management Practices in US, Japanese, and German MNCs

The picture regarding practices in MNCs is complex. While certain home country practices tend to be implemented, often host country practices are implemented instead. The extent to which host country practices are used seems to depend on power-constellations, regulation, political pressures, norms, customs, and characteristics of the local workforce. When compared with US and German MNCs, it appears that Japanese MNCs try harder to implement home-country practices. Host-country practices and reverse diffusion seem to be more common in German MNCs than in US and Japanese MNCs. There appears to have been some cultural adaptation. Overall, it is important to make a clear distinction between management practices in US, Japanese, and German MNCs.

The case study presented in chapter 8 indicates that management practices in Japanese subsidiaries in the US should be seen as constituting a mixture of practices in Japan and the US. As was indicated above, this implies that the arguments of Trading Places and Capitalisme Contre Capitalisme are not in accordance with the data.

Conclusions

This study has shown that the globalization process should be regarded as a complex process of transformation. The main channels through which financial globalization was hypothesized to impact on management practices were the possibility of offshore outsourcing, financial deregulation, foreign shareholdings, attempts to improve global competitiveness with a relation to international finance, and the management practices of MNCs. The pressures resulting from financial globalization were found to have been resisted by domestic power constellations, while many changes were found the relation of which to financial globalization was unclear. As such, the globalization process has been shown to be much more complex than is allowed for in popular perspectives. Thus, the study has demonstrated that three convergence perspectives that were highly popular and influential in the globalization debate at the end of the 1980s and during the 1990s cannot reasonably be maintained once systematically confronted with well-substantiated empirical and theoretical material. Not only
were the influential perspectives found to be caricatural, simplistic, and off the mark; the authors also made the mistake of performing a linear extrapolation of the recent past. Thus, *Trading Places* (and *Capitalisme Contre Capitalisme*) noted the huge FDI flows from Japan and linearly extrapolated them into the future. *Capitalisme Contre Capitalisme* and the OECD linearly extrapolated the deregulatory processes in Japan and Germany, while *Trading Places* and *Capitalisme Contre Capitalisme* linearly extrapolated the presence of certain home-country management processes in MNCs to management processes in foreign subsidiaries of those MNCs. But history rarely develops according to a linear process, and even if it could develop in such a manner, at the very least the possibility should be kept open that things could turn out quite differently.
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