Contested Firm Governance, Institutions and the Undertaking of Corporate Restructuring Practices in Germany

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Abstract

This article investigates the undertaking of corporate restructuring practices (employee downsizing and wage moderation) in Germany from 2008 to 2015. I present a political perspective that draws from the insights of the power resources approach and of institutional analyses. My theoretical framework highlights how institutional arrangements structure power relations within companies by empowering, in an asymmetrical manner, different categories of firm stakeholders (employees, managers and shareholders) as well as shaping how they relate to each other in an interactive manner. My empirical findings point to the importance of extensive, but contingent, corporate restructuring in Germany. Companies are more likely to implement 'defensive' corporate restructuring practices under conditions of high leverage/debt than when confronted by shareholder value driven investors, thereby reflecting the presence of overlapping interests between employees and managers.

Keywords

Corporate Restructuring, Germany, Institutional Analyses, Power Resources Approach

Introduction

I investigate in this article the causal factors for the undertaking of corporate restructuring policies (employee downsizing and wage moderation) in Germany from 2008 to 2015. What are the main variables accounting for the implementation of corporate restructuring schemes in Germany? My investigation is embedded in the two sets of literatures: power resources approach and institutional analyses. For the power resource approach, the structurally disadvantaged socio-economic position of workers in the production process implies that firm governance is a conflictual process characterized by divergence of interests between management and employees (Korpi, 2006); hence workers' abilities to defend their interests depend on the institutional arrangements supporting collective action (Esping-Andersen, 1985). The power resources approach provides interesting insights by highlighting how market-enhancing developments in advanced capitalist economies have re-shaped the balance of power among different social classes (Glynn, 2006; Streeck, 2009). Yet, the power resources approach is ill-placed to account for the presence of significant divergence on a number of important indicators of industrial relations, such as the prominence of atypical employment and the degree of centralization of collective bargaining, in the aftermath of the occurrence of market-enhancing developments (Thelen, 2014). Institutional theoretical perspectives, on the other hand, emphasize the complementary character of institutional arrangements whereby the undertaking of specific adjustment paths in one sphere relies on the presence of other supporting institutions in other domains – whether the unit of analysis is the national economy (Hall and Gingerich, 2009; Milgrom and Roberts, 1994) or the firm (Whittington et al., 1999). Institutional analyses are insightful in highlighting how variations in (usually cross-national) institutions structure the coordination of economic activities that, in turn, powerfully shape the range of adjustment paths and further sustain divergence across countries (Hall and Soskice, 2001). Yet, institutional analyses are not well placed to account for how the impact of institutional arrangements on important outcomes can change while being structurally stable (Thelen, 2003, 2004). In the case of atypical employment in Germany, for instance, a phenomenon of institutional layering took place: new (liberalizing) institutions on fixed-term contracts were introduced alongside already existing institutions regulating open-ended contracts, thereby leading to the decline in influence of the latter (Marginson, 2016).

The aim of this article is to account for the undertaking of corporate restructuring practices in Germany in the context of the global economic crisis and of heightened pressures for cost cutting. The context of the crisis is highly interesting for the study of employment relations. The introduction of new HRM practices and the implementation of corporate restructuring schemes might take place at the micro level, but they are also shaped by the broader political, economic and societal environment in which they are embedded (Jacoby, 2005; Streeck, 2009; Whitley, 1999). An important macro feature is the influence of macroeconomic conditions on the implementation of HRM practices at the firm level (Mitchell and Zaidi, 1990). Deteriorating economic conditions make it easier for employers to extract concessions from employees (Atanassov and Kim, 2009), thereby highlighting that while employees are conscious of the unequal terms of the employment relationships, they are also more likely to meet some of the requests of management in crisis times in order to preserve the continuation of the firm as an entity (Edwards, 2009). In the context of the Eurozone, moreover, another important macro feature is the institutional architecture of governance (Hall, 2012). The legal framework of the Eurozone has narrowed the range of adjustment policies of national governments. Eurozone countries cannot monetize their budget deficits to either rescue troubled banks or stimulate economic growth as a result of their lack of control over monetary policy, nor could they count on the European Central Bank to act automatically as a lender of last resort, nor could they implement currency devaluation vis-à-vis other members. Thus, while the institutional arrangements of German employment relations have not been singled out for criticism by investors, many of Germany's export markets, such as Southern Europe, have been targeted by private bondholders given their reduced options for strategic adjustment (Hancké, 2013; Marginson, 2015). Yet, the argument presented in this article, while acknowledging the importance of macro features over the implementation of adjustment strategies, illustrates how the strategic responses of employers is also contingent upon the national institutional context and the interactions among different categories of firm-level actors (employees, managers and shareholders).

In this article, I present a political perspective that highlights the relational character of institutions to account for the introduction of restructuring policies by German companies (2008-2015). My argument is composed of two building blocks. First, institutional arrangements shape power relations within companies by empowering, in an asymmetrical manner, different categories of firm stakeholders – namely employees, managers and shareholders (Campbell, 2004; Roe, 2000). They do so by both legally expanding/restricting the range of strategic options, thereby enabling different firm stakeholders to defend their interests against other actors with different preferences (Hall, 1986).

Second, my political perspective highlights that institutional arrangements are configurations of power, but only in relational terms among categories of firm stakeholders. Institutions not only empower, or weaken, single categories of actors. They also shape how firm stakeholders relate to each other in an interactive manner (Aguilera and Jackson, 2003, 2010; Atanassov and Kim, 2009). My political perspective illustrates that the governance of the firm, and the associated control over resources, constitutes the outcome of interactions among specific stakeholders whose preferences are not monolithic, thereby enabling them to stress different objectives that result in specific coalitions with other stakeholders based on overlapping interests (Gourevitch and Shinn, 2005). The importance of institutional arrangements in my analysis lies in their influence in shaping the range of coalitional possibilities among different firm stakeholders.

The German case is highly insightful as it illustrates how the impact associated with the introduction of market-enhancing developments is contingent upon prevailing institutional configurations that shape how firm stakeholders relate to each other. On the one hand, the substantial liberalization of the institutional framework regulating atypical forms of employment and the greater use of derogation from sectoral agreements in collective bargaining have increased the influence of managers over the organization of the workplace (Dustmann et al., 2014; Emmenegger, 2014). Moreover, the strengthening of the legal rights of shareholders and the strategy of international diversification of UK/US-based institutional investors have been conducive to the increase in importance of shareholder value driven funds in Germany – a category of firm stakeholders whose interests often clash with those of employees (Appelbaum and Batt, 2014; Gospel and Pendleton, 2014).

Yet, my political perspective also illustrates that the impact of these two market-enhancing developments on the relative influence of employees are mediated by institutional elements in other spheres of the economy. An important institutional development in the last two decades in firm governance is the rise in competences of firm-level works councils, at the expense of national unions, over corporate restructuring that, in turn, militates against unilateral managerial strategies (Gumbrell-McCormick and Hyman, 2006; Muller-Jentsch, 2003). Moreover, the ability of German companies to resist the demands of foreign investors has been strengthened by reforms in corporate law that allow for the introduction of anti-takeover devices, thereby reducing pressures to implement strategies of shareholder value (Gordon, 2004). Overall, my research emphasizes that corporate restructuring in Germany reflects the institutionally constituted relative influence of different firm stakeholders. Managers face constraints in implementing corporate restructuring schemes that work against employees' interests irrespective of their inclination, or lack of, towards shareholder value strategies.

With the use of comparative data from the United Kingdom, an advanced capitalist economy whose prevailing institutional configurations provide for different types of interactions among firm stakeholders, I illustrate that the process of adjustment of German companies has been defensive, i.e. employee downsizing took place under conditions of high financial leverage/debt.[1] High levels of debt increases the probability of bankruptcy, or significant plant closures, thereby generating incentives for managers and employees to negotiate compromises involving elements of corporate restructuring (Atanassov and Kim, 2009). I also highlight that the causal influence of shareholder value institutional investors has been limited in the undertaking of corporate restructuring practices in Germany. Shareholder value constitutes an offensive type of corporate restructuring characterised by the redistribution of resources (Appelbaum and Batt, 2014). I rely on the methodology of necessary conditions (Braumoeller and Goertz, 2000; Mahoney, 2004) to assess differences in the causal influence of two important independent variables on corporate restructuring, namely, leverage and shareholder value driven investors.

The roadmap for this article is structured as follows. The first part looks at two theoretical perspectives that provide important insights for the investigation of corporate restructuring, namely power resources approach and institutional analyses. The second part outlines my argument. The third part presents an evolution of firm governance in Germany. The fourth part presents four propositions regarding the influence of leverage and of institutional investors. Part five presents the methodology of necessary conditions that is used to assess the relative importance of leverage and institutional investors. Part six reports on my data sample. Part seven consists of my empirical results. Part eight presents my conclusion.

[1] Leverage is defined as the percentage of total debts over total capital.

Corporate Restructuring and the Economic Crisis: Rival Theoretical Perspectives

Two theoretical perspectives provide substantial insights for investigating the undertaking of corporate restructuring practices across advanced capitalist economies: power resources approach and institutional analyses. The first theoretical perspective, power resources approach, is built around the key assumption that firm governance is characterised by a distributive conflict between employees and other stakeholders embedded in the structurally stratified economic position of workers in labour markets (Esping-Andersen, 1990; Korpi, 2006). More specifically, the socioeconomic position of working-class employees exposes them to a large panoply of risks – unemployment, poverty, illness among others – that necessitate their mobilization for collective action in unions and political parties to reduce these risks generated during the life course (Goldthorpe, 2000; Mayer, 2009). From the lens of the organizational strength of the working class, power is measured as the rate of unionization, the extent to which wage bargaining is coordinated, the location (national, sector, firm) of wage bargaining, the regulation of labour market flexibility, and the electoral strength of social democratic parties aligned with dominant labour organizations (Korpi, 1983; Western, 1999). Equalitarian distributional outcomes are associated with countries characterized by high rates of unionization, coordinated wage bargaining at the national level and social democratic dominance over the composition of governments. Transposed at the corporate level, the process of firm governance is characterized by an inherent conflict of interests between employers, allied with other categories of economically well-endowed groups such as shareholders, versus employees with more limited economic resources (Korpi, 1983). For this theoretical perspective, cooperation between different social classes occurred at historically transient, junctures when business was constrained.[2]

For the power resources approach, therefore, firm governance and policy outputs legislated by elected officials, reflect the relative strength of employees vis-à-vis other socio-economic classes with different sets of preferences. In this context, the implementation of market enhancing developments, i.e. liberalization, in the last three decades has significantly reduced the relative strength of employees (Glynn, 2006; Streeck, 2009). In the sphere of finance, the mobility of capital across borders has increased the exit options of capital holders and has substantially reduced the bargaining power of workers (Krippner, 2005). Chasing new investment opportunities, shareholder value driven funds, especially from the United Kingdom and the United States, target listed companies with the aim of securing a strategic change in the direction of the company (Gourevitch and Shinn, 2005; Van Der Zwan, 2014). In the sphere of industrial relations, various developments across advanced capitalist economies have increased the extent to which salaried employees are commodified in the production process. These are the failing rates of unionization in the wake of the emergence of the service sector, the extensive reliance on atypical employment in non-liberal market economies, and the decline of life-long stable career paths (Beck, 2000; Emmenegger, 2014). In other words, institutions that have been at the core of labour strength in non-liberal continental Europe, and that previously sharply distinguished them from those prevalent in other types of capitalist economies, have been seriously eroded.

[2] For instance, the institution of wage moderation to contain inflation was supported by Northern European employers in the first three postwar decades in a specific context, namely that of full employment and low job vacancies (Scharpf, 1984).

Yet, the power resources approach is ill-placed to account for the presence of significant differences in the evolution of advanced capitalist economies in the aftermath of the introduction of liberalization in the form of market enhancing measures (Hall and Thelen, 2009; Hassel, 2014). In the sphere of industrial relations, most notably, broad liberalizing trends have been associated with different distributive outcomes. Three trajectories of liberalization have been identified. These are the increased reliance on market enhancing mechanisms in liberal market economies; the dualization of employment relations in Germany via institutional layering; and the active role of the state in Denmark and the Netherlands in (successfully) incentivizing employers and unions' continuing membership in peak-level associations (Davies and Freedland, 2007; Emmenegger, 2014; Katz, 1993). The diffusion of common practices across different advanced capitalist economies, and its transmission to workplace outcomes, constitutes a contingent process (Thelen, 2014).

For institutional theoretical analyses, in contrast, the sets of important institutions that influence the strategic behaviour of different firm stakeholders extend beyond those that empower/weaken labour (Thelen and Steinmo, 1992; Whitley, 1999). Institutional arrangements embedded in the spheres of education and training, industrial relations and corporate governance constitute key causal factors accounting for cross-national differences in firm governance (Hall and Soskice, 2001). Institutional approaches highlight that the effectiveness of the undertaking of specific corporate restructuring schemes is contingent upon the presence of other elements in an institutional framework, i.e. institutional complementarities (Hall and Gingerich, 2009; Whittington et al., 1999).

The presence of institutional diversity has provided important insights for the investigation of important issues in industrial relations. For instance, rates of employee turnover, whether forced or voluntary, remain higher in the institutional context of the external flexibility of liberal market economies as compared to Continental European settings (Croucher et al., 2011; Goergen et al., 2013; OECD, 2004). Involuntary turnover is less frequent in settings e.g. where investments in firm-skills need to be preserved (Estevez-Abe et al., 2001). Additionally, the presence of unions inside companies reduced turnover rates, thereby pointing to the importance of institutional arrangements that facilitate union recognition (Brewster et al., 2015; Dundon, 2002).

Yet, the impact of institutional arrangements on important outcomes can change while being structurally stable (Thelen, 2004). This is especially the case for industrial relations under a scenario of institutional layering whereby a new institution is introduced alongside an extant one thereby leading to the decline in influence of the latter (Marginson, 2016; Thelen, 2004). For instance, institutional arrangements of atypical employment (fixed-term contracts and part-time work) have been introduced in non-liberal market economies while job security regulations for employees on open-ended contracts have remained structurally stable (Emmenegger, 2014; Hassel, 2014). Institutional layering might constitute a preferred strategy for policy-makers and employers seeking to avoid a full, and immediate, confrontation with employees and trade unions; but have nonetheless increased the strategic options of managers to reorganize the workplace.

Theoretical Framework: A Political Perspective on Corporate Restructuring

The aim of this article is to account for the undertaking of corporate restructuring practices in Germany in the context of the financial crisis and of heightened pressures for cost cutting. My theoretical framework is composed of two building blocks. The first building block of my argument highlights that institutional arrangements are influential in shaping power relations among different firm stakeholders (Campbell, 2004; Roe, 2000). They do so by legally expanding/constraining the range of strategic options and by embedding the access to the decision-making process in an unequal manner among different categories of firm stakeholders, thereby providing them with diverging influence over the strategic organisation of the firm and the allocation of resources (Hall, 1986). Diversity of institutional arrangements across settings shapes the ability of firm stakeholders to defend their interests over the allocation of the company's resources against other stakeholders (Fligstein, 1990; Schneper and Guillen, 2004). The translation of preferences into corporate outcomes is a process mediated by the institutional framework in which different actors are embedded. Institutions, in my political perspective, illustrate how political struggles among different firm stakeholders over firm governance constitute a contingent process that is mediated by the institutional setting in which they occur (Hall, 1986; Thelen and Steinmo, 1992).

The second element of my theoretical perspective illustrates the relational character of institutions, namely how they structure interactions among different categories of firm stakeholders. In contrast to power resources approach with its rather exclusive focus on institutional arrangements pertaining to employees, my argument highlights that the influence of institutions over the distribution of power is not limited to whether they empower, or weaken, individual categories of firm stakeholders. Institutional arrangements also structure the process by which firm stakeholders relate to each other in an interactive manner (Aguilera and Jackson, 2003). In particular, the preferences of different firm stakeholders are not monolithic and, as a result, could overlap with those of other actors (Atanassov and Kim, 2009; Gourevitch and Shinn, 2005). My political perspective highlights the influence of institutions in structuring the range of available coalitional possibilities based on overlapping interests among different categories of firm stakeholders. Therefore, in contrast to institutional analyses that (correctly) illustrate how institutional arrangements structure power relations among actors, I also emphasize the importance of the process by which different categories of firm stakeholders interact with each other. The implementation of corporate restructuring practices constitutes the outcome of the overlapping of preferences among different categories of actors (see e.g. Aguilera and Jackson, 2003).

Employees, for instance, are interested in maximizing cash flows in the form of wages; but are also have an interest in working conditions and employment stability (Roe, 2000). The preference for higher wages put them in conflict with managers; an interest in working conditions and employment stability clash with the interests of shareholders for the release of cash flows in the form of dividends (Appelbaum and Batt, 2014; Gospel and Pendleton, 2014). Managers, on the other hand, might prefer to engage in empire building and avoid undertaking politically confrontational policies with employees; but also seek to limit the influence of employees over the strategic direction of the firm and its associated allocation of cash flows rights (Gourevitch and Shinn, 2005). The former militates against the incorporation of the interests of shareholders; the latter would lead to the marginalisation of the preferences of workers in the governance of the firm.

From the above discussion, two coalitional possibilities based on overlapping preferences among firm stakeholders emerge. The first one is a shareholder value coalition whereby managers and shareholders combine to secure the implementation of shareholder value policies at the expense of employees, as it is prevalent in liberal market economies (Davis, 2009; Jacoby, 2005). The second one is a cross-class coalition whereby employees and managers share common interests in the implementation of policies that preserve their jobs and autonomy rather than delivering income stream to shareholders (Aguilera and Jackson, 2003; Atanassov and Kim, 2009). The overlapping of preferences for employment stability would be threatened by an active market for takeovers (corporate executives) or by a focus on shareholder value corporate policies (employees).

How do companies select among these different coalitional possibilities? Which types of corporate restructuring schemes will be implemented? My political perspective highlights that the governance of the firm constitutes the outcome of interactions among different categories of shareholders whose relative influence reflects prevailing institutional configurations. I now proceed to illustrate this point with the case of the evolution of firm governance in Germany and the implementation of corporate restructuring policies from 2008 to 2015.

The Evolution of Firm Governance in Germany

The German model of capitalism has traditionally been characterised by the presence of institutional arrangements that have combined to regulate industrial conflict and enable social partners to develop corporate strategies of high quality product differentiation (Estevez-Abe et al., 2001; Streeck, 1991). Four traditional institutional pillars stood prominently – at least until the mid-1990s. First, the representation of employees at the workplace provides significant influence over the organisation of work (Muller-Jentsch, 2003; Thelen, 1991). At the firm level, works councils possess an impressive array of legal rights that are extensive on social matters, moderate on personal issues, and relatively weak in economic and financial affairs (Gumbrell-McCormick and Hyman, 2006; Muller-Jentsch, 1995). Yet, works councils have been successful in strategically using their veto powers on social issues to negotiate more favourable outcomes on other matters where their legal rights are less extensive (Borsch, 2007; Thelen, 1991).

The second traditional pillar of the German model of capitalism is the system of collective bargaining involving trade unions and employers associations (Dustmann et al., 2014). Taking place at the region or industry level, peak level associations representing social partners are involved in the negotiation of the important issues of wages and work conditions, such as working time, which covered the vast majority of employees (Hassel, 1999). The 'relative' centralisation of collective bargaining implies that negotiated collectively agreements on wages and working conditions are legally binding on the members of the business associations, resulting in standardisation across regions/industries (Jacobi et al., 1998).

The third traditional pillar of the German model is the regulatory framework of employment protection for open-ended contracts. In comparison to other advanced capitalist economies, the managerial prerogative to reorganize the workplace via the use of employee dismissals on permanent contracts is constrained on several fronts. These are the notice period for the initiation of collective dismissals, size of severance payments, legal recourse available to dismissed workers and the elaboration of a social plan providing training opportunities (Emmenegger, 2014: 151-158; OECD, 2013). Strategies of external flexibility based on the substantial reductions in the number of employees on open-ended contracts are difficult to implement.

The fourth traditional pillar of the German model is a system of corporate governance that enabled domestic companies to develop a long-term strategic view (e.g. patient capital) (Hall and Soskice, 2001), most notably, although not exclusively, by shutting down the market for takeovers (Deeg, 1999; Goyer, 2011). In particular, the ownership structure of listed companies was characterized by concentration with domestic families and non-financial corporations being the main owners (Franks and Mayer, 2001). For companies without a controlling shareholder, on the other hand, reliance of instruments that deviate from the one share-one vote principle, such as voting caps, effectively deterred unwanted takeover bids.

The above 'beneficial constraints' favoured the implementation of long-term strategy based on high quality product differentiation (Streeck, 1991). Strong employee protection, substantial legal rights at the workplace, and coordinated collective bargaining reduced the ability of management to implement strategies of short-term flexibility (Thelen, 1991). Insulation from takeover threats limited managerial incentives to use employee flexibility in order to redistribute resources to shareholders (Roe, 2000). Yet, the German model of capitalism has experienced substantial institutional changes in the last twenty-five years that have challenged the existing mode of firm governance. I investigate these developments through the lens of my political perspective that highlights how institutional arrangements shape the interactions among different firm stakeholders.

The first major institutional transformation took place in the sphere of corporate law. Under the explicit goals of financial modernisation and of reducing the power of banks, the legal rights of minority investors were substantially strengthened (Deeg, 2005). The enactment of the KonTrag Act in 1997 eliminated deviations from the one share-one vote principle, thereby potentially eroding the 'patient' capital character of the German economy and potentially increasing unwanted takeover threats for German companies without a large shareholder. Moreover, the removal of capital control across borders provided strong incentives for shareholder value driven Anglo-American institutional investors to invest outside their home markets. Up to the mid-1990s, German companies were largely insulated from pressures of shareholder value enhancement in part due to the presence of large domestic shareholders as blockholders (Deeg, 1999; Goyer, 2011). In contrast, non-resident investors have become important owners of German listed companies: foreign ownership of blue chip DAX 30 corporations has increased from 31% in 1998 to slightly under 64% in 2014 (Deutsche Bundesbank, 2014).

The rise in prominence of shareholder value driven institutional investors entails potentially profound implications for industrial relations in Germany. These investors, especially the short-term oriented ones such as hedge funds, private equity, and actively managed mutual funds, bring a set of expectations that invariably clash with the interests of employees. The ascendency of shareholder value in liberal market economies, for instance, has meant that firm strategy invariably prioritises the interests of investors at the expense of employees (Davis, 2009; Jacoby, 2005). The use of employee downsizing is of strategic importance in this process through the generation and redistribution of wealth from employees to shareholders (Appelbaum and Batt, 2014; Appelbaum et al., 2013). Will the rise in prominence of shareholder value institutional investors contribute to a transformation of firm governance in Germany?

My political perspective highlights that assessing the overall impact of the increase in prominence of foreign shareholders on corporate outcomes in Germany remains a contingent process shaped by how stakeholders relate to each other in an interactive manner. Institutional arrangements across different spheres of the economy create possibilities for coalition among firm stakeholders based on overlapping interests. Two other major institutional changes are particularly important. The first one is that additional reforms in German corporate law have provided corporate executives with important means to resist unsolicited takeover bids, thereby lessening their incentives to implement strategies of shareholder value enhancement (Gordon, 2004: Roe, 2000). Under the German Takeover Act (2001), listed companies can rely on two key defensive tactics – the issue of new shares at discounted prices to a friendly competitive bidder ('white knight') and the introduction of company by-laws that would require supermajority vote (75%) for the implementation of post-acquisition corporate restructuring practices. The implementation of these measures requires the approval of the boards of directors, not of the shareholder assembly, where company employees occupy half of the seats.

The second major institutional change took place in the area of industrial relations. Under pressures from foreign firms, high value-added rivals from Japan and East Asia increasingly able to close the quality gap and competitors from Eastern Europe successful at lowering costs in non-core components, German companies sought from the mid-1990s greater labour market flexibility (Emmenegger, 2014: 195-200 and 233-245). In their strategic responses to business demands, German trade unions opted for influence over the course of change by allowing flexibility at the margins while protecting the interests of their core members (Hassel, 2014), hence leading to labour market dualization (Thelen, 2014). As a result, German policy-makers have reverted to the liberalization of atypical employment (fixed-term contracts and part-time work) as an alternative strategy to introduce elements of flexibility in the context of broad support for job security regulations – most notably from organized labour (Emmenegger, 2014). For instance, the duration of fixed-term contracts was progressively increased from six months in 1985 to 24 months with the possibility of an extension to four years in the case of newly created companies.[3] As part of the Hartz reforms, restrictions on the duration of fixed-term contracts by temporary work agencies have been eliminated. Overall, atypical employment (fixed-term contracts and part-time work) increased from six to eleven percent of the working age population between 1992 and 2007 (Eichhorst and Marx, 2009: 13).

Moreover, the system of collective bargaining in Germany has undergone an important decentralization process that began in the mid -1990s (Dustmann et al., 2014). An increasing number of companies have made more extensive use of 'opening clauses' that deviate from centrally negotiated collective agreements signed at the industry/sector level, thereby leading to a substantial decline in coverage rates (Hassel, 1999). Nearly 40% of collective agreements were signed at the firm level by the late 1990s (Hassel, 1999). This change took place in the context of the decline in membership of employers' associations, especially small and medium enterprises as well as East German companies, largely due to managerial attempt to circumvent union presence at the firm level (Thelen, 2014: 51-58). Derogations from centrally negotiated collective bargaining agreements also occurred under conditions of decline in union density – namely from 31% in 1990 to 18% by 2012 (OECD, 2015).

The dualization of the labour markets and the increased use of derogations from collectively negotiated collective agreements have increased the bargaining power of German employers in the organisation of the workplace with implications for the implementation of corporate restructuring practices. For instance, companies in the manufacturing sector have reduced their offering of vocational training and are instead relying on temporary workers to fill in

[3] Yet, the termination of fixed-term contracts before the end of its duration is relatively difficult as employees are subject to dismissal protection similarly to those on open-ended contracts.

posts characterised by decreased knowledge complexity (Benassi, 2016; Thelen, 2014: 85-98). Yet, the development of atypical work and the rise in importance of derogations from collectively bargaining agreements do not entail the complete marginalization of employees. A third and important institutional development in German governance is the increased competences of works councils in the overall process of decentralisation of industrial relations toward the firm-level (Hassel, 2014; Muller-Jentsch, 2003). Under pressures from foreign firms in Japan and East Asia increasingly also able to compete on costs and quality, German companies sought from the mid-1990s onward to decentralize labor-management relations in order to better meet their specific needs.

This process, however, did not take the form of institutional displacement via the full liberalisation of labour markets as in liberal market economies (Katz, 1993). Instead, it was characterised by the prominence of firm-level agreements/pacts whereby works councils accepted deviations from union-negotiated collective agreements at the region/industry level in exchange for job protection agreement and/or employer commitments to increase investments in domestic production sites – a phenomenon prevalent for the largest companies (Seifert, 2002; Streeck, 2009). In addition to these general opening clauses to collectively negotiated agreements, works councils enabled companies to lower costs via means of internal flexibility – such as variable weekly working hours, job sharing and cuts in overtime pay (Hassel, 1999). Building from their extensive, and legally untouched, set of legal rights that restrict managerial ability to implement policies in a unilateral manner, works councils are actively involved in the restructuring of companies (Gumbrell-McCormick and Hyman, 2006; Muller-Jentsch, 2003). Adjustment strategies based on the reductions of employees on open-ended contracts are still relatively difficult to pursue.

Corporate Restructuring in Germany: Propositions

My political perspective highlights the relational character of institutional arrangements. Institutions not only empower/weaken different categories of firm stakeholders, they also shape how they interact with each other. My conceptual framework is empirically tested by investigating the causal influence of two independent variables that have been widely used in studies on corporate restructuring: financial leverage/debt and the presence of shareholder value driven investors (Ahmadjian and Robbins, 2005; Budros, 2002). The selection of these two independent variables is insightful for my investigation since they represent two different ends of the spectrum on corporate restructuring, namely defensive and offensive restructuring.

My first two propositions deal with the causal influence of financial leverage/debt as an independent variable over the undertaking of corporate restructuring policies in Germany. From a comparative perspective, it is insightful to highlight that the introduction of shareholder value as the guiding light for American corporations from the mid-1980s onward is characterised by the extensive use of employee downsizing and substantial reduction in wages (Davis, 2009; Jacoby, 2005). However, the implementation of corporate restructuring schemes in the United States is significantly different from the pattern of adjustment prior to the mid-1980s. More specifically, employee dismissals are no longer solely linked to either decreased product demand or poor financial performance (Budros, 2009; Farber and Hallock, 2009). Instead, the undertaking of employee downsizing in the United States is taking place even under conditions of low leverage/debt and superior operating performance. The implementation of employee layoffs increasingly serves as a strategic option designed to prioritize the interests of shareholders by allocating resources away from employees – such as dividend pay-outs and share buyback (Kahan and Rock, 2007). Employee downsizing has resulted in a major redistribution of wealth among firm stakeholders (Appelbaum and Batt, 2014; Van Der Zwan, 2014).

My political perspective does not fit well with the use of corporate restructuring in Germany designed as redistributive mechanism primarily aimed at enhancing shareholder value. The German context is characterized by the presence of institutional arrangements that makes it difficult for corporate executives to undertake unilaterally downsizing strategies and, thus, prioritize the preferences of shareholder value driven investors. The extensive legal rights of works councils and their increased involvement in firm-level agreements/pacts, combined with the ability of corporate executives to implement defensive takeover measures, militate against short-term adjustment strategies based on the rapid and substantial reductions in the number of employees (Gumbrell-McCormick and Hyman, 2006; Hassel, 2014; Muller-Jentsch, 2003).

Yet, leverage is also associated with corporate restructuring, even in non-liberal market economies such as Germany, as servicing high levels of debt could lead to a loss of control to creditors and/or straightforward bankruptcy (Atanassov and Kim, 2009). High indebtedness generates strong incentives for corporate executives to confront employees in order to extract concessions. Employees, on the other hand, fearing the closure of significant parts of the activities of the company if not straightforward bankruptcy, are more likely to meet some of the requests of management (Schneper and Guillen, 2004). High levels of debt enhance the bargaining position of corporate executives vis-à-vis employees. My theoretical framework is more consistent with the presence of high leverage/debt as a causal factor for the undertaking of corporate restructuring schemes in Germany and, therefore, constitutes a defensive strategic tool of adjustment (Atanassov and Kim, 2009).

Proposition 1: My political perspective predicts that high leverage/debt will constitute an important causal variable for the implementation of employee downsizing in Germany.

Proposition 2: My political perspective predicts that high leverage/debt will constitute an important causal variable for the implementation of wage moderation in Germany.

My next two propositions deal with the influence of shareholder value driven institutional investors, particularly those from the United Kingdom and the United States, in pressuring portfolio companies to implement corporate strategies that would entail the redistribution of resources via employee downsizing and wage moderation. The governance of corporations in the United States is increasingly characterized by the ascendency of shareholder value as the guiding star whereby the interests of investors are being prioritized at the expense of those of employees (Davis, 2009; Jacoby, 2005). The pursuit of shareholder value objectives is not neutral for the perspective of employment relations (Appelbaum et al., 2013). That is, the introduction of shareholder value as a strategic priority often requires the re-allocation of resources within companies often via the implementation of employee downsizing schemes (Goyer, 2011).

Yet, the undertaking of corporate restructuring schemes primarily designed as an offensive tool for meeting the demands of shareholder value driven investors is likely to be a contested process in Germany for two reasons. First, the legal rights of works councils, and their strategic participation in firm-level agreements, heighten the ability of employees to block managerial initiatives seeking to re-allocate resources toward shareholders in an unmediated manner (Borsch, 2007; Hassel, 2014). Derogations from collectively agreed bargaining agreements require the approval of works councils. Second, managerial incentives to meet the preferences of shareholder value investors are reduced in Germany. Companies with a large protective (domestic) shareholder could simply outbid the pressuring tactics of shareholder value funds – a non-negligible factor given the reliance of hedge funds and other aggressive investors on targeting ownership dispersed companies in the United States (Kahan and Rock, 2007; Roe, 2000). Companies without a large protective (domestic) shareholder could implement defensive measures to derail unsolicited takeover bids (Gordon, 2004).

Proposition 3: My political perspective predicts that the presence of shareholder value driven institutional investors will not constitute an important causal variable for the implementation of employee downsizing in Germany.

Proposition 4: My political perspective predicts that the presence of shareholder value driven institutional investors will not constitute an important causal variable for the implementation of wage moderation in Germany.

Methods

How does the presence of significant institutional changes in Germany translate into corporate and workplace outcomes? How is the causal influence of financial leverage/debt and shareholder value institutional investors be assessed in my analysis of corporate restructuring in Germany? Making inferences about causal relationships, i.e. how independent variables (x) exert a causal effect on the dependent variable (y) represents the core feature of research methodology (Hall, 2003; Ragin, 1987). After all, "events do not just happen; they happen under certain conditions" (Caramani, 2009: 41). Building from important methodological approaches in social sciences, my research methodology relies on the use of necessary conditions as a theoretical concept to assess the influence of causal; variables (Braumoeller and Goertz, 2000; Mahoney, 2004). Necessary conditions are conceptually insightful in analysing developments in industrial relations for two reasons. First, a necessary condition implies that the presence of a specific value on X is needed for the occurrence of the value of interest on Y (Ragin, 1987). In other words, Y does not occur if X is absent. The concept of necessary condition illustrates the presence of barriers to the occurrence of the outcome of interest (Goertz, 1994; Schneider and Wagemann, 2012). Necessary conditions are important as they delimit the range of possible options via their role as barriers.

Second, necessary conditions highlight the multiple paths to the non-occurrence of an event– thereby pointing to the difficulties in securing specific outcomes (Braumoeller, 2003; Mahoney, 2004). Scholarship in social sciences increasingly emphasizes the importance of causal complexity whereby an outcome results from the interaction of factors that would not occur without the presence of these causal variables (Ragin, 1987). Assuming the presence of two causal/independent variables, the relation of causal complexity would be the following: $x1 + x2 \rightarrow Y$. Under this scenario, the concept of necessary condition would highlight three situations in which the outcome would not occur: x1 being absent, x2 being absent, x1 and x2 being absent. Necessary conditions for the undertaking of corporate restructuring practices, such as employee downsizing and wage moderation, illustrate that some specific outcomes are relatively difficult to achieve since the impact of a hypothesized independent variable is contingent upon the overall institutional setting in which it is embedded (Braumoeller, 2003; Hall, 2003).

The next step of my research methodology is to operationalize the concept of necessary conditions. How should necessary conditions be measured? The use of 'typological theory' figures prominently in the elaboration of the specific theoretical properties of necessary conditions (Braumoeller and Goertz, 2000; Caramani, 2009). Typological theory is based on the presentation of a two by two matrix in which the values taken by the independent (x) and dependent (y) variable are either absent/low (0) or present/high (1) (Braumoeller and Goertz, 2000) (see figure 1). Under this matrix, two theoretical properties of necessary conditions are identified (Braumoeller, 2003; Caramani, 2009). The first one is that x constitutes a necessary condition if it is always there when y is present (cell IV). The second theoretical property is that x constitutes a necessary condition if y does not occur in the absence of x (cell I). The presence of y combined with the absence of x would deny the necessary character of the latter (cell III).

[Insert figure 1 about here]

In turn, these theoretical properties of necessary conditions generate three empirical propositions for assessing the presence of a causal relationship between two variables (Braumoeller and Goertz, 2000; Mahoney, 2004; Ragin, 1987). The first one is that the confirmation of the relationship between x and y should result from the bulk of observations located in cells I and IV (x=0, y=0; x=1; y=1). The second empirical proposition is that the number of observed cases in cell III (x=0; y=1) should be limited in the case of necessary conditions. The bulk of cases located in cell III would constitute strong evidence for the rejection of the necessary character of x. The third empirical proposition is that the collection of data from cell II (x=1; y=0) is not needed for the perspective of necessary conditions. The collection of data from cell III highlights the mistake in large N regression analyses in the utilization of data from the four cells. Necessary conditions are not always sufficient factors to generate the outcome of interest on the dependent variable. Standard regression analyses underestimate the strength of hypothesized independent variables by collecting data from cell II.

Data and Samples

My sample consists of the members of the DAX 30 – Germany's blue chip index. I focus on the largest listed German companies since they are more likely to be targeted by shareholder value -driven investors (Goyer, 2011). I selected companies that are/were members of the DAX 30 index for at least two consecutive years from 2008 to 2015. Companies in the financial sector, namely insurance companies and banks, were excluded because their accounting practices do not enable for a comparison of their leverage ratio with non-financial companies (Atanassov and Kim, 2009). My final sample is 30 German companies. I also collected comparable data on UK companies to provide contextual insights on the German results. In order to heighten the degree of comparability with my German sample, I focus on large British companies that are members of the FT 100 index with stock market capitalization above 13 billion pounds as of January 1st 2016. I also excluded banks and insurance companies given issues of leverage comparison with non-financial companies. My final sample is 25 British companies. Why adding British companies to this sample?

The case of the United Kingdom is insightful for my analysis given its theoretical importance as a classic case of a liberal market economy with different institutional arrangements as compared to Germany (Hall and Soskice, 2001). Institutional configurations in the UK structure interactions among firm stakeholders in a specific manner, namely by privileging a shareholder value coalition between managers and shareholders (Gourevitch and Shinn, 2005: 259-262; Whitley, 1999). In the sphere of industrial relations, 'voluntarism' with relatively limited state intervention and legally enforceable framework (Edwards et al., 1998) stood prominently prior to the arrival in power of Margaret Thatcher. Apart from two legislative outputs (1971 Industrial Relations Act and the 1975 Employment Protection Act) that specified the period of eligibility and the level of compensation for dismissed employees, job security regulations were underdeveloped and offered little legislative protection for workers (Emmenegger, 2014: 183-191; Howell, 2005). Yet, the ability of employers to reorganize the workplace in a unilateral manner via fluctuations in the number of employees was constrained by the presence of shop floor stewards whose control over HR personal matters at the plant-level heightened their capability to instigate industrial action (Davies and Freedland, 1993: 60-64).

The election of Margaret Thatcher in 1979 signalled the end of the voluntarist system of industrial relations in the United Kingdom. In contrast to the German (and Continental European) experience whereby the search for greater labour market flexibility took the form of the liberalization of atypical employment while protecting the interests of employees on open-ended contracts (Hassel, 2014), British policy-makers opted for a full confrontation with organised labour (Emmenegger, 2014: 183-191). Two factors accounted for this stance: 1) the Thatcher government identified upward fluctuations in money supply, rather than increases in salaries, as the main cause of inflation; and 2) the ability of shop floor stewards to instigate strikes via their influence over HR personal matters was seen as a major impediment on the freedom of employers to compete with foreign rivals (Davies and Freedland, 1993; Hall, 1986: 100-136). Instead, the Thatcher government targeted directly the power of trade unions by abolishing the closed shop character of pre-job and post-job entry agreements for union membership; limited the ability of unionized workers to engage in secondary picketing, and imposed secret ballots for the approval of industrial actions (Howell, 2005). As a result, the institutional arrangements of job security regulations in the United Kingdom place few restrictions in relative terms on the managerial prerogative to adjust via fluctuations in the number of employees – i.e. easy to fire (OECD, 2004).

In the sphere of corporate governance, prior to the arrival in power of Margaret Thatcher, ownership remained concentrated in the hands of families despite extensive legal protection for minority shareholders (Chandler, 1990). Small shareholders shied away from owning shares in British companies. As argued by Roe (2000), corporate executives faced constraints in the implementation of shareholder value strategies due to the ability of shop floor stewards and firm-level unions to mobilize workers for industrial actions. By the late 1980s, in contrast, the weakened position of employees made it more attractive for small investors, and shareholder value driven investors, to purchase shares in listed companies. As a result, the system of corporate governance of the United Kingdom is currently characterized by the presence of shareholder value driven institutional investors and ownership diffusion – two features that are also prevalent in the United States (Appelbaum et al., 2013; Gospel and Pendleton, 2014).

The operationalization of the measurement of my dependent variables (employee downsizing and wage moderation) is derived from previous studies (Ahmadjian and Robbins, 2005; Alvarez, 2015; Munoz-Bullon and Sanchez-Bueno, 2014). I focus on major occurrences of restructuring to avoid capturing random fluctuations in the number of employees and in the total wage bill. Employee downsizing is defined as a five percent of more reduction in the total number of employees from the previous year; wage moderation is operationalized as a five percent of more in the overall decline of the total wage bill. The data for both employee downsizing and wage moderation was collected from Datastream. Instances of employee downsizing above five percent in figures 2, 3, 6, and 7 is coded as y=1; and as y=0 otherwise. Instances of wage moderation above five prevent in figures 4, 5, 8 and 9 is coded as y=1; and as y=0 otherwise.

The operationalization of the measurement of my independent variables (leverage and shareholder value driven institutional investors) was performed in the following manner. First, leverage was measured as the percentage of total debts over total capital (Atanassov and Kim, 2009). This information was also collected from Datastream. Second, the operationalization of leverage, i.e. whether is it low or high, was calculated as the average of total debts over total capital for my German and British sample companies. The rationale for this decision is that single country coding of leverage is not insightful given the presence of important differences in debt finance across advanced capitalist economies (Bessler et al., 2011). The operationalization of high versus low leverage was calculated by taking the average of the percentage of total debt to capital for my entire sample companies (30 for Germany and 25 for the United Kingdom) for the period of 2008 to 2015 divided by the total number of years. Aggregate leverage figures were respectively 39% and 35% for Germany and the UK, thus giving us an average of 37%. Companies were then classified as below leverage (x=0) or above leverage (x=1) based on whether their total debts over total capital for a single year was below or above the 37% mark (see figures 2, 3, 4 and 5).

Third, data on the presence of shareholder value driven institutional investors in German and UK companies was computed in the following manner. The first criterion for the collection of data on the presence of institutional investors focused on three categories of investors: hedge funds, mutual funds, and private equity. This selection reflects the disruptive character of the activism of these investors on the allocation of resources inside companies (Appelbaum and Batt, 2014; Davis, 2009; Kahan and Rock, 2007). These investors are characterized by the prevalence of performance concerns as opposed to risk diversification in their investment allocation, the financial incentives for financial managers (Appelbaum and Batt, 2014; Kahan and Rock, 2007). Moreover, these three categories of institutional investors are characterised by short-term horizon, as highlighted by their higher turnover rates of equity holding, with the implication that they often seek to secure the implementation of shareholder value enhancing strategic change in the short-term (Gospel and Pendleton, 2014; Goyer, 2011).

The second criterion was whether these three categories of institutional investors exceeded the threshold of three percent as owners of listed companies. In contrast to the investment strategy of risk diversification of pension funds in a large number of companies, these three categories of shareholders do target companies with the aim to force them to undertake strategic changes. The presence of institutional investors as shareholders owning more than three percent of the equity capital of the firm was coded as x=1 in figures 6, 7, 8, and 9 (and as x=0 otherwise). Finally, data on German companies were collected from annual reports and from Hoppenstedt Aktienfuehrer – an annual directory of the owners of German companies. Data on UK companies were collected from annual reports and from the database of the Financial Times (FT 500).

Findings

My empirical results present a different picture of adjustment between Germany and the United Kingdom in the context of the financial crisis. The main causal variable associated with the undertaking of corporate restructuring practices in Germany is the extent to which companies are leveraged. In the United Kingdom, in contrast, the presence of shareholder value driven institutional investors constitutes a more prevalent influential variable. These two variables will be discussed in turn.

First, leverage constitutes an important variable to account for the undertaking of employee downsizing in Germany (see Figure 2). Overall, there were 37 yearly instances of downsizing of five percent of more. A mere five (13%) took place in German companies with below average leverage. This pattern of adjustment sharply contrasts with the experience of the United Kingdom (see Figure 3). There were 26 yearly instances of major employee turnover in the United Kingdom, but seventeen (65%) took place in companies that had below average debt. Data found in cell III (x=0; y=1) constitutes disconfirming evidence of the necessity character of the independent variable. Thus, the German case highlights the importance of leverage as a necessary condition whereby major employee turnover took place in the restrictive context of poor financial performance in contrast to the experiences of liberal market economies (see Budros, 2002).[4]

[Insert figures 2 and 3 about here]

Second, the undertaking of wage moderation in the form of a decline of the total wage bill of more than five percent on a yearly basis broadly followed the same pattern of divergence between Germany and the United Kingdom. In Germany, 28 instances of major wage reduction were recorded (see Figure 4). Only seven (25%) of these occurrences took place in companies with below average leverage. This outcome contrasts with the adjustment pattern of British companies whereby 70% of occurrences of wage moderation (12 out of 17) occurred in the context of low leverage (see Figure 5).[5] The liberalization of atypical employment in Germany in the last twenty years has been impressive (Emmenegger, 2014:

[4] Additionally, German companies that proceeded to the implementation of major downsizing schemes had an average leverage ratio of 50% compared to only 36% for corresponding British companies.

[5] The average leverage ratio of firms which had recourse to wage reduction is 48% in Germany compared to 38% for the United Kingdom.

233-245). The capacity of corporate executives to adjust to economic shocks via the use of employee turnover has increased. In fact, there has been more major instances of employee downsizing (37 versus 26) and wage moderation (28 versus 17) in Germany than in the United Kingdom – albeit with a slightly larger sample. Yet, German companies do not generally made recourse to employee turnover in the presence of low leverage. These results on the causal influence of leverage are consistent with propositions 1 and 2.

[Insert figures 4 and 5 about here]

Third, the presence of shareholder value institutional investors as substantial owners of companies has resulted in different outcomes in the two countries. In Germany, most instances of major yearly employee downsizing took place in the absence of shareholder value driven investors (24 out of 37) (see Figure 6). In the United Kingdom, in contrast, the presence of institutional investors was prominent in the occurrence of substantial yearly employee turnover (23 out of 26) (see Figure 7). Fourth, the prominence of institutional investors over the undertaking of wage moderation strategy followed a similar pattern of cross-national differences. In Germany, wage moderation took place in many instances where shareholder value investors were absent (17 out of 28) (see Figure 8) while their presence was noticeable in the United Kingdom (15 out of 17) (see Figure 9). These results on the causal influence of shareholder value institutional investors are consistent with propositions 3 and 4.

[Insert figures 6, 7, 8 and 9 about here]

Discussion and Conclusion

The implementation of corporate restructuring practices in Germany has been widespread in the context of the global financial crisis. Viewed comparatively with the use of the UK case, micro-level adjustment has been prominent in both employee downsizing and wage reductions. In terms of employee turnover, my data highlights 37 instances of substantial downsizing (five percent or more in yearly reduction) in Germany compared to 26 in the United Kingdom for a broadly similar sample of companies (30 German firms and 25 British companies). In terms of wage moderation, the corresponding figures are 28 instances of major wage reductions (five percent or more in yearly reduction of total wage bill) in Germany as compared to a figure of 17 for the United Kingdom. The undertaking of micro-level restructuring practices in Germany has been influenced by macroeconomic conditions that have increased the ability of employers to extract concessions from employees (see e.g. Atanassov and Kim, 2009). For instance, I highlighted the importance of financial leverage as an important causal variable for the introduction of corporate restructuring practices. Yet, the importance of macro features over the implementation of adjustment strategies does not capture the strategic choice of corporate executives regarding the specific characteristics of corporate restructuring practices. Central to my political perspective, micro-level adjustment is also contingent upon the national institutional context and the interactions among different categories of firm-level actors.

The widespread introduction of corporate restructuring practices in Germany has been made possible by the implementation of important institutional reforms, i.e. the first dimension of my political perspective. Building on the insights of previous studies (Croucher et al., 2011; Goergen et al., 2013), my data highlights the importance of the process of liberalization in

Germany. The ability of German corporate executives to adjust to economic turbulence via employee turnover and wage reductions has significantly increased as the result of important institutional changes in the sphere of employment relations. Institutional arrangements are influential over corporate outcomes since they structure power relations among firm stakeholders in an asymmetric manner. The process of liberalization in Germany, as in other continental European economies, did not entail the dismantling of protective institutional arrangements of job security regulations for employees on open-ended contracts (Emmenegger, 2014; OECD, 2004). The liberalization of the German labour markets took the form of institutional layering whereby new institutional arrangements (reforms of fixed-term contracts and part-time work, derogation clauses to collective bargaining) were introduced alongside the extant institutional arrangements of regulation of open-ended contracts (Hassel, 2014; Thelen 2004).

Yet, the specific characteristics of the process by which corporate restructuring practices were introduced in Germany also reflect how institutional arrangements shape the way in firm stakeholders relate to each other in an interactive manner, i.e. the second dimension of my political perspective. The liberalization of specific institutional arrangements of employment relations in Germany did not result in the marginalization of employees. The specific characteristics of the process of interaction among firm stakeholders in Germany are captured with the comparative use of the UK case. The process in the adjustment strategy of German and UK companies exhibit striking differences between the two countries. My political perspective highlights that two important variables – leverage and presence of shareholder value institutional investors – exert diverging influence on employment outcomes in the two countries. In Germany, leverage constitutes a necessary condition for the undertaking of employee downsizing and of wage moderation, thereby providing support for propositions 1 and 2 (see Figures 2 and 4). In the United Kingdom, in contrast, leverage does not constitute a prominent causal variable as illustrated by the relative importance of observations found in cell III (x=0, y=1) (see Figures 3 and 5). The adjustment strategy of German companies also differs substantially from the American/British experience whereby the incorporation of shareholder value took place despite the absence of high leverage (Budros, 2002; Farber and Hallock, 2009).

With regard to the causal influence of shareholder value driven institutional investors, on the other hand, a reverse picture appears. In Germany, the bulk of employee turnover and of wage moderation took place in the absence of institutional investors, thereby providing support for propositions 3 and 4 (see Figures 6 and 8). In the United Kingdom, in contrast, the undertaking of corporate restructuring was invariably associated with the presence of institutional investors (see Figures 7 and 9). These results suggest that the liberalization of atypical employment in Germany, despite being comprehensive and widespread, does not constitute a functional equivalent to low employment protection for open-ended contracts as found in the United Kingdom. Adjustment strategies in Germany, at least in the short-term, are still constrained by institutional arrangements found in the broader economy – most notably those related to the legal rights of works councils. In addition, institutional arrangements found in the sphere of takeover regulation reduce the incentives of German corporate executives to govern the corporation exclusively for the interests of shareholder value driven institutional investors.

A legitimate question is to ask whether differences in processes among countries matter if the outcome is broadly similar. My political perspective suggests that the answer to this question is affirmative. An important segment of the German economy is still characterized by the importance of training and the production of firm-specific skills, particularly in the manufacturing sector (Estevez-Abe et al., 2001; Hassel, 2014). The acquisition of firm-specific skills by employees could be entirely lost in the event of job loss; or would be devalued in the event of massive wage compression. This is where differences in processes of adjustment matter. German companies have indeed adjusted, but in a manner consistent with sustaining credible commitment with core employees on open-ended contracts. The liberalization of atypical employment in Germany might not provide corporate executives with the functional equivalent of short-term flexibility as found in the dismissal regulations of liberal market economies. Analysed over the medium/long-term, however, short-term obstacles to full flexibility serve to maintain the credibility of commitments between management and employees (Hall and Thelen, 2009: 22-26). Interestingly, the use of fixed-term contracts has been prevalent in the service sector while their use by manufacturing companies has been more limited (Hassel, 2014). This situation reflects the strategic choice of IG Metall to reach to marginal workers in order to reverse its declining bargaining power (Benassi and Dorogatti, 2015). As a result, the use of atypical employment is three times lower in the manufacturing sector as compared to services (Statistisches Bundesamt, 2010). Therefore, the specific nature of the process of adjustment in Germany implies that, by eschewing the preferences of shareholder value driven investors and by limiting the recourse to atypical employment, companies have been able to maintain long-term relationship with core employees – albeit a diminished segment of the workforce. My political perspective provides insights to the dualization of work in Germany.

Yet, as the above example illustrates, my political perspective based on the importance of institutional configurations shaping the relative power of firm stakeholders remains incomplete. My analysis is probabilistic in the sense that predictions are based on the presence, or absence, of hypothesized variables in predicting outcomes. The use of case study would be insightful in order to illustrate the process by which corporate restructuring actually takes place inside companies. The decision of IG Metall to aim at influencing the regulation of agency work illustrates how strategic choices remain possible under a single institutional framework.

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Appendix

x Y	x=0	x=1
y=0	I	II
y=1	II	IV

Figure 1 – Table of Necessary Conditions

x Y	x=0	x=1
y=0	66	130
y=1	5	32

Figure 2 – Leverage and Employee Downsizing in Germany

x / y	x=0	x=1
y=0	90	84
y=1	17	9

Figure 3 – Leverage and Employee Downsizing in the United Kingdom

x / y	x=0	x=1
y=0	53	107
y=1	7	21

Figure 4 – Leverage and Wage Moderation in Germany

x y	x=0	x=1
y=0	82	86
y=1	12	5

Figure 5 – Leverage and Wage Moderation in the United Kingdom

x y	x=0	x=1
y=0	133	63
y=1	24	13

Figure 6 –Institutional Investors and Employee Downsizing in Germany

x y	x=0	x=1
y=0	34	140
y=1	3	23

Figure 7 –Institutional Investors and Employee Downsizing in the United Kingdom

x y	x=0	x=1
y=0	108	52
y=1	17	11

Figure 8 –Institutional Investors and Wage Moderation in Germany

x y	x=0	x=1
y=0	32	136
y=1	2	15

Figure 9 –Institutional Investors and Wage Moderation in the United Kingdom