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The Transformation of Corporate Governance in France and Germany: The Role of Workplace Institutions

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Abstract

This paper examines the process of refocusing on core competencies by large French and German firms. I compare two theories of comparative corporate governance on the question of refocusing: functional convergence and national institutionalist perspective. The empirical evidence presented in this paper points to two nationally specific patterns of change that do not meet fully the prediction of either perspective. Large French and German companies have changed but in different ways without experiencing any process of convergence. The differences in the process of refocusing in France and Germany are measured on three dimensions: speed of dismantling of conglomerates, adoption of financial transparency, and recourse to redundancies. I argue that the institutional arrangements of workplace organization constitute the critical variable accounting for the differences in the pattern of change in the two countries. In particular, the institutional arrangements of the organization of the shop floor provide management with constraints and opportunities to conduct the business strategy of the firm.

Zusammenfassung

Diese Arbeit untersucht den Prozess der Konzentration auf die Kernkompentenzen bei großen deutschen und französischen Unternehmen. Im Hinblick auf diesen Prozess lassen sich zwei theoretische Zugriffe unterscheiden: die Theorie der funktionalen Konvergenz und die institutionalistische Perspektive. Die Untersuchung zeigt, dass zwei national spezifische Veränderungsmuster existieren. Keiner der beiden Ansätze wird hinsichtlich seiner Vorhersagen gänzlich bestätigt. Konvergente Entwicklungen in großen deutschen und französischen Unternehmen sind nicht festzustellen. Unterschiedliche Veränderungsmuster zeigen sich in drei Dimensionen: der Geschwindigkeit der De-Diversifizierung, dem Grad an Transparenz und den Auswirkungen auf die Beschäftigung. Es wird argumentiert, dass die Ursache für diese Unterschiede in den Merkmalen der Arbeitsorganisation beider Länder liegt. Diese institutionellen Arrangements konfrontieren Führungskräfte mit unterschiedlichen Restriktionen und Möglichkeiten der Unternehmensführung.

Contents

1 Introduction

Will the globalization of finance, trade, and investment lead to convergence across national systems of corporate governance? [1]. The arrival of Anglo-Saxon institutional investors on the European continent has led to a resurgence of interest in the issues of convergence and comparative corporate governance (see Tables 1 and 2). Two competing systems of corporate governance were thought to exist in separate spheres prior to the diversification policy of institutional investors (see Franks and Mayer 1997; Prowse 1995, Roe 2000 for reviews). The Anglo-Saxon model of corporate governance is characterized by a diffused ownership structure, mutual and pension funds as key shareholders, high market transparency, active securities markets, and the importance of the market of corporate control as a disciplining mechanism. The continental European model of corporate governance has been associated with a concentrated ownership structure, banks and non-financial firms as important shareholders, low market transparency, underdeveloped securities markets, and the absence of hostile takeovers.

The challenge posed by the rise of Anglo-Saxon institutional investors as major shareholders of continental European companies is perhaps most visible on the question of the corporate strategy of the firm. Anglo-Saxon institutional investors have expressed strong views that are critical of the maintenance of the conglomerate form due to its perceived overall inefficiency as an organizational unit. The conglomerate, they believe, is an inefficient beast since in practice it frequently uses cross-subsidies from profitable divisions to shore up money-losing ones (Porter 1987). Moreover, Anglo-Saxon institutional investors have been adamant in seeing portfolio companies focus on a limited number of core competencies since most firms have succeeded in developing a world leadership position in only a small number of business activities (Prahalad and Hamel 1990). The availability of managerial talent is a limit on the growth of conglomerates.

Finally, the sophistication of financial markets has severely diminished one key advantage of conglomerates, namely the diversification of risk across many activities. Reliance on internally generated capital in conglomerates insulates managers from the pressures of capital markets (Jensen 1993). Institutional investors can readily diversify at much lower cost than conglomerates since they do not have to pay a premium for acquiring shares (Porter 1987).

The demands of Anglo-Saxon institutional investors for a strategic focus are increasingly converging with the interests of French and German managers. Foreign funds dislike the lack of transparency, cross subsidies between corporate divisions, and the overall perceived inefficiency of conglomerates. The performance of conglomerates is particularly difficult for foreign institutional investors to assess. As a result, conglomerates are penalized on financial markets. They suffer from a conglomerate discount, their stock market value being lower than the potential sum of their individual business segments (Lang and Stulz 1994; Scharfstein 1998). The conglomerate discount of large German firms in the mid-1990s (approximately 20%) was roughly similar to that of diversified Fortune 500 companies in the 1980s (Lins and Servaes 1999). French and German managers possess strong incentives to demonstrate a clear focus in order to avoid the discount. Undervalued companies constitute easier takeover targets (Davis et al. 1994).

Despite the convergence of the preferences of managers and shareholders, however, the call for increased focus on core competencies constitutes a challenge for the position of employees in the firm. First, the dismantling of conglomerates entails the elimination of cross subsidies among divisions. Employees favor the mode of operation of conglomerates, whereby the central office can reallocate funds from fast-growing units to poorer performing counterparts. Cross-subsidies across business units allow growing segments to pick up slack from stagnant markets in resource utilization (Bhide 1997). The increased focus on core competencies creates frictions with workers over the definition of the core business units and the uncertainties associated with divestiture of marginal units [2]. Second, the dismantling of conglomerates entails the elimination of the internal labor markets. In a conglomerate, employees can move from one unit to another in reaction to diverging performance (Doeringer and Piore 1985: 89-90). Third, conglomerates insulate firms from the pressures of capital markets – an outcome previously favored by both labor and management (Jensen 1993; Roe 2000). The propensity to build corporate empires proved irresistible to managers – and fit very well with the preferences of employees. Finally, the process by which American companies came to focus on their core competencies in the 1980s provided employees with highly unpleasant lessons. The decade was characterized by a process of restructuring that resulted in portfolio reorganization through a concentration on core business activities, rapid turnover of peripheral units, and subsequent downsizing programs (Bowmann and Singh 1993; Budros 1997). The use of junk bonds and other newly created financial instruments exposed diversified companies – once protected by their conglomerate structure and the redistribution of funds through its central office – to the competitive forces of product and capital market pressures.

I compare two theories of comparative corporate governance on the issue of refocusing: functional convergence and institutionalist perspective. For institutionalists, the prospects for convergence across nations are limited since domestic institutions mediate external sources of pressure and the presence of institutional complementarity limits the effectiveness of piecemeal change. For functional convergence theorists, the dismantling of conglomerates and the focus on core competencies across countries is not problematic since national institutions can change in function while retaining their original form. Moreover, economic competition acts as a selection mechanism that militates against the maintenance of inefficient institutions of corporate governance.

The empirical evidence presented in this paper point to two nationally specific patterns of change. Large French and German companies have changed their corporate strategy of diversification – but in different ways without any process of convergence. I argue that the institutional arrangements of the workplace organization account for the nationally specific pattern of refocusing. The organization of the workplace provides management with constraints and incentives to conduct the business strategy of the firm. The process of refocusing has taken place along a trajectory designed by the national institutional framework.

The rest of this paper is divided into five sections. First, I introduce the two leading perspectives on arrangements of corporate governance: national institutionalist and functional convergence. I discuss the central assumptions of both perspectives and compare their implications for the issue of refocusing on core competencies. Second, I present the empirical results on the process of refocusing for large French and German companies. The overall trend away from diversification in the two countries is accompanied by divergence on three key issues: the rate of dismantling of conglomerates, the adoption of financial transparency, and recourse to redundancies. Third, I compare the French and German legal regime on dismissals. I argue that the legal regime on dismissals is broadly similar between the two countries and, thus, cannot account for the different paths of adjustment. Fourth, I present the key institutional arrangements that account for the chief characteristics of the patterns of refocusing on the part of large French and German companies. In particular, I stress the importance of the organization of the shop floor in providing both constraints and opportunities for management to conduct the business strategy of the firm. Fifth, I conclude by presenting the theoretical implications of the empirical evidence presented in this paper for the study of comparative corporate governance.

2 Corporate Governance, Employees, and the Focus on Core Competencies in France and Germany: Institutional Stability Versus Functional Convergence

2.1 National Institutionalist Perspective on Corporate Governance

The central claim of this perspective is that institutions matter. Different institutions of corporate governance produce different consequences in terms of the mode of corporate decision-making, patterns of adjustment, and the distribution of value added among the various parties. The importance of institutions in the study of comparative corporate governance also lies in sustaining these initial differences within nations across time (Bebchuck and Roe 1999; Hall and Soskice 2001; Roe 2000; Whitley 1999; Zysman 1994). Institutions act as a filter to external sources of pressure.

The persistence of institutions over time within countries is accounted for by the presence of institutional complementarity. The sustainability of institutions of the national system of corporate governance is reinforced by their fit with the institutional structures of the other spheres of the economy (Bebchuck and Roe 1999). In particular, the presence of complementarity makes it difficult to proceed through piecemeal change (Hall and Soskice 2001). Milgrom and Roberts (1990, 1994) have best developed the efficiency version of complementarity, which refers to a relation among a group of activities. The presence of institutional complementarity is determined when an increase in any of the subset of activities results in an increase in any or all of the remaining activities (Milgrom and Roberts 1990: 514). The presence of institutional complementarity significantly contributes to the resilience of domestic institutions since it provides for the internal cohesion of the national system of corporate governance and constitutes a source of economic efficiency. First, it increases the contribution of individual institutions to the overall effectiveness of the activities of the firm (Milgrom and Roberts 1990, 1994). The sustainability of a single institution is reinforced by its fit with the institutional structure of the other spheres of the economy (Bebchuck and Roe 1999; Hall and Soskice 2001). In other words, each institutional feature fits with the others and makes them more effective than they would be on their own (Milgrom and Roberts 1994: 4). The chosen standard for evaluating the system is the aggregate institutional configuration rather than the sum of the parts. Second, institutional complementarity provides the fit with the conditions in an environmental niche that allow companies to achieve a position of economic competitiveness in markets (Aoki 2001: 88). The comparative advantage of a firm lies in achieving the proper match between its institutional and organizational features and the requirements associated with specific market niches (Sorge 1991). As a result, the piecemeal adoption of institutions is unlikely to work since it would break the existing institutional complementarity (Milgrom and Roberts 1994: 11). Third, the presence of complementarity constitutes a source of stability because of the system-wide ramifications of change. Patterns of institutional fit extend from one sphere of the economy to the rest: human resource policies and vocational training, organization of labor markets, subcontracting relationships, ownership structure, retirement system, and corporate and securities laws (Roe 2000: 601; Whitley 1994: 176). The interdependence of institutional arrangements entails that change in any part will require commensurate change in interrelated parts (Milgrom and Roberts 1994: 13).

2.2 Functional Convergence and Comparative Corporate Governance

Theorists of functional convergence share several assumptions with their institutionalist counterparts. They recognize the importance of the sustainability of institutions in the presence of external challenges. They assign great importance to the historical and political origins of institutions. They also argue that the presence of institutional complementarity reduces the effectiveness of piecemeal change (Gilson 2001: 335-6). The activities of entrenched interest groups, the rent seeking preferences of large owners, and the collective action problems faced by small shareholders make it difficult to change the national system of corporate governance by means of legislation (Coffee 1999: 650).

However, these scholars argue that convergence across national systems of corporate governance is possible – and indeed, is occurring – even in the absence of legislative reforms or institutional replication (Coffee 1999, 2000; Gilson 2001). Large firms have developed the ability to operate within a variety of national systems. The key insight behind this argument is that initial conditions and path dependency are not the only mechanisms influencing the behavior of companies. Firm strategy is also subjected to a powerful selection mechanism, namely competition (Gilson 1996: 332). If existing institutions do not allow domestic firms to compete with other systems of corporate governance, then functional convergence will take place.

Functional convergence can occur through two processes. First, institutions can change function but preserve their form (Gilson 1996, 2001). The implication of this process of functional convergence is that the link between institutional form and firm behavior might be less tight than originally conceived. Second, firms in different countries can converge through a process of migration and substitution (Coffee 2000). For example, several foreign firms from systems of corporate governance that do not provide adequate protection for minority shareholders have listed on U.S. financial markets. This action constitutes a bonding mechanism as these foreign firms commit to the more demanding mandatory disclosure requirements prevailing in the United States. The implication of this process is that national institutions persist, but their importance diminishes (Coffee 1999).

Finally, it is assumed that institutional replication will be the last stage of development across national systems of corporate governance. Formal convergence might be blocked by institutional, legal and political barriers that prevent national systems of corporate governance responding to the demands of the changed circumstances (Coffee 2000: 4). Institutional convergence cannot precede its functional counterpart.

2.3 Institutionalist and Functional Convergence Perspectives on Refocusing

From the institutionalist perspective on comparative corporate governance, the process of refocusing on core competencies might be difficult to implement. At the very least, the American version of the dismantling of conglomerates has to be seriously amended. Two potential obstacles stand in the way of refocusing in continental Europe. First, the political environment prevailing in continental Europe makes it difficult for managers to represent the interests of shareholders at the expense of employees. Distributional considerations force managers to forgo restructuring plans that would destabilize employment (Roe 2000: 539-53). The political uproar caused by various redundancy programs – such as the closing of Renault's Vilvorde site – increases the costs to firms of relying on external flexibility as a means of adjustment. In fact, programs of massive redundancies are politically acceptable only if the state provides dismissed workers with a level of compensation roughly equivalent to their working income. The unbridled pursuit of shareholder interests might lead to a political backlash (Roe 1998). Second, the institutions that have facilitated the restructuring process in the United States – shareholder value norms, transparent accounting, the market for corporate control, and proxy fights – are seriously underdeveloped (Roe 2000: 553). The crucial institutional absence in continental Europe is the flexible labor market. The degree of investor protection is negatively correlated with employment protection across advanced industrialized nations (OECD 1994). For every indicator of employment protection – notice and severance pay for no-fault layoffs, definition of unfair dismissal, and procedural delays – continental European nations have greater obstacles to dismissal than their Anglo-Saxon counterparts.

The functional convergence perspective on comparative corporate governance has different implications for the issue of refocusing. The lower stock market capitalization of continental European firms provides them with strong incentives to focus on a limited number of business activities. Given the spread of conglomerates in France and Germany (see Dyas and Thanheizer 1976; Whittington and Mayer 2000 for data), the conglomerate discount constitutes a quasi-universal problem for firms in these two countries. The inefficiency of the conglomerate form represents the perfect selection mechanism on the workings of national systems of corporate governance. The forces of competitive pressures are likely to become more important than the domestic pattern of institutional complementarity. Moreover, internal transformation is not seen as highly problematic since formal institutional stability can prevail through a change in functions performed by the various institutions of the corporate governance system (Gilson 1996, 2001). The end result would be the dismantling of conglomerates.

3 French and German Corporate Governance and Core Competencies: An Empirical Evaluation

3.1 Methodology

The reversal of the diversification strategy and the move toward an increased focus on core competencies by large French and German companies is a recent phenomenon. The use of the conglomerate form, the internal organization of the firm based on the multidivisional structure, and the diversification in many related and unrelated business activities characterized large companies in France and Germany at least until the mid-1990s (Dyas and Thanheiser 1976; Richter 1997; Whittington and Mayer 2000). This organizational structure was broadly similar to its counterparts in the U.K. and the U.S. (Chandler 1990; Rumelt 1974) [3]. From the point of view of labor, moreover, the conglomerate form allowed companies to stabilize employment, use up existing capital rather than downsize, and insulate management from the pressures of capital markets [4]. The diversification strategy and the multidivisional structure characterized these four large advanced industrialized nations despite substantial institutional diversity of their national systems of corporate governance (Whittington and Mayer 2000).

The aim of this section is to track the evolution of the strategy of large French and German companies in the last fifteen-odd years. The following methodology is used. The sample consists of twenty-eight currently existing non-financial French companies and twenty-five currently existing non-financial German firms (see Tables 1 and 2). The sample firms were selected on the basis of any of the following two criteria [5]. First, sample firms were part of the largest 75 companies by stock market capitalization in their respective market activities at the beginning of the study. Second, the current level of foreign ownership of sample companies is higher than 15%. The bias (and objective) of this case selection is that the selected firms are the most vulnerable to the demands of Anglo-Saxon institutional investors. The selection of these firms constitutes a critical test. If these companies do not meet the preferences of Anglo-Saxon institutional investors in regard to core competencies, then the rumors of the death of conglomerates in continental Europe would appear quite premature.

The methodology used in this study is consistent with the one used by the Harvard program on the M-firm and its successors on the measurement of diversification (see Chandler 1962; Dyas and Thanheiser 1976; Whittington and Mayer 2000). The definition of diversification in these studies is based on turnover rates for the largest business activity. A single business strategy is defined by a minimum of 95 percent of turnover for the largest business activity. A dominant business strategy is characterized by a turnover rate of between 70 and 95 percent for the largest business activity. Turnover rates below 70 percent for the largest business activity are associated with a strategy of diversification. I use the same classification with five new years of data: 1986, 1990, 1994, 1998, and 2000. Finally, I use a broad definition of business activities based on the work of Rumelt (1974).

3.2 Evaluation of Empirical Results

The structural organization of large French and German companies underwent an important transition between 1994 and 2000. The results on the evolution of the diversification strategy of large French and German companies are presented in Tables 3 to 6. The drive toward the diversification strategy has been stopped and, in several cases, reversed. However, the process by which large French and German companies did refocus differs in several key dimensions. The result is a lack of institutional and functional convergence on the corporate strategy of the firm and the role of employees in the national system of corporate governance.

First, the speed and extent of adjustment of the two countries are radically different. French companies have reduced their degree of diversification to a greater extent than their German counterparts (see Tables 3 to 6). Radical restructuring characterizes the restructuring process in France while the corresponding trajectory in Germany is more limited and incremental. This result is quite surprising given their different starting points. German companies were already more diversified in the 1980s and in the mid-1990s and, thus, had a greater potential for refocusing. Moreover, an empirical study comparing Germany and the United Kingdom between 1985 and 1996 suggests a different outcome (Angsar 1997: 6). The country with the higher rate of diversification and the greater potential for refocusing – i.e. the United Kingdom – undertook far-reaching changes in its strategy. It reduced its degree of diversification more rapidly than Germany.

Second, the trend away from diversification was accompanied by a lack of convergence in terms of financial transparency. The German system of corporate governance has been characterized in recent years by greater financial transparency through the adoption of international accounting standards (IAS or US-GAAP). In 1996, only nine firms of the country's largest 100 were using an international accounting standard. The same figure for the year 2000 is sixty-four. Moreover, every German firm in the 2000 sample of this paper reports according to an international accounting standard. The French system of corporate governance, in contrast, has remained largely opaque. The number of companies using an international accounting standard among the country's largest 100 has risen from thirty-five in 1997 to thirty-eight in 2000. The figures for the CAC 40 index are even more modest. The adoption of an international accounting standard by companies currently part of the CAC 40 index rose from eight in 1996 to fourteen in 2000. Of the twenty-eight firms in the year 2000 sample, a mere ten use an international accounting standard. Moreover, the use of quarterly reports by large companies in the two countries differs sharply. There are currently seventeen DAX 30 firms and nine CAC 40 companies reporting on a quarterly basis. Quarterly reports are important since they entail a financial evaluation of the firm by its various divisions. The use of quarterly reports makes more transparent the process of cross-subsidies and the overall operation of the firm. Thus, speed of adjustment and transparency appears complementary. French firms have been more aggressive in the process of refocusing without being more transparent. German companies have become more transparent and have been relatively more modest in the process of dismantling conglomerates.

Third, the consequences of the process of refocusing on employment protection differ between the two countries (see section 4). A large number of German companies signed written agreements with their labor force on the preservation of jobs. These agreements are legally binding on any new buyer. By contrast, a relatively small number of French companies signed employment protection agreements. Thus, refocusing was a negotiated process between management and employees in Germany. The American strategy of buying large diversified conglomerates, dismantling them, and selling the various parts has not been pursued in Germany.

4 Dismissals and Core Competencies

4.1 Introduction

The process of refocusing in continental Europe is potentially handicapped by the absence of a key institution, namely flexible labor markets. The American experience on the dismantling of conglomerates in the 1980s stresses the importance of the external flexibility of the labor market (Shleifer and Summers 1988). The process of refocusing in the United States in the 1980s was characterized by the buying and dismantling of diversified conglomerates and then selling off the parts for a sum greater than the value of the whole (Bhide 1997). The dismantling of conglomerates was not a negotiated process between management and its workforce. By contrast, the presence of legislative barriers to dismissals in continental Europe accounts for the lack of flexibility of its labor market (Flanagan 1987). For every indicator of employment protection – notice and severance pay for no-fault layoffs, definition of unfair dismissal, and procedural delays – continental European nations impose more barriers to redundancies than their Anglo-Saxon counterparts (OECD 1994).

There are two central objectives in this section. First, I demonstrate that the involvement of workers in the process of refocusing differs between France and Germany. Refocusing in Germany was a negotiated process with employees. A majority of large companies did sign employment protection agreements with their workforce. By contrast, the dismantling of conglomerates in France took place without written agreements with employees on the protection of existing jobs. Second, I show that the legal regime on dismissals in France and Germany are broadly similar. In other words, the different degrees of protection awarded to employees by large French and German companies as part of the process of refocusing cannot be accounted for by the national legal regime on dismissals.

4.2 Core Competencies and Dismissals in Germany

The new strategic focus of German companies was a negotiated process with their workforce. The selling of non-core units did not represent the unilateral assertion of managerial authority in the conduct of corporate strategy. The works councils even took an active part in the selection of firms to whom non-core units were to be sold. For example, the works councils of VEBA actively negotiated for potential buyers for VEBA Electronics and Astra Medica who would honor existing employment agreements (Zugehör 2001). More generally, works councils have negotiated comprehensive restructuring packages designed to allow the break-up of the firm without relying on an adjustment process based on dismissals and external labor flexibility. A little over half of the 100 largest German companies have negotiated a "location agreement" or an "employment pact" with their works councils in the last five years (Streeck 2001: 26). These negotiated agreements entail the trading of wages for job security for two to four years – even if units of the firm are sold off. Moreover, a little under 20 firms have also included specific investment plans for the next two to four years in exchange for more flexible work shifts and a reduction in company premiums and wages (Kotthoff 1998; Streeck 2001: 27) [6]. The move toward core competencies has taken place in a context where labor has been able to achieve employment guarantees and some influence over investment policy.

4.3 Core Competencies and Dismissals in France

The change in the corporate strategy of large French firms has entailed different consequences for the role of labor in the national system of corporate governance. The move toward core competencies has been associated with a pattern of adjustment based on the overall exclusion of labor from the decision-making process. The change in the corporate strategy of large French firms has been characterized by the redesign of the composition of the labor force.

Formal agreements on the preservation of jobs have been rather limited. From 1994 to 1998, there were thirty-one agreements dealing with the preservation of jobs for firms with over 500 employees (Dufour 2001: 100). Just over half (18/31) of these agreements were signed by the largest 100 French firms by market capitalization (own calculations). Moreover, there were two types of signed agreement on the preservation of employment: those dealing with an obligation of results and those dealing with an obligation of means [7]. For firms over 500 employees, 22 signed agreements involved an obligation of results. The remaining nine only entailed an obligation of means (Dufour 2001: 105) [8]. Finally, few of these job agreements involved a formalized plan of investments (Desseigne 1997: 51-7).

4.4 Redundancies in France and Germany: A Legal and Strategic Framework

The legal frameworks on dismissals in France and Germany are broadly similar on key issues. For every indicator of employment protection – notice and severance pay for no-fault layoffs, definition of unfair dismissal, and procedural delays – France and Germany impose several barriers to redundancies (OECD 1994: 69-76). For a list of 21 OECD countries, France and Germany ranked 8th and 7th in terms of the difficulty of dismissals (ibid: 74). The legal framework on dismissals in France and Germany raises two puzzles. First, the broad similarities of the legal regime on redundancies between France and Germany imply that law cannot account for the differences in the two patterns of refocusing. Second, the ability of French managers to focus on core competencies through a rapid dismantling of conglomerates is intriguing given the relative lack of flexibility of the labor markets in continental Europe. I tackle these two issues in the following discussion of the specific procedures for dismissals in France and Germany – and their fit with the overall business strategy of the firm.

4.4.1 Redundancies in Germany

The German regime on dismissals and redundancies is highly legalistic since it is based on the existence of a comprehensive set of rules governing the behavior of actors. This legal framework ensures the participation of workers at an early stage in the implementation of restructuring measures (Pistor 1999; Thelen 1991). The reduction of personnel in Germany cannot be accomplished without the input of the works councils. The legal framework for redundancies of full-time workers in Germany is governed by the Dismissal Protection Act of 1969. Either the economic situation of the firm or the personal performance of the employee concerned must justify the recourse to dismissal. In addition, the law defines the minimum severance payments for dismissed workers.

There is a lengthy legal process before proceeding to layoffs. This process is divided into three steps. First, management must inform and consult with the works councils in good time with regard to any planned operational change in one of its plants. Four broad categories cover operational change: reduction of operations or closure of substantial parts of a plant, relocation of substantial parts of a plant, merger with other plants, and the introduction of new working practices. A reduction in personnel is sufficient to constitute an operational change [9].

Second, management and the works councils must negotiate a compromise settlement (*Interessenausgleich*) once the duty of information and consultation has been fulfilled [10]. The compromise settlement involves the negotiation of conditions under which the planned operational changes must be implemented. Moreover, employers are obliged to investigate alternatives to dismissals, such as training or alternative jobs in the same firm. It is crucial to note, however, that workers cannot force an agreement upon the employer since labor law classifies dismissals as a managerial decision. The only obligation for management is compliance with the procedure described above. The works councils can appeal to a conciliation board presided over by a neutral labor judge and composed in equal parts of members nominated by management and the works councils. The legal jurisdiction of this board consists in assessing whether the employer has respected its duty of information and consultation. It cannot prevent the implementation of the planned restructuring measures. From the perspective of the works councils, recourse to the conciliation board can substantially delay the planned restructuring, thereby providing them with a certain amount of bargaining power.

Third, the negotiation of a social plan is the last stage associated with the process of implementing operational change in the numerical composition of the workforce. The central feature of the social plan is the calculation of compensation for the employees being laid off. The German labor code provides minimum standards for the conditions of the social plan – of which the most important is a severance package amounting to five to ten months' wages. Additional funds for dismissed workers are based on personal characteristics (age, length of service, and so on) and upon the general economic conditions of the firm. If negotiation between management and the works councils over the content of a social plan does not produce an agreement, both parties may appeal to a conciliation board. In this case, however, the conciliation board may impose a binding solution on the two parties – that is, against the will of the employer [11].

4.4.2 Redundancies in France

The legal regime on dismissals in France has undergone major shifts over the course of the post-war period [12]. The most prominent feature of the French labor code has been the administrative authorization on dismissals. A 1975 amendment to the labor code forced employers to secure an administrative authorization for layoffs of ten or more workers within a period of thirty days. This requirement to secure the approval of an official from the Ministry of Labor before proceeding to layoffs was almost always granted: more than 90 percent of request for dismissal were granted between 1975 and 1986 (Colin and Rouyer 1996: 71). Nonetheless, it acted as a serious brake on the capacity of large firms to respond flexibly to changing economic conditions. The recourse to dismissals became a negotiated process between large firms and state officials (Howell 1992). Interference from the Ministry of Labor could lead to serious delays and added costs [13]. The administrative authorization on dismissals was abolished in early 1987 by the Chirac government.

The current French legal regime on redundancies is the result of two major amendments to the labor code passed in 1989 and 1992. This new legal regime is broadly similar to that of Germany and was in great part inspired by the latter (Colin and Rouyer 1996: 72). The 1989 amendment imposes the introduction of a social plan in companies of over fifty employees if ten or more workers are fired within a thirty day period. There are numerous legal requirements imposed on French employers desirous to proceed to redundancies and they must be able to demonstrate that they have gone through the various steps.

First, employers have an obligation to consider alternative jobs compatible with the employees' skills and qualifications – and even investigate redeployment in lower grade posts – throughout the company. The possibility of proceeding to redundancies can only be considered once this has been done. This is the first legal step for dismissals. However, this obligation imposed on firms is one of means – not results.

Second, the 1989 amendment to the labor code also stipulates that the employer must draw up a social plan that sets out the reasons behind the proposed redundancies. The formal aim of the social plan is to reduce the number of dismissed workers and offer possibilities of redeployment. The introduction of reinsertion and training measures is compulsory if the social plan is to hold up in courts. Moreover, the social plan must be presented to the works councils at a minimum of two meetings – with its members informed of the precise number of jobs to be cut and the new posts to be proposed to existing employees placed on the dismissal list. The first two meetings must take place between fourteen to twenty-eight days of each other depending on the number of redundancies. Moreover, the works councils are entitled to the assistance of a financial expert trained to help them evaluate the analysis of the firm's financial problem as presented by the employer as well as the validity of the measures associated with the social plan. These provisions linked to social plans represent the administrative and legal requirements imposed on employers. They are, however, obligations of means – not results. Moreover, the employer cannot be held responsible for employees who cannot be integrated into the firm due to age or lack of qualifications. Finally, the minimum conditions of the content of a social plan are left undefined by the 1989 amendment. The 1992 amendment to the labor code adds a further constraint on the content of the social plan. The elaboration of the social plan cannot rely exclusively on training programs and retirement schemes both financed by the state. Some reinsertion and training measures must be financed by the firm itself for the social plan to be valid.

Third, works councils in France can challenge the validity of a social plan in court if there is a perception that the employer has not met all of its obligations. The employer must present a new social plan in the event of the initial plan having been declared legally invalid by a court. As in the German case, French works councils do not have the option of blocking the social plan unilaterally. In contrast to the German case, however, French courts do not have the power to impose a social plan on companies. They can only declare proposed social plans invalid if the employer has not followed all the various administrative and legal steps. It is interesting to note that the number of social plans that were declared invalid increased after the 1992 legislation. From next to nothing in the early nineties, more than ninety-three social plans were declared invalid in 1994. The annual average of social plans declared invalid by labor courts has tended to fluctuate around fifty percent since that period (Regini 2000: 26). Finally, dismissed workers are entitled to a priority right in hiring for a period of one year provided they meet the qualifications associated with the new post [14].

4.5 Corporate Governance, Law, and Dismissals in France and Germany

The previous discussion on the legal regime of dismissals in France and Germany solves one type of problem but raises others. There are substantial legal differences on dismissals between continental Europe and the U.K and U.S. These differences contribute in a significant way to preventing continental European companies from implementing a business strategy based on the rapid turnover of the workforce. However, the previous discussion reminds us that recourse to dismissals remains a managerial prerogative despite the presence of legal and procedural barriers in continental Europe. The differences in the legal regime on dismissals between Anglo-Saxon countries and continental Europe are relative. Works councils in France and Germany cannot block the implementation of job cuts but they can delay the process. Companies just have to follow procedures if they wish to proceed to redundancies.

The relative differences between OECD countries on the issue of dismissals contribute to our understanding of the transformation of French corporate governance. The dismantling of the conglomerate form and the lack of firm-level job protection agreements were made possible given the ability of management to proceed to dismissals via the sale of peripheral units and/or the recourse to redundancies. At the same time, however, the broadly similar legal regimes on dismissals in France and Germany obfuscate the differences between these two systems of corporate governance. Large firms in the two countries have reacted in different ways to the demands of Anglo-Saxon institutional investors for a clear strategic focus. Despite the fact that dismissals remain a managerial prerogative in Germany, large domestic firms have been active in signing job protection agreements with their employees and have shown modest signs of a strategy to dismantle conglomerates. I argue in the next section that the institutional arrangements of the workplace constitute the critical variable accounting for the differences in the pattern of refocusing between large French and German companies.

5 The Organization of Work, Corporate Governance, and Refocusing on Core Competencies

5.1 Introduction

The overall trend away from diversification among large French and German companies does not entail a convergence of their respective systems of corporate governance. The process of refocusing by large French and German firms differs on three key fundamental areas: the rate of dismantling of conglomerates, the degree of financial transparency, and the protection of existing jobs. Moreover, the empirical evidence on refocusing presented in section three points to nationally specific patterns of change that do not fully meet the predictions of either the national institutionalist or functional convergence perspective. Large French and German companies have undergone a substantial institutional transformation in recent years – but they have changed in different ways and without any process of convergence. I do not want to reject the validity of these two perspectives on comparative corporate governance. Instead, I seek to build on them by highlighting the conditions under which they provide valuable theoretical insights for our understanding of the evolution of national systems of corporate governance. I argue that the institutional arrangements of the organization of the workplace constitute the critical variable that accounts for the differences in the pattern of change in the two countries. The institutional arrangements of workplace organization entail constraining and enabling forces on the ability of management to conduct the business strategy of the firm. First, the organization of the workplace shapes a critical element of the business strategy, namely whether the

CEO and top managers can proceed to implement reorganization schemes in a unilateral manner or with the involvement of employees. The organization of work affects the delimitation of managerial authority. In turn, the constraints placed on management contribute to the elaboration of their responses to the demands of Anglo-Saxon institutional investors. The mix of constraints and opportunities placed on managerial autonomy has shaped the strategy adopted for refocusing – dismantling of conglomerates or the introduction of greater financial transparency. Second, the institutional arrangements of the workplace determine the types of conflict that will be prevalent in large companies. In turn, the types of conflict will present management with different sets of opportunities to either incorporate employees in the decision-making process or to exclude them.

The rest of this section is divided into three parts. First, I provide an introduction of the major institutional arrangements of workplace organization in large companies. I present an overview of the major shop floor requirements management must fulfill in the running of the firm. Second, I provide an evaluation of the French and German models of workplace organization. I analyze how the organization of the shop floor in the two countries serves as an instrument for management to deal with market uncertainties. Third, I specify the link between the institutional arrangements of the workplace and the nationally specific pattern of refocusing exhibited by large French and German companies.

5.2 The Institutional Arrangements of Workplace Organization

The organization of the workplace deals with micro issues related to the role of labor in corporate governance. There are two central technical problems in the organization of the workplace of large firms (Marsden 1999: 32-41). First, employers must proceed to align job demands with worker competencies. This is an efficiency constraint as the basic performance of companies depends on the correct match between tasks and competencies. Second, employers must be able to monitor their workforce through the use of criteria for performing tasks in a variety of work environments. This is an enforceability constraint as employers rely on a set of straightforward and unambiguous criteria to detect at a low cost potentially opportunistic behavior from workers.

The efficiency constraint requires employers to properly match job demands and employee competencies. This can be accomplished in two ways. Managers can select and use their own criteria to define positions and force workers to adapt or train them to fit the job definition. The alternative is for management to take into account the qualifications of employees and organize the workplace around their capabilities (Maurice et al. 1986: 67). Under the first scenario, employers choose their production techniques and then force and/or train their workforce to adapt to them. The demands of the tasks determine the capabilities of workers. Under the second scenario, the distribution of jobs is allocated according to the already acquired skills of employees. The qualifications of workers determine the definition of jobs.

The enforceability constraint requires managers to devise a set of criteria that will allow them to monitor their employees in a variety of work settings. This process can also be accomplished in two different ways (Marsden 1999: 36-41). The first solution entails the evaluation of work tasks according to a set of rules. The second solution involves the identification of functions to be performed and the assignment of a set of rules to them.

5.3 The Organization of Work in France and Germany: Institutions as Constraints

5.3.1 Introduction

The organization of the workplace differs substantially between France and Germany on both issues of efficiency and enforceability (see Géhin and Méhaut 1993; Howell 1992; Maurice et al. 1984 and 1986; Streeck 1991, 1992; Thelen 1991; Turner 1991 for reviews). The institutional arrangements associated with the efficiency constraint (matching jobs and worker competencies) stand at opposite ends of the spectrum. The German economy is predicated on the presence of a majority of employees with certifiable skills. The qualification of workers determines the definition of jobs. The access to a majority of jobs in large firms is based upon the holding of a recognized diploma or qualification – most often acquired as part of a vocational training program. Training is very often a prerequisite for employment and promotion (Maurice et al. 1986: 65-73). By contrast, managers in France use their own criteria to define jobs to which employees adapt either in training programs (blue collar) or through the obtainment of university diplomas (white collar). The relationship between training and promotion is reversed in France: management selects workers to be promoted and then provides them with the appropriate training. French employers have successfully resisted the various attempts by state officials to impose the recognition of state vocational training as a prerequisite for holding jobs (Culpepper 1998).

The divergent method of coupling tasks and competencies has been long-standing and is reflected in the place of vocational training in the two countries. The German training system is both prominent and autonomous – in stark contrast to the French situation. A substantially higher proportion of workers in Germany has received some vocational training. In 1970, only 27.6 percent of active males in Germany had no basic vocational training as compared to 79.7 percent in France (Maurice et al. 1984: 352). For the category of manual employees, 57.0 percent of German employees had completed a vocational training program compared to only 26.0 percent in France (ibid: 354). By 1995, the average number of trainees for large German firms (over 500 employees) was six per hundred workers with a retention rate of 85 percent. The corresponding figure for large French companies was 2.2 per hundred workers in 1996 with a retention rate of 35 percent (Culpepper 1998: 286-301). The French training system suffers from quantitative and qualitative problems.

Moreover, the vocational training system in Germany is well established and relatively autonomous from managerial interference. As previously mentioned, the organization of the workplace is predicated on the presence of a majority of workers with certifiable skills. It is also important to note that the importance of training in the German economy is legally based and protected from outside intervention (Culpepper 1998: 276; Muller-Jentsch 1995). A high number of jobs require certifiable skills that are acquired in vocational training programs. The relevant chamber (industry or commerce) must certify the training programs of firms, and any change in the content of training certification – the modification of an existing certificate or the introduction of a new one – requires the approval of a body of experts in which labor occupies half of the seats. The content of training programs in Germany is the outcome of a negotiated process between managers and employees. German managers are constrained on three fronts: skills constitute a prerequisite for jobs, management must provide the relevant training for employees, and an outside body where labor possesses a veto power must certify the content of these programs. Finally, works councils in Germany possess a full veto power over hiring. Firms would find it hard to dismiss the workers of peripheral units and hire outside experts in the area of core competencies. By contrast, boards of experts on training in France play a simple consultative role (Culpepper 1998: 278). No legal requirement to assign specific jobs for workers with certifiable skills is imposed on French firms. Moreover, works councils in France possess information rights over the hiring of new employees. As a result, the content of training programs and the place of skilled workers in the production process in France represent an area of pure managerial prerogative.

The second main issue of workplace organization concerns the resolution of the enforceability constraint (monitoring and involvement of employees). This is also an area that has exhibited striking cross-national differences between France and Germany. The French case is characterized by extensive rules that regulate the nature of the tasks to be accomplished – rather than the functions to be performed (Marsden 1999: 103-4; Maurice et al. 1986: 60-5). The monitoring of employees and the implementation of the business strategy are accomplished through numerous sets of carefully defined rules designed to specify the exact terms of exchange among parties and to predict all types of behavior on the shop floor. The organization of work is divided into fragmentary tasks whose content is predetermined. Moreover, the skills of employees tend to be narrow and highly task-specific. The process of monitoring employees through the assignment of rules to tasks is made easier if the skills of employees are narrow and easily measurable. The organization of work in France results in a high supervisor-to-worker ratio and a strict division of authority between employers and the workforce (Maurice et al. 1986: 69-80). The ratio of supervisors to workers is twice as high in France and it has the highest proportion of managers in Europe (Taddei and Coriat 1993: 219). French managers face few constraints from the organization of work in the conduct of the business strategy of the firm.

By contrast, the monitoring of employees in Germany takes place through the application of rules to broad functions, rather than by trying to predict all contingencies on the shop floor. The role of vocational training is also central in this process. Employees are grouped according to the types of qualifications they possess, and tasks are organized according to their skill requirements (Marsden 1999: 38). As a result, the German solution to the problem of enforceability results in the blurring of organizational boundaries, less segmentation and involvement of employees in many tasks, the greater autonomy of workers organized in teams, and the reliance on non-contractual safeguards against the hazards of self-opportunism by employees (Kester 1992; Sorge 1991: 166). The degree of polyvalence of German employees is rather high since the organization of the workplace favors the acquisition of broad based skills (Maurice et al. 1986: 69-73; Streeck 1991).

5.3.2 The Organization of Work in France and Germany and the Diversification Strategy

The organization of the workplace shapes the delimitation of managerial authority in the firm. It affects the ability of management to proceed to the reorganization of the production process by specifying the types of issues that require the participation of employees and those that can be undertaken in a unilateral manner. In turn, the opportunities and constraints placed on the CEO and top managers by the organization of the workplace shape their ability to meet the demands of Anglo-Saxon institutional investors. The demand for a focus on core competencies by American and British funds is mediated by the institutional arrangements of the workplace. The process of refocusing can be accomplished in more than one way. The institutions of workplace organization determine the characteristics of the domestic pattern of refocusing.

The institutional constraints inherent in the organization of work in Germany make it difficult for companies to refocus through the dismantling of conglomerates. The ability of managers to fire employees via social plans is tempered by the ability of employees to prevent the implementation of a business strategy associated with a focus on a single business activity. First, the veto power of employees over the content of training programs militates against radical changes in the organization of work. The organization of work in German companies is not liable to radical changes in technologies and markets, thereby discouraging the rapid dismantling of the conglomerate form. A focus on a single business activity can be seen as a strategic bet to put all one's eggs in the same basket. The involvement of employees in many activities combined with the absence of carefully designed formal rules makes it unlikely that the elaboration of a new business strategy and the implementation of new performance standards cannot be decided unilaterally by management (Whitley 1999). Second, the autonomy of employees on the shop floor is strengthened by the veto power of firm-level works councils over recruitment, which makes it difficult for firms to hire outside employees with the requisite skills in the core area of the firm's business activity. Works councils have frequently made strategic use of their veto power through linkage to other issues where they have weaker legal rights (Thelen 1991: 213). They can punish firms that rely excessively on dismissals in their refocusing strategy – and block attempts to centralize the decision-making process. The veto power of works councils over new recruitment makes it more difficult for firms to hire outside experts with the requisite skills in the core area of the firm's business activity. As a result, the dismantling of conglomerates is not the preferred option for management given the presence of institutional constraints on the implementation of the corporate business strategy.

By contrast, the presence of few institutional constraints associated with the organization of work in France strongly militates in favor of the dismantling of the conglomerate form so as to meet the demands of Anglo-Saxon institutional investors for a clear strategic focus. First, the degree of formalization of the monitoring system, the reliance on codified rules and procedures, and the bureaucratic controls associated with a rigid division of tasks contribute to reducing the dependence of management on the skills of employees. The business strategy of French companies is characterized by reliance on outside and highly qualified experts as a restructuring strategy (Hancké 2001: 323-27; Sorge 1991: 181-2). Second, the tight managerial control over the organization encourages a strategic focus on a single business activity since the ability of top managers to control how economic activities are carried out is limited by the complexity of its operations. Third, the sharp segmentation of production activities and responsibilities between blue-collar employees and managers, a rigid system of rules, and the emphasis on narrow and specialized skills limit the ability of workers to participate in the conduct of the business strategy (Maurice et al. 1986; Sorge 1991). Employees have a limited view of the full operations of the firm. The process of problem solving inside large French firms is management-led with the involvement of a few highly qualified technical specialists (Hancké 2001). Finally, the absence of delegating control to employees makes it easier for management to introduce radical changes in the organization of work and fit well with the innovative capabilities of French companies – which are concentrated in a limited number of areas of radical innovation (Goyer 2001).

5.4 The Organization of Work in France and Germany: Institutions as Opportunities

The institutional arrangements of the workplace also constitute a source of opportunities for management, with substantially different incentives for French and German managers. The institutional arrangements of the workplace result in strikingly diverging consequences for the conduct of the business strategy of large firms in two specific ways: involvement of employees in the process of problem resolution; and the types of conflicts generated inside the firm. The conduct of the business strategy deals with the presence (or absence) of constraints on management.

The institutional arrangements of workplace organization in France increase the ability of CEOs and their top managers to conduct the business strategy of the firm in a unilateral manner (Géhin and Méhaut 1993; Howell 1992). They also contribute to the weakness of labor and, moreover, to the necessity of excluding employees from the decision-making process. The French story is not simply that the structure of the workplace organization contributes to the weakness of labor. It is also one where the unwillingness of workers to cooperate is itself shaped by institutional arrangements – which in turn force management to exclude labor. The institutional arrangements of the workplace in France place few constraints on the ability of management to conduct the business strategy – but they also provide few opportunities to enlist the participation of other parties. By contrast, the German situation is the mirror image of its French counterpart (Streeck 1991, 1992; Thelen 1991). The organization of work makes it virtually impossible for top management to conduct the business strategy in a unilateral fashion. At the same time, however, employees have exhibited a strong willingness to cooperate with employers on key issues. The aim of labor unions and works councils in Germany has been to avoid business strategies that rely on low wages, rapid turnover of the workforce, and price competitiveness (Locke and Thelen 1995: 348-352). The institutional arrangements of the workplace place severe constraints on the ability of management in the conduct of the business strategy – but they also provide them with opportunities to incorporate employees in the decision-making process.

5.4.1 Workplace Organization and the Involvement of Employees

The institutional arrangements of the workplace result in strikingly diverging consequences for the conduct of the business strategy of large French and German firms in regard to the involvement of employees in two specific ways. First, the extent of the segmentation of production activities shapes the ability of actors to participate in the conduct of the business strategy. As previously mentioned, the organization of the firm in France is characterized by the sharp segmentation of activities and responsibilities between blue and white-collar employees, a rigid system of rules, and the emphasis on narrow and specialized skills (Géhin and Méhaut 1993; Maurice et al. 1984, 1986). Employees have a limited view of the totality of the operations of the firm. The process of problem-solving inside large French firms is management-led with the involvement of a few (internal or external) highly qualified technical specialists (Hancké 2001). The French organizational system and its corresponding adjustment process entail the use of a flexible labor market for highly skilled specialists. Coordination by top management is the key characteristic of the adjustment process in France. By contrast, the broad skills of German employees and blurred organizational boundaries provide them with a more complete view of the operations of the firm. Their skills are organized around broad functions that need to be performed – not around specific and narrow tasks (Sorge 1991). There is greater scope for the involvement of skilled blue-collar workers in problem-solving activities in Germany (Maurice et al. 1986). German (and Japanese) firms exhibit a strong propensity to rely on task rotation. The use of task rotation provides employees with a wide range of competencies that enable them to adjust to the many uncertainties of market fluctuations (Kester 1992; Streeck 1991: 15). The skills of employees shape their ability to solve problems, which in turn presents management with constraints on the ability to conduct the business strategy of the firm.

Second, the institutional arrangements of the workplace are critical to understanding the different patterns by which the skills of employees are integrated in the firm. The argument is that the career strategies of workers are affected by the system of job classification that, in turn, shapes the delimitation of managerial authority. This system affects the viability of a strategy based on rapid turnover of the workforce. In France, the absence of professional training as a criterion for holding jobs implies that other factors will matter. Managers have considerable autonomy in determining the content of the system of job classification – and the organization of the production process – since formal credentials of vocational training are rarely used (Maurice et al. 1986: 66). French firms have successfully opposed the recognition of vocational training qualifications as a prerequisite for holding jobs (Marsden 1999: 98). The career strategies and promotion patterns of employees in France represent two areas of pure managerial prerogative. Training and promotion are interrelated and the relationship between these two variables in France is the exact opposite to the one prevailing in Germany. French managers select workers to be promoted and then provide them with the appropriate training. The promotion of employees through training is a highly idiosyncratic and politicized process whereby personal favors can play a crucial role (Gallie 1978: 182). However, the skills acquired during training by a worker will be of value only if management promote that particular employee (Maurice et al. 1986: 50). The acquisition of certifiable skills is not a prerequisite for holding a job in the great majority of large French companies. The implication is that the career strategies of employees do not represent a constraint on the ability of management to conduct the business strategy of the firm. By contrast, the position and importance of vocational training in the organization of the workplace in Germany are firmly established and protected by law. The German corporate sector relies on the system of vocational training as several job categories require certifiable skills. The veto power of workers on the board of regional and industrial training commissions prevent significant modifications to the system and ensure a stable demand for certified employees by firms. By recognizing the system of professional credentials, German managers are less autonomous in controlling the career strategies of workers (ibid: 115). Promotion follows training in Germany.

5.4.2 Workplace Organization and Conflict in the Firm

Similar international trends do not translate into common pressures in all national economies. First, they are mediated by national institutional arrangements and refracted in various spheres of the economy. For national institutionalists, continuities within countries over time as well as differences across nations are accounted for by domestic institutional arrangements (Bebchuck and Roe 1999; Hall and Soskice 2001; Zysman 1994). Second, common international trends raise different types of political conflicts across nations (Locke and Thelen 1995). The same source of pressure entails different degrees of salience for domestic institutional arrangements. In other words, an external stimulus possesses different meanings across nations due to the differences in institutional starting points. The organization of the workplace is an important institutional arrangement that accounts for the different types of conflict across nations. In turn, the nature of conflicts presents management with opportunities to include (or exclude) employees from the decision-making process.

There are two potential sources of conflict inside large German companies. First, the legitimacy of workplace organization would be threatened by attempts from employers to recognize criteria other than professional credentials since it would affect worker mobility (Maurice et al. 1986: 170). The career strategies of employees could become subject to the preferences of management. Second, the involvement of employees in the process of problem-solving – made possible by the institutional arrangements of workplace organization – has led employees to consider the firm as the primary unit for the organization of production in the economy. As a result, attempts to achieve external flexibility via reduction of the workforce or extensive sub-contracting have been resisted by employees (Locke and Thelen 1995: 348-52).

By contrast, other types of conflict manifest themselves at the workplace in France. First, class opposition has been a central theme in management-labor relations in the post-war era (Howell, 1992; Ross, 1982). Labor organizations have pursued a state-centered strategy couched in a radical transformative discourse. They have rejected responsibility for involvement and management of the economic affairs of the firm. This political strategy has entailed a severe neglect of their labor market activities and a reliance on the state to achieve gains they could not achieve on their own. Moreover, French unions have adopted a defensive attitude of rigid opposition to change when they could not count on the support of the government (Chapman et al. 1998). As a consequence, works councils in France are too weak to force management to meet their preferences. This in turn reinforces their confrontational class-based strategies. The transition process associated with the period of post-dirigisme in France was characterized by managerial desire to remove organized and recognized skills from the shop floor in order to reduce the influence of workers over the production process and the introduction of new technologies (Hancké 2001). Tight managerial control of the production process fit well with the system of adversarial labor relations of France.

Second, the wage classification system in France has led to serious conflicts with the workforce over the introduction of flexibility. As previously discussed, the job classification system in France is organized around tasks. In this particular context, the salary of an individual employee is determined by the coefficient of the position he occupies. Each work post is associated with a coefficient that determines the salary of the worker (Maurice et al. 1986: 74; Marsden 1999: 98). Moreover, the link between each task/job and a coefficient runs through the firm from the lowliest employee to senior managers. Thus, moving from one post to another entails an automatic modification of salary. The system of coefficients has been strongly supported by employees. French unions have sought to eliminate the arbitrary use of power and authority in the firm (d'Irbarne 1989). The use of coefficients serves to partly eliminate the need for supervision and avoid reliance on implicit and diffuse understandings of what is expected. Coefficients constitute a system of specific and impersonal rules. However, this system of wage classification stood in the way of flexibility in France. It prevented the redeployment of employees in the light of changing market conditions (Streeck 1991: 44). The various measures associated with internal flexibility – alteration of work tasks and of the organization of production with the implementation of new technologies, alteration of working schedules in response to changes in demand, and introduction of new compensation schemes tailored to individual or team productivity – were forced on French employees by management.

The types of conflict generated by the organization of the workplace entail strikingly different consequences for the two national system of corporate governance. In Germany, strong roadblocks stand in the way of achieving flexibility via a unilateral redefinition of qualifications by management or through reliance on dismissals as a pattern of adjustment. The institutional arrangements of the shop floor seriously constrain the ability of management to devise a business strategy. At the same time, however, German employees have been quite willing to compromise on issues of internal flexibility since the legitimacy of works councils is not threatened. The process of adjustment has been characterized by the implementation of internal measures modifying the operations of the firm with its current workforce (Locke and Thelen 1995). The institutional arrangements of the workplace of large German companies provide a mixture of constraining and enabling elements that mediate conflicts (Streeck 1991).

The types of conflict prevailing inside large French companies have a more uncompromising character. The ideological posture of unions combined with the wage coefficient system force French managers to take all decision-making capacity out of workers' hands. Labor organizations in France have always been weak in the sense that they impose few constraints on management. However, they are not totally devoid of influence. In particular, unions can mobilize effectively against managerial reform plans that are dependent upon their cooperation. A critical transition point in labor-management relations in France occurred in the mid-1980s. The situation prevailing in large firms in France at that time the need to introduce flexibility in the workplace combined with their firms' specialization in high-volume, low-profit margin niches forced top managers to reorganize the workplace by excluding militant labor (Hancké 2001).

5.4.3 Workplace Organization and Financial Transparency

The first area of difference in the process of refocusing of large French and German companies concerns the reversal of the strategy of diversification in many business activities. French firms went much further than their German counterparts in meeting the demands of Anglo-Saxon institutional investors for a clear strategic focus (see section 3.2). The second area of difference in the process of refocusing between the two countries concerns the adoption of greater financial transparency. German companies have outpaced their French counterparts in meeting the demands of investors on this issue. This outcome is puzzling for two reasons. First, opaque accounting standards have traditionally been part of the institutional framework of corporate governance systems in continental Europe. Managers prefer that employees not know how well the firm is doing since they would otherwise demand higher salaries (Roe 2000: 568). More transparent financial reporting would allow shareholders to better monitor management, but it might also lead to an increase in the influence of labor. Second, the failure of French companies to adopt financial transparency is also puzzling since the lack of institutional constraints provides managers with substantial autonomy to conduct of the business strategy of the firm. The institutional arrangements of workplace allow for the concentration of power at the top of the firm.

The willingness of European companies to adopt greater financial transparency is significantly shaped by the participation of employees in the decision-making process. The extraction of greater value added by workers constitutes one possible scenario resulting from the release of additional financial information. On the other hand, greater financial transparency puts pressure on firms to adjust (Fox 1998). In particular, quarterly reporting entails the release of financial information for the various business units of the firm. Cross subsidies between units become more transparent and harder to sustain. Financial transparency is characterized by a dual nature – the release of more information to employees combined with greater pressures for adjustment. The willingness of European companies to adopt greater financial transparency is shaped by the extent to which employees internalize the heightened requirements to compete. The assumption of responsibility for the economic performance of the firm by employees provides key incentives for management to adopt greater financial transparency.

Employees in Germany internalize the heightened competitive requirements associated with financial transparency since they assume responsibility for the economic performance of the firm. The organization of the shop floor in Germany ensures the participation of workers at an early stage in the decision-making process (Pistor 1999; Thelen 1991). The works councils are key actors in the implementation of restructuring measures. By contrast, the exclusion of French employees from the decision-making process, combined with their ideological posture, reduces the incentives for management to adopt greater financial transparency. The introduction of financial transparency in France is unlikely to produce results similar to those obtained in Germany. The institutional organization of the workplace in France does not provide employees with the incentives to assume responsibility for the economic performance of the firm. As Hancké (2001) has demonstrated, the managerial strategy of removing skills from the shop floor in France in the 1980s was significantly influenced by the prior ability of craft workers to prevent the introduction of new production processes. Tight control over the production process constituted the managerial response to adversarial labor relations. The release of additional financial information in this context is likely to increase the demands of employees for a greater percentage of the gross value added of the company without leading to their involvement in the painful restructuring process.

6 Conclusion and Theoretical Implications

The changing external environment has resulted in the imposition of a series of capital and product market pressures on large French and German companies. Top managers must devise solutions that reconcile the competencies of the firm to both the competitive requirements of markets and the demands of Anglo-Saxon institutional investors. The different patterns by which the skills of employees are integrated into the firm constitute a critical variable accounting for the conduct of business strategy. The argument is that the career strategies of workers are affected by the system of job classification, which in turn shapes the delimitation of managerial authority. The institutional arrangements of the workplace provide serious constraints for German managers. The position and importance of training in Germany are both firmly protected by law. By recognizing the system of professional credentials, managers possess little autonomy in controlling the career strategies of workers. The pattern of workers' career strategies restrains the range of available business strategies. The room for managerial maneuver through the redeployment of existing employees is limited. The development of new product lines entailing the hiring of employees with the requisite expertise is a negotiated process and cannot be implemented in a unilateral manner by management. Works councils possess a full veto over new appointments, thereby seriously curtailing the rapid dismantling of conglomerates. By contrast, the absence of professional training as a criterion for holding jobs in France implies that other factors will matter. Managers possess considerable autonomy in determining the content of the system of job classification – and the organization of the production process – since formal credentials of training and professional qualifications are rarely used.

The multiplicity of strategic choices for managers facing capital and product market pressures and the occurrence of piecemeal institutional change constitute major theoretical insights of this paper. They cast serious doubts on the resilience of institutional complementarity since its presence has not been sufficient to prevent adjustment and the occurrence of institutional transformation. The transformation of the national systems of corporate governance in France and Germany has exhibited an element of institutional plasticity. The institutional arrangements of corporate governance in these two countries do not function solely as a mechanism through which external sources of pressure are mediated. The institutions themselves are undergoing a profound transformation. The empirical data presented here have shown that the transformation of the corporate strategy in these two countries has been limited to a number of uncommon areas. In other words, institutional change in the two countries has not been system-wide but piecemeal. The link between the various institutional features of the national system of corporate governance appears to be weaker than commonly assumed. A subset of institutional features can change without affecting the rest of the system.

The role of national institutions, however, is particularly useful in explaining the direction of change. Despite the presence of a range of potential strategies to a given problem, there are a limited number of responses available to firms and national systems of corporate governance. Some strategies are extremely difficult to pursue in a given institutional context. Moreover, the range of available responses is itself shaped by the existing institutional arrangements of the workplace. In other words, national institutions mediate the impact of external stimuli but the presence of institutional complementarity does not inhibit adjustment. The process of change is institutionally embedded. In France and Germany, the mixture of constraining and enabling institutional features have shaped the choice of strategy by top management. The institutional arrangements of the workplace have induced French and German managers to react in different ways to the demands of institutional investors for a clear strategic focus. Their divergent responses, however, have entailed substantial, but piecemeal, institutional change.

The process of refocusing in France and Germany also provides some support for the functional convergence perspective. Large French and German companies have responded, albeit in different ways, to broadly similar capital and product market pressures. The forces of competition have been influential in the process of adjustment despite the wide institutional diversity between the two countries. The functional convergence perspective, however, neglects the importance of the processes of change. The achievement of functional convergence in one area through different institutional means does not provide a basis for further functional convergence. The differences in the process of refocusing in France and Germany are driven by differences in the institutional arrangements of the workplace. The outcome is that the achievement of functional convergence in one area increases the importance of institutions in other areas (such as the innovation system and labor relations). The different strategies adopted by French and German companies in the past have actually reinforced other cross-national differences.

The key difference between the process of refocusing in the two countries is that it was negotiated in Germany, but unilaterally determined in France. The process of change is crucial given the need to build innovative capabilities. Some market niches require firms to respond quickly to changes in the competitive environment, to proceed to substantial shifts in product lines, and to introduce major changes in the production process (Gilson 1996: 336; Hall and Soskice 2001: 38-9). Other niches put a premium on the ability of management to issue credible commitments to their employees that they will not behave opportunistically, and to make small but continuous improvements to existing product lines (Gilson 1996; 335; Hall and Soskice 2001: 39). The ability of German companies to issue credible commitments to their employees has not been affected by the process of refocusing. Job protection agreements have been a major component of restructuring in Germany. The argument presented in this paper is not time-contingent as nationally-specific patterns of change shape the path dependent transformation of national systems of corporate governance. The question of the dismantling of conglomerates concerns both the extent and the speed of adjustment. The ability of German companies to issue credible commitments to employees would not be affected even if the conglomerate form were dismantled – provided that the process continued to entail job protection agreements. By contrast, the French experience bears closer resemblance to that of the United States in the 1980s, when gains from restructuring came partly at the expense of employees and the non-negotiated nature of the process of change hindered the ability of firms to make credible commitments to employees (Shleifer and Summers 1988). The processes of refocusing in France and Germany has left unchanged the institutional arrangements of the workplace, which in turn shape the business strategy of large firms. In other words, the occurrence of partial functional convergence in the two countries has not changed the nationally specific patterns of transformation of French and German corporate governance. The achievement of functional convergence in the area of refocusing does not entail convergence in the area of innovative capabilities. The process of change does matter for the transformation of national systems of corporate governance as it sends firms and nations along a path dependent transition. The occurrence of functional convergence is more difficult to achieve than that of institutional convergence.

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Tables

Table 1 Ownership Structure of French Firms

Firm (1)	**% of Foreign Ownership**	**% of Anglo-Saxon Ownership (2000)**
(2000)		
Accor	40.8	16.9
Air Liquide	29.3	15.5
Alcatel	50.0	40.0
Aventis (2000) (2)	74.2 (2002)	32.2 (2002)
Bic	12.8 (1998)	NA
Bouygues	22.0	17.0
Bull	29.6	9.4
Carrefour	30.0	20.0
Danone	42.0	24.0
Elf-Aquitaine (1986,1990, 1994,1998) (3)	50.0 (1998)	30.0-35.0 (1998)
Lafarge	51.0	29.0
Lagardere	49.0	35.0
LVHM (1990, 1994, 1998, 2000)	17.8	0.8
Lyonnaise Eaux (1986, 1990, 1994) (4)	NA	NA
Michelin	48.0	24.0 (US only)
Moulinex	20.0-25.0	NA
L’Oreal	20.0	6.5
Pechiney	50.1 (1997)	29.4 (1997)
Peugeot PSA	30.0	20.0
Pinault-Printemps Redoute (1990, 1994, 1998, 2000)	21.3	8.5
Renault	19.0	14.0
Rhone-Poulenc (1986, 1990, 1994, 1998) (2)	25.3 (1998)	18.5 (1998)
Saint-Gobain	40.5	24.4
Sanofi (1990, 1994, 1998) (5)	22.5 (1998)	NA
Sanofi-Synthalabo (2000) (5)	23.9	14.7
Schneider	32.0	20.0

Sodexho	19.1	10.0
Suez (1986, 1990, 1994) (4)	16.4 (1995)	NA
Suez-Lyonnaise Eaux (1998, 2000) (4)	55.0	17.6
Synthalabo (1990, 1994, 1998) (5)	26.3 (1998)	NA
Thales (formerly Thomson-CSF)	13.9	11.0
Total (1986, 1990, 1994, 1998) (3)	50.0 (1998)	34.3 (1998)
TotalFinaElf (2000) (3)	65.0	33.0 (1999)
Valeo	40.0	23.0
Vivendi (formerly Generale des Eaux)	53.4	25.0

Source: The Economist, July 10, 1999, p. 73; L'Expansion, December 21, 2000, pp. 76-9; and annual report of companies, various years.

(1) Data on turnover is recorded for the following five years unless otherwise indicated: 1986, 1990, 1994, 1998, and 2000.
(2) Data is recorded for Rhone-Poulenc in 1986, 1990, 1994, and 1998. For 2000, data is recorded for Aventis. Foreign ownership of Aventis comprises non-French and non-German shareholders.
(3) Data is recorded for Elf-Aquitaine and Total as separate companies for 1986, 1990, 1994, and 1998. Data for 2000 is recorded for TotalElfFina.
(4) Data is recorded for Lyonnaise des Eaux and Suez as separate companies for 1986, 1990, and 1994. Data for 1998 and 2000 is recorded for Suez-Lyonnaise des Eaux.
(5) Data is recorded for Sanofi and Synthalabo as separate companies for 1990, 1994, and 1998. Data for 2000 is recorded for Sanofi-Synthalabo.

Table 2 Ownership Structure of German Firms

Firm (1)	**% of Foreign Ownership**
Agiv	10.0 (1995)
Aventis (2002) (2)	74.2 (2002)
Babcock	44.8 (1990)
BASF	33.2 (2000)
Bayer	44.0 (2000)
Beiersdorf	NA
BMW	NA
Continental	<25 (1998)
Daimler-Chrysler (formely D-Benz)	50.0 (2000)
Degussa	18.0 (1998)
E.ON (3)	57.9 (2000)
Henkel	<10.0 (1998)
Hoechst (1986, 1990, 1994, 1998) (2)	23.8 (1998)
Linde	31.0 (1998)
Lufthansa	37.9 (1998)
MAN	14.0 (1998)
Merck	56-61 (1998)
Metro (1995, 1998, 2000)	NA
Preussag	29.0 (1998)
Porsche	NA
RWE	15.0 (2000)
SAP	35.0 (1997)
Schering	36.0 (1998)
Siemens	54.0 (2000)
Veba (1986, 1990, 1994, 1998) (3)	44.0 (1997)
Viag (1986, 1990, 1994, 1998) (3)	NA
Volkswagen	26.4 (1988)

Source: Deutsches Aktieninstitut, DAI-Factbook, various years; Deutsche Informationsbörse, DIB Aktienführer Deutschland, various years; Monopolkommission, Hauptgutachten, various years; and annual report of companies, various years.

(1) Data on turnover is recorded for the following five years unless otherwise indicated: 1986, 1990, 1994, 1998, and 2000.
(2) Data is recorded for Hoechst as a separate company for 1986, 1990, 1994, and 1998. Data for 2000 is recorded for Aventis. Foreign ownership of Aventis comprises non-French and non-German shareholders.
(3) Data is recorded for Veba and Viag as separate companies for 1986, 1990, 1994, and 1998. Data for 2000 is recorded for E.ON.

Table 3 Corporate Strategy of French Firms

Company	1986	1990	1994	1998	2000
Accor	DIV	DIV	DIV	DIV	DIV
Air Liquide	DIV	DIV	DIV	DOM	DOM
Alcatel	DIV	DIV	DIV	DIV	DIV
Aventis					SIN
Bic	DIV	DIV	DIV	DIV	DIV
Bouygues	DIV	DIV	DIV	DIV	DIV
Bull	SIN	SIN	SIN	SIN	SIN
Carrefour	DIV	DIV	DIV	DIV	DIV
Danone	DIV	DIV	DIV	DOM	DOM
Elf	DIV	DIV	DIV	DIV	
Lafarge	DIV	DIV	DIV	DIV	DIV
Lagardere	DIV	DIV	DIV	DIV	DIV
LVHM	DIV	DIV	DIV	DIV	DIV
Lyonnaise des Eaux	DIV	DIV	DIV		
Michelin	SIN	SIN	SIN	SIN	SIN
Moulinex	SIN	SIN	SIN	DOM	DOM
L'Oreal	DIV	DIV	DIV	DOM	SIN
Pechiney	DIV	DIV	DIV	DOM	DOM
Peugeot	DIV	DIV	SIN	SIN	SIN
PPR	DIV	DIV	DIV	DIV	DIV
Renault	SIN	SIN	SIN	SIN	SIN
Rhone-Poulenc	DIV	DIV	DIV	DOM	
St-Gobain	DIV	DIV	DIV	DIV	DIV
Sanofi		DOM	DOM	SIN	
Sanofi-Synthalabo					SIN
Schneider	DIV	DIV	DIV	DIV	DOM
Sodexho	DIV	DIV	DIV	DIV	DIV
Suez	DIV	DIV	DIV		
Suez-Lyonnaise				DOM	DOM
Synthalabo		DOM	DOM	SIN	
Thales-Thomson	DIV	DIV	DIV	DOM	DOM
Total	DOM	DOM	DOM	DOM	
TotalElfFina					DOM
Valeo	DIV	DIV	DIV	DIV	DIV
Vivendi	DIV	DIV	DIV	DIV	DIV

Source: International Herald Tribune, French Company Handbook, various years; and annual report of companies, various years.
Abbreviations: SIN (Single Business), DOM (Dominant Business), DIV (Diversified).

Table 4 Corporate Strategy of German Firms

Company	1986	1990	1994	1998	2000
Aventis					SIN
Agiv	DIV	DIV	DIV	DIV	DIV
Babcock	DIV	DIV	DIV	DIV	DIV
BASF	DIV	DIV	DIV	DIV	DIV
Bayer	DIV	DIV	DIV	DIV	DIV
Beiersdorf	DIV	DIV	DIV	DIV	DIV
BMW	SIN	SIN	SIN	SIN	SIN
Continental	DIV	DIV	DIV	DIV	DIV
Daimler	SIN	DIV	DIV	SIN	SIN
Degussa	DIV	DIV	DIV	DIV	DIV
E-ON					DIV
Henkel	DIV	DIV	DIV	DIV	DIV
Hoechst	DIV	DIV	DIV	DIV	
Linde	DIV	DIV	DIV	DIV	DIV
Lufthansa	SIN	DOM	DOM	DOM	DOM
MAN	DIV	DIV	DIV	DIV	DIV
Merck	DIV	DIV	DIV	DOM	DOM
Metro			DIV	DIV	DIV
Preussag	DIV	DIV	DIV	DIV	DIV
Porsche	SIN	SIN	SIN	SIN	SIN
RWE	DIV	DIV	DIV	DIV	DIV
SAP	SIN	DOM	DOM	DOM	DOM
Schering	DIV	DIV	DOM	SIN	SIN
Siemens	DIV	DIV	DIV	DIV	DIV
Veba	DIV	DIV	DIV	DIV	
Viag	DIV	DIV	DIV	DIV	
Volkswagen	DIV	DOM	SIN	SIN	SIN

Source: Frankfurter Wertpapierbörse, Börsenmitglieder, various years; Deutsche Informationsbörse, DIB Aktienführer Deutschland, various years; Frankfurter Allgemeine Zeitung Information Services, Germany's Top 300: A Handbook of Germany's Largest; various years; Monopolkommission, Hauptgutachen, various years; and annual report of companies, various years.

Abbreviations: SIN (Single Business), DOM (Dominant Business), DIV (Diversified).

Table 5 Evolution of Corporate Strategy, France

1986 (25 Firms)	1990 (26 Firms)	1994 (26 Firms)	1998 (26 Firms)	2000 (25 Firms)
20 DIV (80.0%)	21 DIV (80.7%)	20 DIV (76.8%)	18 DIV (69.2%)	16 DIV (64.0%)
0 DOM	3 DOM (11.6%)	3 DOM (11.6%)	3 DOM (11.6%)	3 DOM (12.0%)
5 SIN (20.0%)	2 SIN (7.7%)	3 SIN (11.6%)	5 SIN (19.2%)	6 SIN (24.0%)

Table 6 Evolution of Corporate Strategy, Germany

1986 (25 Firms)	1990 (26 Firms)	1994 (26 Firms)	1998 (26 Firms)	2000 (25 Firms)
20 DIV (80.0%)	21 DIV (80.7%)	20 DIV (76.8%)	18 DIV (69.2%)	16 DIV (64.0%)
0 DOM	3 DOM (11.6%)	3 DOM (11.6%)	3 DOM (11.6%)	3 DOM (12.0%)
5 SIN (20.0%)	2 SIN (7.7%)	3 SIN (11.6%)	5 SIN (19.2%)	6 SIN (24.0%)

Notes

1
A modified version of this paper is forthcoming in Curtis Milhaupt, ed. (2002), Global Markets, Domestic Institutions: Corporate Law and Governance in a New Era of Cross-Border Deals, Columbia University Press. I wish to thank Suzanne Berger, Richard Deeg, Philipp Genschel, Peter Gourevitch, Robert Hancké, Martin Höpner, Simon Johnson, Gerry McDermott, Curtis Milhaupt, Richard Whittington, Nicholas Ziegler, and Rainer Zugehör for comments on previous versions of the paper.

2
The opposition of labor unions to the dismantling of conglomerates is not always universal. In a survey on the question of the dismantling of conglomerates, a study found that German works councils were overall indifferent to an increased focus on core competencies (see Höpner 2001: 44). However, the same study found substantial deviation across the mean. Works councils opposed the dismantling of conglomerates if the firm was shareholder oriented.

3
For the case of the United States, however, conglomerates were dismantled during the takeover wave of the 1980s. In other words, the move toward a focus on competencies started about a decade earlier in the United States than in France and Germany (Davis, Diekmann, and Tinsley 1994).

4
British conglomerates constitute an exception to this dynamic. Job turnover was higher among conglomerates in the UK than among their American, French, and German counterparts. I thank Richard Whittington for this point.

5
I use published materials to collect data on the sales of French and German companies. The data for French firms was collected from the French Company Handbook (annual publication) published by the International Herald Tribune and from the annual report of companies. The data for German companies was collected from five sources: Frankfurter Wertpapierbörse, Börsenmitglieder, various years; Deutsche Informationsbörse, DIB Aktienführer Deutschland, various years; Frankfurter Allgemeine Zeitung Information Services, Germany's Top 300: A Handbook of Germany's Largest; various years; Monopolkommission, Hauptgutachen, various years; and the annual report of companies, various years.

6
The vanguard firms are Bayer, Continental, Daimler-Benz, Opel, Siemens, VEBA, and

Volkswagen (Desseigne 1997: 113).

7
By contrast, agreements on the preservation of jobs in Germany fall under the rubric of obligation of results-which is more constraining than obligation of means.

8
For the largest 100 French firms, 11 agreements imply an obligation of results and the remaining seven only imply an obligation of means.

9
The minimum conditions that must prevail before a reduction in personnel can constitute an operational change are as follows:

Number of employees in plant	reduction in personnel
21-59	6 or more
60-499	10 or more
500-599	30 or more
Over 600	at least five percent

10
The negotiation of a compromise settlement applies only to an operational change to plants with at least twenty employees.

11
The composition of the conciliatory board is the same for the compromise settlement procedure and for the social plan evaluation.

12
The following discussion of the evolution of the French legal regime on dismissals is based on Ardenti and Vrain (1991), Colin and Rouyer (1996), Desseigne (1997), Didry (1998), Teissier (2000), and Verkindt (1994).

13
For example, Rhone-Poulenc sought to streamline its textile operations by reducing its workforce of 4,000 by half in 1976. The opposition of state officials delayed the plan by two years and cost the company between six and ten billion francs (source: Cohen and Bauer 1985: 96-7).

14
The current legislation on social plans for dismissed workers – not protected by either redeployment measures or state retirement schemes – is the following. First, the statutory severance pay is a tenth of the monthly salary per year of service. Second, the notice of redundancy is one month for blue-collar workers and three months for white-collar employees and top managers.
