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Corporate Governance and Labour Management: An International Comparison

Howard Gospel*

Andrew Pendleton†

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of better disclosure”—but they support this claim with no empirical tests.

One can easily agree with the main points Bebchuk and Fried make and with the reasonableness of several of their recommendations without being convinced that all roads lead to the “managerial power” theory. Speaking for myself, I would have found the book more persuasive if the authors had reined in their horses at certain points.

This stimulating book raises many questions that can inspire future work. For example, what accounts for the big difference in pay-setting between the United States and the rest of the world? Will the new exchange reforms make a big difference, and if so, how big, relative to the extent of the changes Bebchuk and Fried advocate? Will Sarbanes-Oxley, the 2002 act regulating corporate financial record-keeping and providing penalties for its abuse, make much of a difference in the long run?

Bebchuk and Fried’s book is important for a variety of reasons. First, it carefully articulates the difference between the often-relied-upon “arm’s-length bargaining” framework and the “managerial power” perspective. Second, it neatly organizes a wealth of new evidence on executive pay in America today. Not only do the reference section’s 257 entries comprise a comprehensive listing of important academic studies, but the authors also present scores of anecdotes illuminating the “facts on the ground”—actual CEO pay plans and corporate governance situations. Third, the book is accessible to a wide audience. Even though there have been many recent reforms in corporate governance (Sarbanes-Oxley, for example, and new regulations affecting stock exchanges), this clear, forceful book will doubtless fuel additional reforms and academic studies in the corporate governance arena. The book has helped spark many new papers already, and I feel this is just the beginning.

Kevin F. Hallock

Associate Professor
School of Industrial and
Labor Relations
Cornell University

International and Comparative Industrial Relations

Corporate Governance and Labour Management: An International Comparison. Edited by

Howard Gospel and Andrew Pendleton.
New York: Oxford University Press, 2005.
325 pp. ISBN 0-19-926367-1, \$99.50 (cloth).

Ever since the fall of the Berlin Wall and the dissolution of the USSR, social scientists have paid increasing attention to the cross-country differences in socio-economic institutions that define “varieties of capitalism” (the term Peter Hall and David Soskice adopted for the title of their influential 2001 book) among the advanced capitalist societies. In examining the linkages between corporate governance and labor management, a distinction has conventionally been drawn between two main varieties: market or outsider systems (exemplified by the United States and United Kingdom), and relational or insider arrangements (exemplified by Germany and Japan). As Howard Gospel and Andrew Pendleton observe in their introductory chapter to *Corporate Governance and Labour Management*, a comparative survey of the evolving links between corporate governance, finance, and labor management is timely. First, high-profile corporate scandals have prompted a re-evaluation of the effectiveness of corporate governance arrangements and reforms, proposed or actual, in several countries. Second, in the context of the globalization of financial and capital markets, intensifying international competition in markets for products and services, and growing cross-border mobility of productive capital, the future of some national models—primarily of the relational variant—has been questioned. Put another way, whether relational systems of corporate governance and labor management are converging on the market-oriented Anglo-Saxon model has been widely debated.

This volume has two main objectives: to bring together analysis of systems of corporate governance and labor management both over time and in different national contexts (specifically, in eight advanced capitalist societies); and to explore how corporate governance and labor management interact to create distinct national configurations. In pursuing the latter objective, the contributors are alert to the impact that labor can have on corporate governance—something that is more apparent in the economies of continental western and northern Europe and Japan than in the Anglo-Saxon countries. The opening chapter also maps out more ambitious tasks. One is to go beyond the “oversimplified” (p. 14) distinction between market and relational systems to a more nu-

anced differentiation and clustering of national systems. In this respect, for example, the capacity of labor to exercise influence through strong voice rights in Germany is contrasted with its residual power to block reform in France, Italy, and Spain. Another is to identify which particular institutions have the most powerful effects among the wider set that previous literature has tended to treat as a systemic whole, an endeavor that the volume is less successful in realizing.

The bulk of the volume comprises nine country-based chapters examining corporate governance and labor management, the linkages between them, and contemporary developments in France, Germany (two chapters), Italy, Spain, the Netherlands, the United Kingdom, the United States, and Japan. Gospel and Pendleton helpfully provide an extended summary of each country chapter (Chapter 1, pp. 20–30). A particular strength of these chapters is their account of recent changes in systems of corporate governance, which entail the emergence of relational dimensions in the governance arrangements in the United States and United Kingdom, as well as the rise of shareholder value in countries with relational systems, and their interaction with labor management.

The final chapter, by Gregory Jackson, is comparative in focus. Besides providing a brief but tantalizingly suggestive comparison of corporate governance and labor management based on data for 22 OECD countries, Jackson cogently discusses the conceptual and methodological issues entailed in such a comparative venture. He concisely reviews relevant economic and sociological theories and discusses the problems in comparing cases (countries) where the sample size is limited compared to the potential number of explanatory variables, many of the variables covary, and there is limited diversity in terms of actual combinations of values of the different variables. In so doing, he furnishes the conceptual and methodological tools required for cross-country comparison. Deploying the fuzzy-sets method of qualitative comparative analysis developed by Charles Ragin (*Fuzzy-Set Social Science*, 2000), Jackson establishes combinations or conjunctures of dimensions of corporate governance and industrial relations that influence five labor (institutional or outcome) variables as either necessary or sufficient conditions: employee participation at board level; degree of unionization; employment protection law; centralization

of collective bargaining; and scale of downsizing. Given that the relationships hold only for subgroups of countries, which vary as between the five variables, these intriguing results might be regarded as “middle range.” One wider conclusion is that the tightness of the linkages between corporate governance and labor management varies, being more pronounced in the market-oriented economies of the United States and United Kingdom and also in the more regulated cases of Germany and Japan among the larger group of countries with relational systems. Another is that the impact of labor on corporate governance also varies, being most apparent in Germany and Japan and least apparent in the United States and United Kingdom.

The substance and quality of Jackson’s chapter notwithstanding, the volume falls somewhat short of the promise of its subtitle, “An International Comparison.” As with other volumes of similar ilk, a more accurate product description would be “An International Collection.” The reader must work extremely hard to compare institutions, and the linkages between them, across the individual country chapters. As Gospel and Pendleton acknowledge, “There is a circularity in the perspective and the different chapters begin their analysis at different stages” (p. 5). Particularly valuable would have been one or more “within cluster” comparisons, focused on pairs of countries with seemingly similar corporate governance and labor management systems. In the light of Jackson’s identification of specific linkages among the Nordic countries, the absence of a country-specific chapter on one of this distinctive set of capitalist societies is striking. Also absent is a thoroughgoing synthesis of the different trajectories of change in both corporate governance and labor management evident among the eight countries examined. Some distinct trajectories among countries with relational systems are identified by Tony Edwards in a chapter in the European Commission’s impressive *Industrial Relations in Europe 2004* report (Luxembourg: Office for Official Publications of the European Communities).

The volume’s strength is its demonstration of the relevance of an understanding of finance and corporate governance systems, and contemporary changes in these, to an adequate account of the different institutional arrangements that govern the labor market and industrial relations across advanced capitalist societies. The challenge ahead is to

sharpen and extend the lines of comparative analysis this book has opened up.

Paul Marginson

Director, Industrial Relations
Research Unit
Professor of Industrial Relations
University of Warwick

Historical Studies

Trade Unions and the State: The Construction of Industrial Relations Institutions in Britain, 1890–2000. By Chris Howell. Princeton: Princeton University Press, 2005. xi, 243 pp. ISBN 0-69101-2106-0, \$39.50 (cloth).

What ever happened to British labor? In the 1970s, British unions were powers in the land. In 1979, after toppling *three* governments in a decade, they enrolled a majority of British workers and were widely credited with dominating, if not undermining, the British economy. Prime ministers and cabinet members consulted labor leaders; union congresses and elections were legitimate front-page news. In barely a decade, all this changed. British labor proved to be a paper tiger, quickly tamed by the Thatcher government, which almost seemed to set unions on a path toward extinction. Strike activity withered, declining by over 80% per decade after 1979 until there were only 3% as many strikers in 1999 as in 1979. Membership also fell sharply, to under 40% of the work force in 1989 and under 30% in 1999. Even before the membership collapse, the unions had lost their consultative role with the government; but it was their lack of influence on the Labour government elected with Tony Blair in 1997 that confirmed just how much their power had declined.

Is labor's decline an anomaly or a trend? Scholars have debated this question, with most approaching it from the perspective of the workers themselves and their interest in forming unions. This reflects a prevailing "stylized fact" about British industrial relations, the idea that British unions have developed in an atmosphere of "collective *laissez faire*." Unlike the United States or continental Europe, where unions are protected by law, the British state has been abstentionist; without state support, British unions, it is said, have developed solely through the workers' own collective action, and their strength, where it has existed, has been due to

the unions' own efforts and market power. Working from this approach, then, it has been natural for scholars to explain union collapse as a result of market forces and economic conditions affecting the bargaining power of the workers and their unions.

Chris Howell brings to this debate a shrewd understanding of modern industrial relations, an understanding honed both in his earlier research on French labor and in a good historian's willingness to question received wisdom by reexamining the historical record. He begins by reinterpreting the history of British industrial relations, discrediting the myth of collective *laissez faire*. Taking on some of the biggest names in British industrial relations, including Otto Kahn-Freund, Hugh Clegg, Allan Flanders, and Alan Fox, Howell builds on a burgeoning historical literature, by Jonathan Zeitlin, Steven Tolliday, and others, that has chipped away at the abstentionist position by showing the importance of state policy for union development in many industries. Reconstructing British industrial relations history over the past century, Howell identifies three distinct periods: a long period of industry bargaining in competitive industries from the end of the nineteenth century through World War II, workplace bargaining with large, oligopolistic firms from the early 1950s through the 1970s, and individualized bargaining without unions since the early 1980s. Howell shows how the British state helped to construct each industrial relations system. By removing wages from competition, the government developed the first system of industrial relations to reduce competitive pressures on Britain's ailing manufacturing industries. This system was promoted by Royal commissions and officials at the Board of Trade and Ministry of Labour, who repeatedly intervened in industrial disputes to encourage collective bargaining. By the 1950s, however, changing economic conditions had undermined this system. Instead of competitive industries filled with small firms, the postwar British economy was dominated by a new set of industries, including automobiles and aerospace, with a few large-scale multi-national producers. Seeking to raise their own productivity to compete better internationally, and little concerned with wage competition with smaller and older firms, these firms abandoned the older employer associations and industry bargaining to seek workplace bargains not only over wages but over a broad range of aspects of work organization. Again, Howell finds that public commissions played a crucial role in interpreting economic