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# THE METAMORPHOSE OF SOCIAL PARTNERSHIP: INDUSTRIAL RELATIONS IN THE ERA OF FINANCE

MASTER THESIS

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## ABBREVIATIONS

| | |
|---|---|
| ESOP | -Employee Share Ownership Plan |
| GCR | -Global Competitiveness Report |
| ITUC | -International Trade Union Confederation |
| GDP | -Gross Domestic Product |
| NCEO | -National Center for Employment |
| NED | -Non Executive Director |
| OECD | -Organization for Economic Co-operation and Development |
| PMC | -Product Market Competition |
| PMR | -Product Market Regulation |
| VIF | -Variance Inflator Index |
| WB | -World Bank |

## COUNTRY AND CONTINENT ABBREVIATIONS

| | | | |
|---|---|---|---|
| AU | -Austria | IT | -Italy |
| AUS | -Australia | JP | -Japan |
| BRA | -Brazil | KOR | -Korea |
| BU | -Bulgaria | LUX | -Luxemburg |
| CAN | -Canada | LTU | -Lithuania |
| CHN | -China | LVA | -Latvia |
| CYP | -Cyprus | MEX | -Mexico |
| EAST-EU | -East-Europe | NL | -Netherlands |
| ESP | -Spain | NZL | -New Zealand |
| EU | -Europe | POL | -Poland |
| GBR | -Great Britain | RO | -Romania |
| GRC | -Greece | RUS | -Russia |
| HU | -Hungary | SVN | -Slovenia |
| IDN | -Indonesia | ST-AM | -South-America |
| IND | -India | US | -United States |
| ISR | -Israel | ZAF | -South Africa |

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# 1. Introduction

Corporate governance describes the structures, processes, and institutions within and around organizations that allocate power and resource control (Davis 2005:143). At the center of corporate governance stands the public corporation as an essential component of the contemporary financial world, where capital exchange tops $ 1.5 trillion per day, and new financial products are spread by a wide variety of global agents (Davis 2005; Engelen 2010). In this context of the globalization of finance, corporate governance arrangements and practices have increasingly attracted the attention of scholars as well as investors, not the least because repeated crises and scandals such as Enron and WorldCom have cast doubt over the efficiency of the existing corporate governance systems and arrangements worldwide (Wright et al. 2013:2). Seeing it as their task to remedy the repeated turbulences, the international organizations the European Union and the World Bank have actively pushed the diffusion of the set of shareholder practices. As European Union's Commissioner Mc Creevy explained: "the practices will make a big difference to investor protection, investor confidence and the functioning of the European capital markets" (European Union's press release, 2004). The shareholder practices are increasingly seen as a means to enhance transparency between companies and the private equity investors and to simplify cross-border operations (Aiguilera et al. 2009).

In a world in which capital markets become increasingly mobile, investors consider the quality of corporate governance of the firm before making investment decisions (La Porta et al. 2000). Consequently, corporate governance plays a crucial role in determining where, in what form and at which costs capital is provided by investors (De Jong et al. 2005). The set of shareholder practices have been promoted with the aim to protect the position of shareholders, who consider these practices as a manifestation of greater security of their property rights (La Porta et al. 2000: 4).

A number of scholars of the economic perspective have argued that convergence on a unique corporate governance model centered on shareholder practices would be the inevitable path for all firms (Gomez and Korine 2008; Edwards 2004; Hansmann and Kraakman 2004; Lele and Siems 2007; Wojcik 2006). Yet, despite pressures from international capital markets and the insistence of international institutions, empirical evidence shows that there is no common pattern of adoption of shareholder practices worldwide; rather, national systems of corporate governance continue to exhibit important differences (Aguilera et al. 2013).Despite considerable scholarly attention, to date no convincing argument could reveal the factors at the origin of the diversity. This thesis aims to address the question why in some countries firms tend to adopt shareholders practices while in other countries firms remain attached to their traditional model: what factors explain the differences in the adoption of shareholder practices in countries worldwide?

The question is often examined from the institutional approach (Hall and Soskice 2001; Hall and Gingeritch 2004; Roe 2003). The institutional approach takes for granted a path-dependent explanation, at the expense of a potentially intentional process, where political actors play the dominant role. This thesis argues that the determining factor explaining the differences rests in the strength of labor and management's compromise. A considerable number of scholars have argued that globalization and the technological advances have made the corporatist compromise obsolete (Baldwin 2003; Blanchflower 2006; Schmitt and Mitukievitch 2011).The dynamics of international markets, intensified competition, the integration of the domestic product market into the international market, and the spread of technological advances would pose a serious threat to the corporatist compromise (Grahl and Teague 1997).

What is missing in these arguments is an adequate assessment that can take into account the changing motivations and perspectives on interests of labor and management in the era of financialization. For this thesis an unique dataset is constituted, accounting for 188 countries worldwide; a longitudinal multilevel regression analysis is conducted. The results carry evidence that when economic rents are available, management and labor cooperate to block shareholder practices. This result is conform to the standard literature predicting a negative attitude to shareholder practices under the condition of economic rents (Barker 2011; Gourevitch and Shinn 2005; Hall and Soskice 2001; Pagano and Volpin 2005; Roe 2003). However, this outcome appears to be only half of the story. This thesis' analysis reveals that in absence of economic rents, labor and management cooperate to favor shareholder practices. By conducting a second more refined analysis, it could be demonstrated that labor and management have constituted a new form of cooperation, characterized by practices of information sharing and responsiveness to the concerns of each, shifting away from adversial industrial relations.

In the post-war period, the corporatist compromise has merited ample academic attention (Katzenstein 1985; Lijphart 1999; Schmitter 1974), followed by a period where the subject fell from favor. In a liberal world characterized by the decline of heavy industry, the practice of corporatist policy-making would have outlived its utility (Gobeyn 1993). This thesis' contribution to the academic literature is to provide empirical evidence that the corporatist compromise - in a new form - continues to exercise decisive influence on how practices are shaped at the firm level. The findings of this thesis are extensive and require opening up new fields of academic research. An understanding of the new corporatist compromise and its relation to corporate governance is also necessary from a practical viewpoint, since the way practices at the firm level are structured affects considerable parts of social life, determining how wealth is created and welfare is distributed.

## 1.1 The Concept of Shareholder Practices

Before developing the relevant theories and hypotheses, it is worthwhile considering how 'shareholder practices' is conceptualized, since it represents the dependent variable under examination of this thesis. Shareholder practices finds its origin in Jensen and Meckling's (1976) principal agency theory, where the authors aim to address problems emerging from the separation between ownership and control of the firm. They theorized that by re-uniting the interests of the firm's (shareholder) owners and those of the manager in the form of returns on the equity shares, managers are incited to perform well and to create wealth in the form of share value. Building on Jensen and Meckling's theory, the concept of the 'shareholder model' can be described in two distinct ways, as an ideology and as a set of practices.

First, the shareholder model has increasingly been associated with the ideology of 'codes of good governance'. Shareholder ideology refers to a discursive construct, employed in the language of a group of predominant economists and business people. As they argue, the era of financialization requires that a new socioeconomic model had to be developed. In this sense, the shareholder model functions as a universalistic script, that defines the legitimate agenda for local action (Meyer et al.1997: 144). The ideology of the shareholder model was well expressed in a landmark address at Transparency International, where the director of the International Monetary Fund, Michel Camdessus told his audience that: "member countries have recognized the vital importance of the set of shareholder value. This fundamental approach to corporate governance reflects a now universal consensus that gives legitimacy to the program that promotes transparency and ensures the rule of law" (Camdessus 1998, address at Transparency International).

Second, the shareholder model can be described as a set of best practices regarding the actual behavior of the firm (Aguilera et al. 2009). The set of best practices aims first, to enhance transparency through disclosure of information of the firm and its management.

While disclosure of information is not directly concerned with the quality of accounting procedures as these are set by accounting standards boards, disclosure aims to push the practice of information sharing on transactions between management and the company and on managerial remuneration (Martinova and Renneboog 2013:109).Second, the set of practices must serve to clarify the rights of shareholders with regard to the director's liability in case of transactions that cause harm to the firm. Finally, 'ease of suing in court' aims to clarify the conditions under which shareholders can sue in court in case of undue torts (Aguilera et al. 2009: 376). Following Aguilera et al. (2009) in this thesis 'shareholder practices' is defined as a set of practices, rules and institutions aiming at protecting shareholders' position and interests, by maximizing the share value of the firm. In order to facilitate the analysis, the term 'shareholder practices' will be employed to indicate the dependent variable of this thesis.

## 2. Theories

Following the publication of studies emphasizing the differences in corporate governance and practices in developing and developed economies (Franks and Mayer 1990; La Porta et al. 1998), essentially three groups of theories have sought to explain the pattern of diversity. The first group, belonging to the legal school of thought seeks to explain corporate governance in terms of the legal and regulatory context of a country, seen as an essential determinant in corporate governance practices (La Porta et al. 1997; 1998; Lele and Siems 2004). Corporate governance is examined through the analysis of legal changes, or more precisely, to what extent regulations are transposed in the national laws. However, empirical evidence shows that a number of countries, e.g. the US and Canada, have adopted shareholder practices in absence of any legal regulation (Barker 2010:73).

Scholars of the economic approach conceptualize outcomes of corporate governance practices from efficiency considerations of the firm's production; they assert that the natural selection of market forces weeds out inferior institutions (Hansmann and Kraakman 2004; Traxler 2001).What the implications are of compromises, conflicts and policies of actors of the firm concerning issues of authority, allocation of resources and decision-making processes is not examined by these theorists. Finally, the institutionalist school of thought seeks to explain corporate governance outcomes in terms of path-dependency at the expense of a potentially intentional process (DiMaggio and Powell 1991). This perspective cannot shed light on how institutions may be changed by actors motivated by perspectives on gains. The public corporation as an essential component of the contemporary financialized world is likely to reflect a playing field where interest group form and policies are enacted. This thesis starts form the assumption that the political approach is most appropriate to shed light on the question why in some countries shareholder practices are adopted, while other countries shirk to adopt these practices. It is argued that the adoption of shareholder practices is determined to a large degree by policies enacted by labor and management, united in a common compromise.

## 2.1 The Corporatist Compromise

That labor and management play an important role in corporate governance outcomes has been demonstrated in a large body of academic literature (Jackson 2004; Gourevitch and Shinn 2005; Rajan and Zingales 2003; Traxler 2001).The pattern of partnership is perhaps best expressed by Pagano and Volpin who argue that labor and management are 'natural allies in stabilizing the firm' (Pagano and Volpin 2005:841).

An extensive literature on the corporatist compromise emphasizes how labor and management were brought together by bargaining to overcome left-right and class divides (Gourevitch and Shinn 2005; Katzenstein 1985; Lijphart 1999). For Schmitter (1974) the corporatist compromise consists of a form of interest representation distinct from pluralism and statism. Lehmbruch (1977, 1979) considers corporatism as a form of policy making in which concertation takes a central place. The definition that fully captures the concept of corporatism comes undoubtedly from Katzenstein: "an ideology of social partnership at the national level; a centralized system of interests groups, and voluntary and informal coordination of conflicting objectives through continuous bargaining between the two interests groups" (Katzenstein 1985: 32).

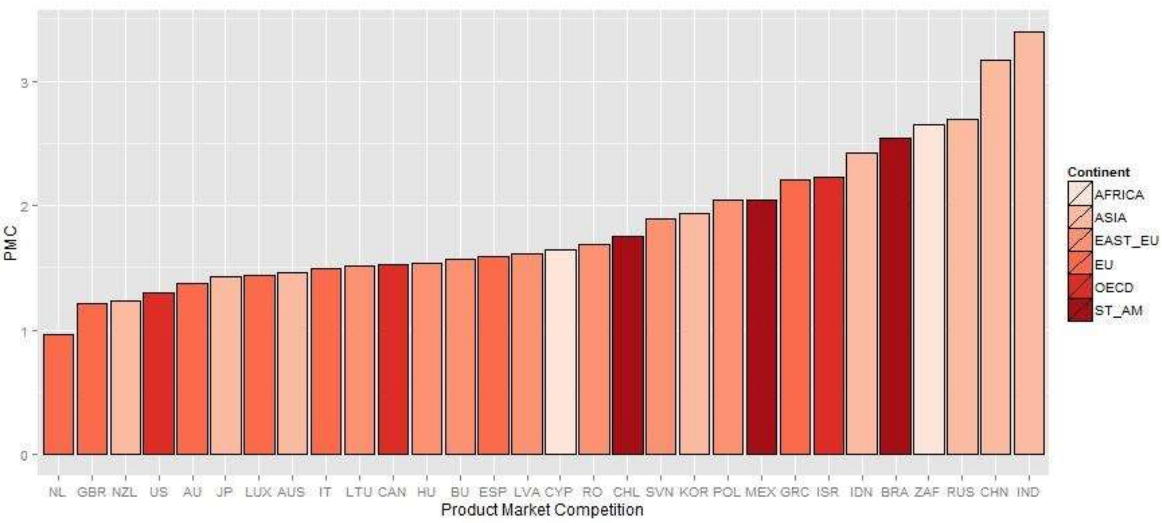
In the corporate governance literature, the modern manager is referred to as an insider of the firm who generally speaking is not the owner of the firm (Roe 2003; Tawney 2008). Despite the fact that the manager (often) does not own the firm, he has considerable influence due to the control over the firm's assets (Roe 2013), or due to his pivotal role which can be accommodated with labor as well as shareholders (Boyer 2005). More particularly, managers draw their power from their access to private information, such as the real amount of profits generated by the firm. Managers have a better knowledge than shareholders or analysts of the strength and weaknesses of the firm, since they know the routines and synergies that make firms profitable. This asymmetry of information can be strategically employed in the decision-making process concerning the firm (Boyer 2005:43).

It is well-known that labor is likely to ally with management, when the latter provides stable long-term contracts, with generous wage settlements. Labor's primary concerns are how much of the firm's rent is spend on salary, job security and welfare benefits (Gourevitch and Shinn 2005:149).

### 2.2 Economic Rents and Product Market Competition

A well-known theme in the corporate governance literature is that economic rents reinforce cooperation between management and labor (Barker 2010; Gourevitch and Shinn 2005; Rajan and Zingales 2003; Roe 2003). As is argued, economic rents enable the insiders of the firm to enjoy higher salaries than would be the case under the condition of a competitive product market (Chou et al. 2011). Economic rents play thus a role in determining which actors form interest groups and which compromises are made.

*Figure 1. Product Market Competition Index*




*Note:* The graph shows the different levels of domestic product market competition (PMC) of some developed and developing countries. The scale of the indicator is from 0 to 6, from the least to the most restrictive degree of competition, a high score indicating that there is few product market competition in a country, a low score indicating that there is substantial product market competition. For example, the bar plot indicates that the US, UK and the Netherlands have most product market competition, whereas China, the Russian Federation and South Africa have a restricted market competition (Source: OECD Product Market Regulation Index)

However, economic rents for insiders of the firm are a source of costs for shareholders. The reasoning behind this is that since labor and management are entitled to receive rents, they are likely to neglect considerations of efficiency and performance. As Nickell puts it: "it is undoubtedly true that there is the potential to have a quiet life in the form of monopoly rents for everyone in a firm with market power" (Nickell 1999:12).Competitiveness of product markets exercises a form of discipline over management and labor similar to that provided by a falling share price and the threat of takeovers. Tough market power forces the manager to improve the performance of the firm by setting international standards and by subjecting firm-level decisions to these transnational standards. In sum, market power is likely to reduce economic rents (Nickell 1999).

In similar vein, Lazonick and O'Sullivan (2000) have demonstrated that maximizing shareholder value transforms corporate strategies from an orientation of reinvestment in the firm favoring insiders, to one of downsizing the firm, favoring outsider shareholders' interest. Shareholder reforms, that seek to make the firm more competitive in an international market context, threaten to decrease the rents both business and labor receive. Adoption of the shareholder practices would imply that managers lose their independence to make decisions concerning the firm; for labor that their forces will be downsized. Adoption of shareholder practices would also imply that outsider shareholder investors become central participants in the decision-making process of the firm, undermining the position of both labor and business. When labor and management perceive that they share a common interest in the form of receiving rents, they will enact policies to maintain the status quo. The ability of labor and management to do so depends on the strength of their compromise. As Olson (2002) has demonstrated, small groups often are more successful in obtaining their preferred goals than large groups, since they can easily be organized by continued contact between their members (Olson 2002:52, 128). The more the partners cooperate, the more they will be able to push their goal. Building on the aforementioned theories the first hypothesis is formulated:

H1: The more there are economic rents in the domestic product market, and the more labor and management cooperate, the more the adoption of shareholder practices is resisted.

## 2.3 Trade Unionization

However, the dynamics of international capital markets with increasing levels of competition and the spread of technological advances is seen as factors undermining social partners' solidarity (Schmitt and Mitukievitch 2011; Lewin 2013; Peccei et al. 2010). Due to the integration of the domestic product market into the international market, economic rents may erode, which implies that one of labor and managers' primary motivations to align in a corporatist compromise is now lacking. As Traxler puts it:" managers more than any other group of actors in society are empowered to respond to economic change individually and autonomously" (Traxler 2004:43), implying that managers may chose to opt out of the compromise and profit from the opportunities the international markets offer. Shareholder practices would advance the interests of management, since these practices not only allow easy access to international capital markets, but also to make the firm more competitive by restructuring and cutting costs of labor.

The introduction of shareholder practices is generally speaking seen as detrimental to the interests of labor (Jensen and Meckling 1979; Lazonick and O'Sullivan 2000; Pendleton and Gospel 2013). Shareholder theory holds that owners and shareholders of the firm must obtain the highest authority over the firm; few considerations are made concerning labor's position and voice (Hansmann and Kraakman 2000). It is therefore reasonable that to argue that labor will choose to oppose management's choice in favor of shareholder practices. Traxler (2001) quantifies labor's ability to make its voice heard by measuring the density of trade unionization in a country. When trade unions succeed in transforming heterogeneous interests within their associational domain, they gain the necessary strength to formulate unequivocal policy demands for their constituency (Traxler 2001:39). Building on the aforementioned theories the second hypothesis is formulated:

H2:. The more there is strength of trade unionization in a country, the more labor will enact policies to oppose the adoption of shareholder practices.

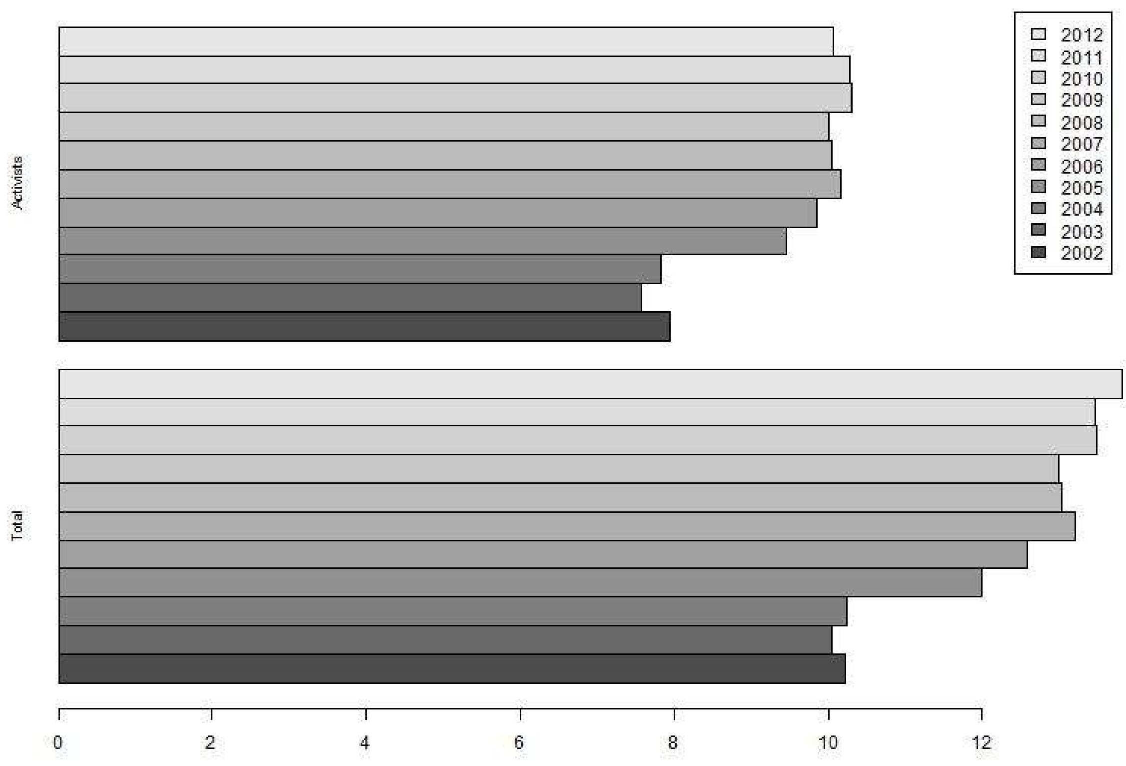
## 2.4 Competitive Corporatism

A considerable number of scholars have argued that globalization and technological advances have made the corporatist compromise obsolete (Baldwin 2003; Blanchflower 2006; Schmitt and Mitukievitch 2011; Wallerstein and Golden 2000). For many scholars corporatism has outlived its utility, for in a world of liberalized capital markets and welfare state retrenchments, the practice of corporatist policy making is bound to disappear (Molina and Rhodes 2002).

However, this viewpoint ignores the fact that labor and managements are susceptible to have changed their motivations and perceptions on interests in the new economic era. Since the 1980s two institutional changes have influenced managements' motivations: the development of new financial instruments and changes in managements' remuneration (Stockhammer 2008: 215). Boyer suggests that the diffusion of stock options and new financial products have been beneficial to managers not the least with regard to their remuneration (Boyer 2005).These observations concerning management find an echo in the financialization literature where studies have evidenced that employees increasingly profit from the internationalization of capital markets through benefits from stock options and (pension) funds (Erturk et al.2008).[1] The financialization literature has shown that the irreversible spread of coupon ownership has made employees themselves deal-driven market intermediaries (Erturk et al. 2008:18).

Undoubtedly, shareholding has grown exponentially worldwide. In the space of 30 years, the number of individuals holding shares in one form or another has grown from 30 million to 200 millions. In the US, the National Center for Employee Ownership (NCEO) estimates that in 2010 approximately 36 percent of employees working for companies with stocks (thus excluding governmental employees) owned stock or stock options for their companies (NCEO, Profile on Employee Ownership, 2015).

*Figure 2.Growth of Employee Shareholding from 2002-2012 in the US, in millions*




*Note:* (Active) participants include workers currently in employment in possession of an employee stock ownership plan (ESOP). Source: adaptation from the database of The National Center for Employee Ownership (NCEO, 2015).

[1] Remarkably, in the financialization literature (Gomez and Korine 2008; Erturk et al. 2008), the term 'labor' is replaced by the term 'employees' , suggesting that the workforce referred to consists mainly of white collar workers.

The changes in motivations and perceptions of interests are likely to push the partners to open up new spheres of bargaining and consensus-seeking (Gourevitch and Shinn 2005; Kädtler and Sperling 2008; Rhodes 2001).In similar vein, Rhodes holds that a new form of corporatism, 'competitive corporatism', has emerged under the conditions of the new economy (Rhodes 2001:167). He predicts that competitive corporatism is likely to resist since it is able to unite distributional social policies with policies that aim to enhance productivity (Rhodes: 2001:179). Rhodes conceptualizes competitive corporatism by establishing three criteria of productivity that require each of the social partners: a. to shift away from legislated or rule-governed market regulations towards negotiated labor market regulation; b. to develop a bargaining system that provides employers with the possibility of striking productivity-linked deals; c. to shift away from adversial industrial relations towards cooperation and consensus (Rhodes 2001:181). The benefits of competitive corporatism are for labor first, that it maintains a voice in the political decision-making process of the firm. Second, by remaining partner in the collective bargaining process, labor can ensure that distributional policies are applied, so that labor can share in economic progress. Finally, by linking its power to managements' power, labor establishes itself as an important political actor at the firm level. From management's perspective, competitive corporatism is a means to legitimate its control over the firm (Gomez and Korine 2008). Second, the new compromise offers the possibility to reduce transaction costs of employment regulations and wage settlements (Rhodes 2001). The more the partners succeed in aggregating their interests in a compromise, the more they are likely to push their favored position (Olson 2002). Building on the aforementioned theories, the third hypothesis is formulated:

H3: The more labor and management change their motivations and perceptions on interests as a result of the changing economic context, and the more labor and management cooperate in a competitive corporatist compromise, the more shareholder practices are adopted.

## 3. Research Design

This thesis seeks to explain the differences in the adoption of shareholder practices in countries worldwide. It is argued that the compromise between two main actors of the firm, labor and management, is the determining factor shaping corporate governance outcomes. This section lays out the operationalization of the variables considered for this analysis as well as their employment in the hypotheses.

Much scholarly work concerning corporate governance models and their adaptation to the new economic era have been published since the 1990s. Academic research on the topic mostly focused on a selection of OECD countries. By examining the major studies on the subject written by Barker (2011), Gourevitch and Shinn (2005), and Roe (2003), Traxler (2001) the problem of small-n sample relative to the explanatory factors becomes apparent. This study will not preselect a sample but instead include the whole population of 188 countries worldwide. Furthermore, the major part of the aforementioned studies based their empirical evidence mostly on case studies, which is valuable in their own right, but impose limits on the question of generalization. This thesis therefore takes the initiative to address the research question from the perspective of a quantitative large-N design. The time span of the analysis, from 2004 to 2013 is chosen because of data availability. The agencies Deminor and Cesifo begun to propose datasets on corporate governance ratings from 2000 on. However, a full dataset allowing for a longitudinal analysis encompassing the worldwide population is only available since 2004.

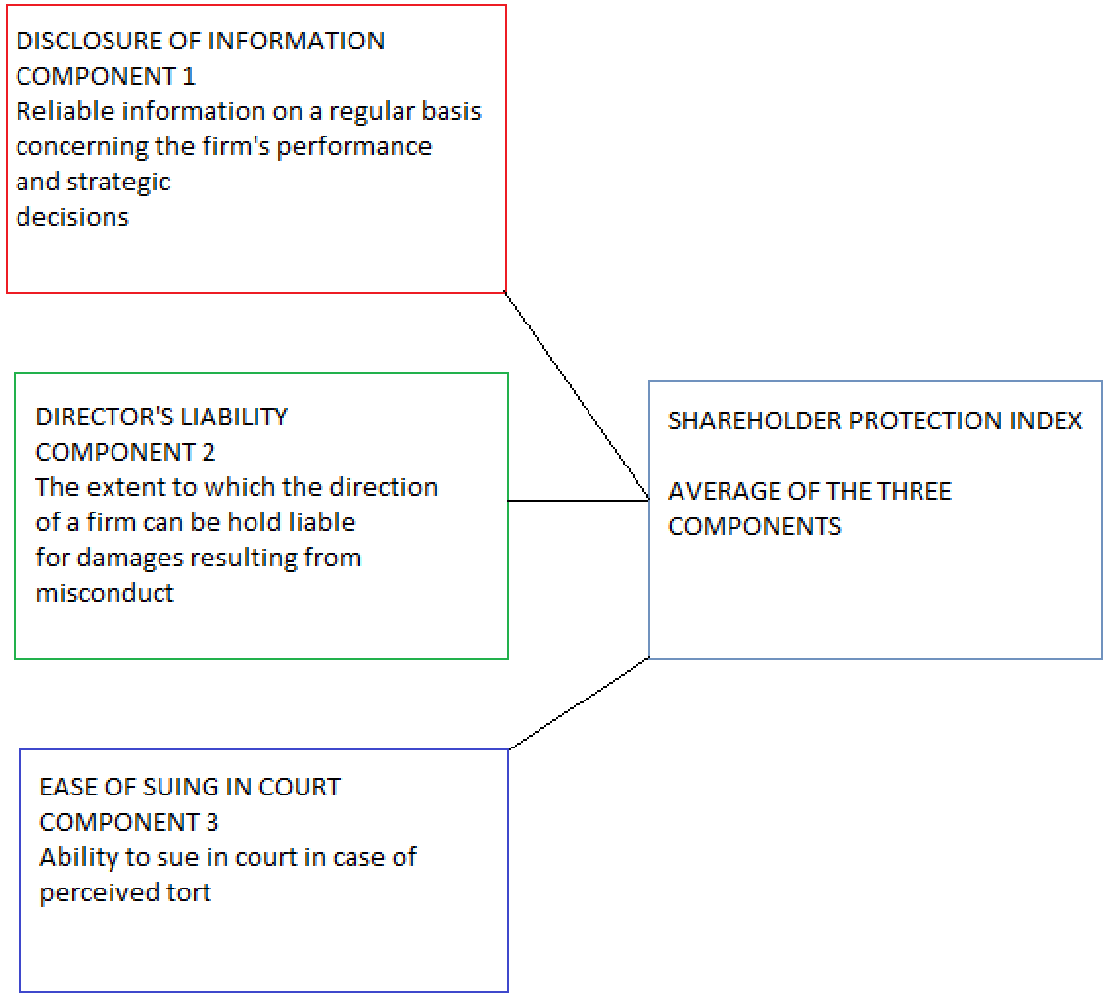
### 3.1 Shareholder Practices

Triggered by the question whether the pressures of the new economic era would lead to changes in the national corporate governance systems, a stream of academic studies has provided comparative country analyses. A general issue frequently debated in the corporate governance literature is how to measure and to identify the underlying (power) structure of the corporate governance and its practices across countries. Since 2000, different indexes have been developed with the aim to offer tools for cross country comparisons. However most indexes have limitations.

The first limitation of most indexes is that they are static (Aggarwal et al. 2007). Practices tend to develop over time, often from bottom up, through the incessant interaction between actors of the firm conditioned by internal and external pressures (Beyer and Höpner (2003). The second limitation of most indexes is that they only cover a small country sample (Lele and Siems 2007; Martinova and Renneboog 2013). The most popular index, La Porta et al.'s Minority Shareholder Protection Index (La Porta et al. 2000) is constituted on the basis of the legal approach, measuring corporate governance in terms of a country's existing laws and regulations. The index has been increasingly criticized for reasons of validity. Indeed, the rules-of-the-books can be identical in two countries, but the quality of enforcement makes that practices may differ importantly in reality (Roe 2003:184).

For this thesis, the adequate database for the dependent variable is the one that can capture how shareholder practices are applied in reality. Therefore, this thesis employs for the operationalization of its dependent variable World Bank's database the Doing Business Investor Protection Index, including data from 188 countries from 2004 to 2015. The objective of Doing Business is to provide information to investors about a country's corporate governance standards and practices (World Bank Doing Business, 2012). The databases are constructed on the basis of evaluations from annual surveys. The questionnaire, addressed to managers, lawyers and business partners asks respondents to grade a country on three components, 'disclosure', 'liability', and 'ease of shareholder suits'. Disclosure measures the availability and quality of information on corporate governance; liability evaluates the extent to which management of a firm can be held responsible for misconduct; 'ease of shareholder suits' aims to clarify the conditions under which shareholders can sue in case of perceived undue torts. The variable Minority Investor Protection Index is calculated on the basis of the average of the three components. For the main analysis the overall Minority Investor Protection Index will be employed, in a second analysis the three components will be employed separately.

*Figure 3: Schedule of the Three Components of the Shareholder Protection Index*




The Doing Business database is adequate for this thesis since the scores are established on evaluations to what extent shareholder regulations are applied in practice. Furthermore, the employment of the time series database (from 2004 to 2013) implies that there are 10 observation points covering 10 year observations. Employing the time series database increases the reliability of the evaluations to what extent the shareholder model is applied in practice. The database therefore is likely to represent actual firm-level behavior. By focusing on the practical application, the data can take into account a broad range of factors that influence a countries' willingness and capacity to apply the regulations.

The World Bank website mentions that the data for the years 2014 and 2015 are not compatible with the previous years of data collections, since another methodology is employed. For this reason, the databases of 2014 and 2015 are excluded from the analysis. To avoid any misunderstanding, the database measures shareholder practices aiming at protecting minority shareholders, or to which degree the shareholder practices are applied in reality.

### 3.2. Testing The First Hypothesis: Cooperation And Economic Rents

Testing how cooperation between management and labor under the condition of economic rents affects the adoption of shareholder practices, requires two variables. Therefore, an interaction term is employed, including two variables: *Cooperation*PMC* (as will be explained below, the variable PMC is used as a proxy for economic rents).

A database providing the relevant information about the first variable, cooperation between management and labor including all countries, was difficult to obtain. For the operationalization of this independent variable, this thesis employs the Global Competitiveness Report (GCR) 2012, edited by World Economic Forum's database. The GCR uses statistical data collected from World Economic Forum's Annual Executive Opinion Survey, from which The Global Competitiveness Index is constructed, which includes 12 pillars. The data employed for this study are drawn from the pillar Market Efficiency, that includes a measure on the degree of cooperation between employers and labor. The data are gathered from a question asking respondents to evaluate on a scale from '1' to '7': "How would you characterize labor-employer relations in your country?" ('1'=generally confrontational; '7' = generally cooperative). The terms 'employer' and 'management' have slightly different meanings, the first referring to the person who is responsible for running a business organization, the second referring to organization or person labor is working for. However, since the terms are quite synonymous, it is assumed that for this variable 'employer' can be used as a proxy for management.

Another possible measurement of cooperation and coalition formation between labor and management could have been OECD's Archive Database Strength of Collective Bargaining, employed by previous studies (Barker 2010; Edwards 2004; Gourevitch and Shinn 2005). However, this database covers only a limited number of countries. A second problem is that 'strength of collective bargaining index' can represent different measurements in different countries. While in some countries the collective agreement is legally binding, in other countries this is not the case. In countries, where agreement is based on the *erga omnes* rule, it is difficult to measure the precise political involvement and influence of political actors. The GCR's indicator is likely to provide a more adequate proxy of the degree of alignment between the labor and management, since it measures their degree of cooperation at the firm level.

The second variable required to test the first hypothesis is 'economic rents'. Economic rents are difficult to measure. However, as was mentioned, economic rents depend on the degree of PMC, that is, the more the PMC is restricted in a country, the more insiders of the firm are likely to perceive economic rents. There exists thus a close connection between the two variables. This thesis employs PMC as a proxy for economic rents.

In most studies examining corporate governance practices, economic openness to trade is employed as a proxy of PMC (Engelen 2010; Gourevitch and Shinn 2005; Hall and Soskice 2001; La Porta et al.2000; Pagano and Volpin 2005; Traxler 2001). However, this indicator cannot adequately measure a country's PMC, since products in tradable sectors count only for 30 percent in domestic markets (Barker 2011:127). Consumers cannot always direct their purchases away from the domestic market, e.g. in the energy sector or local transport. A second reason why the employment of an economic openness indicator is inadequate as a proxy of PMC, is the size of a country. US openness to markets is extremely low, since the US contains within its borders an important internal market, reducing the need to trade with other countries. Despite US low degree of openness, the US product market is highly competitive.

This thesis follows Barker's example and employs OECD's Product Market Regulation Index (PMR).The OECD competition index, first published in 1998, covers the non-manufacturing sectors energy, transport and communication, which account for 60% of domestic economic activity (Conway 2006). As a consequence, and most important for this thesis, this index can be used as a credible proxy for economic rents, since these sectors of a political economy have traditionally been characterized by natural monopolies. The PMR Index is updated and extended to a larger set of non-OECD countries. Datasets are available for the years 1998, 2003, 2008 and 2014, from which the 2008 database is chosen. In case of missing values, the Economic Freedom of the World Regulation Database (2008) is employed, since this database has a high level of correlation (0.81) with the PMR index (Gwartney and Lawson 2008)

### 3.3 Testing The Second Hypothesis: Trade Unionization

One of the most commonly employed means for labor to exercise political leverage is unionization (Traxler 2001:81).The dominant idea expressed in the literature is that union representation would have fallen (Baldwin 2003; Flanagan 2007; Pencavel 2005). Traxler qualifies this idea by arguing that trade unions have consolidated their strength through the concentration of labor's broad interests within the principal peak association since 1990s. This development would have as effect to compensate labor's declining force resulting from falling membership rates (Traxler 2001:81).To test the second hypothesis, the union density Indicator of CIA Fact Book, including 154 countries in its database is employed. A country's union density rate is measured as: "the net union membership as a proportion of wage and salary earners in employment" (Visser 2011). The database contains information collected from 2002 to 2010 from governmental websites and national offices of statistics. There are several qualifications to be made with regard to this database. Although the problem of missing values is less important than initially was feared (data from 154 countries are reported), the database is constructed on the basis of different sources, including national offices of statistics, the US State Department and the International Trade Union Confederation (ITUC). In case of doubt, the data are compared with Visser's Institutional Characteristics of Trade Unions, Wage Setting State Intervention and Social Pacts database (Visser 2011) and the database provided by the website of New Unionism (The New Unionism Network).

## 3.4 Testing The Third Hypothesis

Finally, testing the third hypothesis requires assessing how cooperation between management and labor impacts on the adoption of shareholder practices under the absence of economic rents. For the third hypothesis the variable 'cooperation' as described in section 3.2 is included in the analysis.

## 3.5. Control Variables

In this section, three control variables likely to influence the adoption of the shareholder practices are described. The function of the three control variables, included in this analysis is to 'govern' the size of the impact that the independent variables have on the dependent variable (Van Evera 1997). The first control variable selected for this study is the electoral system of a country. A substantial body of scholarly work found that the electoral formula of a country influences importantly the adoption of shareholder practices (Gourevitch and Shinn 2005; Pagano and Volpin 2005). In a country where the proportional electoral system is the rule, social and political actors are interdependent of each other; many political actors have veto points. As a result, established practices of corporate governance are difficult to change, over the adoption of shareholder practices (Gourevitch and Shinn 2005). Other scholars found a positive correlation between majoritarian institutions and a shareholder practices (Gourevitch et al. 2003; Pagano and Volpin 2005).

In order to take into account the influence of electoral institutions, this thesis utilizes Norris' classification of electoral systems. Norris' variable allows to capture the differences between electoral systems that are relevant for this thesis, since Norris' classification mainly focuses on the division between majoritarian and proportional systems. The classification is: the majoritarian formula (coded '1') includes first-past-the-posts, second ballot, the bloc vote and the alternative vote; the combined or mixed formula (coded '2') is defined as using both majoritarian and proportional ballots; the proportional formula (coded '3') includes party lists as well as the single transferable vote systems (Norris 2008: 228). Norris' variable includes data of 188 countries worldwide, which makes the variable apt for this thesis.

A second control variable included in the analysis is government's attitude towards social-democratic policies. One of the principles of social democracy is to minimize the risk of social conflicts, thereby intervening in policies concerning corporate governance practices, with as goal to protect labor (Roe 2003: 37).

For this thesis, the index of a country's governmental spending as a percentage of its GDP is employed, provided by the Heritage Foundation and the Wall Street Journal. This index, including data for 178 countries is likely to capture adequately the social orientation of a country's government, since it reflects governmental spending for the social needs of the community. The index is constituted by accounting governments' spending on collective goods and services for current use, and governments' spending of goods and services intended to create future collective benefits, such as infrastructure investment or research spending (Heritage Foundation and Wall Street Journal 2015).

A third control variable likely to affect the adoption of shareholder practices is the size of a country. Katzenstein showed that small states tend to develop models of corporatism because of their greater exposure to the international market (Katzenstein 1985:4). The small states compensate liberal openness by a variety of domestic policies, e.g. compromises that must facilitate social and distributional programs. The smallness of a political economy reinforces the interdependence of the social partners; industrial relations are susceptible to turn into coalitions in the search of economic rents. Such coalitions may impact on the adoption of shareholder practices, since these practices are disadvantageous for insiders of the firm.

The variable country size is assessed on the basis of the population size of a country. The variables governmental spending as a percentage of its GDP and population size are both log transformed, since they represented an important skew.

## 4. Descriptive Statistics

Table 1 Below provides descriptive statistics for all indicators used in this analysis

| | Variables | N | Mean | St. Deviation | Minimum | Maximum |
|---|---|---|---|---|---|---|
| | Shareholder practices (values) | 1880 | 4.94 | 2.81 | 1 | 10 |
| H1, H3 | Cooperation | 1860 | 4.21 | 0.79 | 2.10 | 6.50 |
| H2 | Trade union density | 1440 | 27.38 | 22.43 | 0.00 | 94.00 |
| H1 | Product market competition | 1750 | 2.17 | 0.63 | 1.10 | 3.95 |
| Control | Governmental spending (log) | 1770 | 3.47 | 0.33 | 2.68 | 4.94 |
| Control | Population size (log) | 1880 | 2.07 | 2.11 | -1.06 | 8.88 |
| Control | Electoral system | 1880 | 2.06 | 0.63 | 1 | 3 |
| Indicator | Year | 1880 | 5.5 | 2.87 | 1 | 10 |

*Source: Authors own database*

## 5. Analysis

For this thesis, a longitudinal multilevel analysis is conducted. The multilevel method is chosen because, first, it is reasonable to assume that the context of the country, beyond the impact of the independent variables, will have an impact on the dependent variable. Ignoring the hierarchical structure of the data would result in underestimated standard errors, since the observations are not independent (Finch et al.2014). Second, the multilevel model is chosen because the nested structure of the dataset allows to include all observations as time points from 2004 to 2013, which method enhances the number of observations. Third, the multilevel longitudinal method is able to accommodate the problem of missing values, a problem that obviously occurs when the whole population of countries is employed. For these three reasons, the longitudinal multilevel regression model is the adequate choice for this analysis.

Whereas the data were initially collected in a person-level data structure allowing to gather repeated measures over time of the 10 Doing Business survey rounds from 2004 to 2013, the dataset has been reformatted into a person-period data structure. The reformatting of the dataset generates a new data frame with the time-invariant variables cooperation, product market competition, trade union density, governmental spending (log), population size (log), and electoral system. The dependent variable which is a time-variant variable, is created by a variable 'values', collecting all observations over time. This variable is recoded and rescaled in order to facilitate the analysis and interpretation into the variable 'shareholder practices' as described in table 2. For this analysis, the dedicated time index variable is renamed as 'Year', and recoded as a numeric variable, ranging from '1' (2004) to '10'( 2013).

In addition, in order to create a variable to test the first hypothesis(section 3.2), an interaction is generated between the two variables 'cooperation' and 'product market competition' , which measures the cooperation between labor and business under the condition of economic rents.

The two-level longitudinal regression model involving repeated measurements nested within countries is summarized as follows:

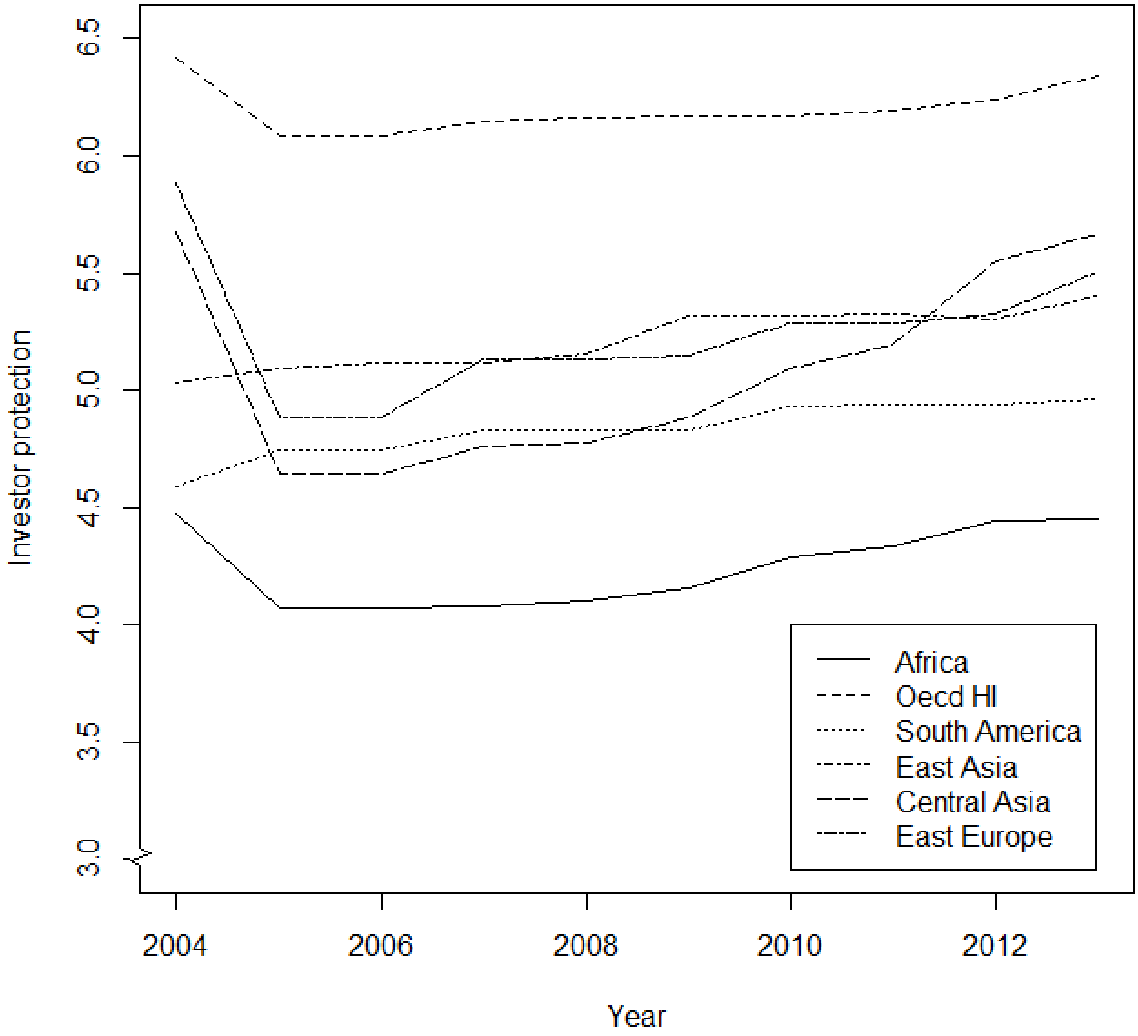
Shareholder Practices = $\Upsilon_{00}$ + $\Upsilon_{01}$ (cooperation)$_{ij}$ + $\Upsilon_{02}$ (product market competition)$_{ij}$ + $\Upsilon_{03}$ (cooperation*product market competition)$_{ij}$ + $\Upsilon_{04}$ (trade union density)$_{ij}$ + $\Upsilon_{05}$ (log governmental spending )$_{ij}$ + $\Upsilon_{06}$ (log population)$_{ij}$ + $\Upsilon_{07}$ (electoral system)$_{ij}$ + $\epsilon_{ij}$

$$ß_{0j} = b_0 + u_{0j}$$

$$ß_{1j} = b_1 + u_{1j}$$

The tests for multi-collinearity between the independent variables show that the factors do not have a strong linear relation with one another. The variance inflator factor (VIF) indicates that the values are between 1,06 and 2,36, which means that the regression estimates are unique.

*Figure 4. Doing Business Indicator of Investor Protection (2004-2013)*




*Note:* The lines represent the averages of the 188 countries, grouped per continent, on the scale of Doing Business index Investor Protection over the years 2004-2013. *Source: Author's adaptation*

Figure 4 represents the evolution over time of adherence to shareholder practices on the basis of the Doing Business database. For reasons of representation, the countries are grouped by continent, following the World Bank Doing Business classification. As is shown, the OECD High Income group of countries obtains the highest scores on the shareholder protection index, the African countries obtain the lowest. The graph suggests that the differences between the continents are important, which implies that the context counts with regard to the outcome variable. Although some changes can be noticed for the Central Asian and East European countries, the graph shows that overall there are few changes over time.

### 5.1 Presentation of the Main Models and Findings

The first important check consists of analyzing the estimates of variance provided by the null model (table 2). Looking at model 0, the high value of the intra-class correlation coefficient (ICC=0.66) indicates that 66 percent of the variance is due to the country context. This result confirms the empirical evidence shown in the line graph (figure 4), where important differences in the adoption of shareholder practices were observable. Although only the averages between continents are shown for reasons of representation, these results strongly suggest that country context counts.

Looking at model 1 (table 2), the results show that the degree of PMC has a significant negative effect on shareholder practices, indicating that generally speaking, the availability of economic rents has a strong negative impact on the adoption of shareholder practices. This result is in line with the theory of Chou et al. (2011). When the interaction between PMC and cooperation is introduced (model 2), the results show a significant negative effect ($p < .01$) on shareholder practices. This finding indicates that hypothesis 1 is supported, confirming the theories of Barker (2011), Pagano and Volpin (2005) and Roe (2003).

In model 3, the factor trade union density is introduced. By looking at the sign, it is deduced that trade union density is negatively related to shareholder practices. However, the effect is not significant. Hypothesis 2 is not supported; the obtained result contradicts Traxler's (2001) findings, while the result is consistent with Kaarsemaker et al.'s (2010) analysis.

The main finding of this study is that in the era of finance cooperation between management and labor has a significant positive effect on the adoption of shareholder practices. By looking at model 2 through 6, the results show that the factor cooperation has a strong positive impact on shareholder practices, at the significance level of $p < .001$. The finding of this study supports the theories of Molina and Rhodes (2002), Rhodes (2001), Vail (2007), Visser and Hemerijck (1997), arguing that under the condition of the new economy labor and management have developed a new form of cooperation, enabling management to profit from the enlarged opportunities the international capital markets offer and labor to make use of financial products such as (pension) funds, ESOPs and equity shares. The results also confirm Kädtler and Sperling's (2008) study, where it is argued that labor and management have opened up new spheres of bargaining enabling them to make a common cause.

Of the three control variables introduced in the analysis (model 4,5,6) only the variable country size has a significant positive effect on shareholder practices ($p < .01$).

Katzenstein's (1985) argument that country size has such an effect is confirmed in this analysis. The results indicate that the larger the size of a country, the more there is a tendency to adhere to shareholder practices, implying the inverse relation with regard to small countries.

Taken together, the results of model 6 (table 2) show what is most important. Even after the introduction of the three control variables, the significant positive effect of the factor cooperation between labor and management indicating a positive attitude towards shareholder practices remains in place.

Table 2. Explaining Shareholder Practices

| | Shareholder Practices | | | | | | |
|---|---|---|---|---|---|---|---|
| | Model 0 | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
| Country-year variables | | | | | | | |
| Product market competition | | -1.013 (0.16)*** | 1.533 (0.72)* | 2.364 (0.85)** | 2.243 (0.84)** | 2.292 (0.86)** | 1.960 (0.85)* |
| Cooperation*Product market c | | | -0.561 (0.17)** | -0.726 (0.20)*** | -0.691 (0.19)*** | -0.704 (0.19)*** | -0.633 (0.20)** |
| Cooperation | | | 1.589 (0.37)*** | 1.882 (0.42)*** | 1.881 (0.41)*** | 1.923 (0.43)*** | 1.74 (0.42)*** |
| Trade union density | | | | -0.002 (0.01) | -0.001 (0.00) | 0.001 (0.01) | 0.002 (0.01) |
| Electoral system | | | | | -0.215 (0.12) | -0.17 (0.12) | -0.122 (0.12) |
| Governmental spending (log) | | | | | | -0.269 (0.35) | 0.037 (0.36) |
| Population (log) | | | | | | | 0.148 (0.06)* |
| Cross-level Interactions | | | | | | | |
| Intercept | 1.493 | 1.293 | 1.216 | 1.201 | 1.187 | 1.194 | 1.167 |
| Country-year-level variance | 0.247 | 0.239 | 0.235 | 0.244 | 0.243 | 0.242 | 0.241 |
| Country-level variance | 0.419 | 0.427 | 0.427 | 0.452 | 0.456 | 0.449 | 0.450 |
| AIC | 3494.477 | 3222.906 | 3153.136 | 2593.617 | 2592.399 | 2484.10 | 2480.012 |
| No of observations | 1880 | 1750 | 1730 | 1350 | 1350 | 1300 | 1300 |
| No of groups | 188 | 175 | 173 | 135 | 135 | 130 | 130 |

*Note:* The dependent variable is Shareholder Practices. For this analysis, the World Bank's Minority Protection Index is employed. Entries are parameter estimates and standard errors(in parentheses) of a multilevel longitudinal regression model. All models include on the first level country-year observations, and on the second level country (group) level observations. Sign: * <.05, **< .01 , ***<.001.

### 5.2. Explaining Cooperation

Having established empirical evidence of a significant positive relation between cooperation of labor and management and shareholder practices, the interesting question is now to discover how labor and management cooperate to bring about their preferred goal. In order to examine this relationship more thoroughly, three separate analyses are conducted with as dependent variables the three components constituting the shareholder practices index, a. disclosure or the practice of providing regular and appropriate information about the firm; b. director's liability, or the extent to which the direction of a firm can be hold responsible for misconduct; and c. ease of suing in court, or the component that aims to clarify the conditions under which shareholders can sue in case of perceived undue torts.

#### 5.2.1 The Key Component: Disclosure of Information

Following the multilevel longitudinal regression method as described in section 5, table 3 summarizes the effect of the independent variables cooperation, PMC, the interaction between cooperation and PMC, trade unionization and the three control variables on disclosure of information. The results show that cooperation has a strong impact on disclosure of information ($p < .001$), a result that is not repeated in the regression models with the components director's liability and ease of suits as outcome variables.

The analysis of the second component of the shareholder protection index, director's liability (table 4) shows that cooperation has a significant relation with director's liability in model 1 and 2 ($p < .05$). However, when the other variables are introduced, the relation between cooperation and director's liability does not remain in place. Moving on to the third component of the shareholder protection index, 'ease of suing in courts', the analysis summarized in table 5 reports that cooperation has a significant positive effect on the ability to sue in court in case of perceived tort ($p < .05$). Although the positive effect of cooperation is present in the models 2 through 7, the relation between cooperation and ease of suing in court remains at a low significance level ($p < .05$). By looking at model 7 (table 5), the analysis reveals that the ease of suing in court is significantly related to the electoral system of a country. By looking at the sign, it can be deduced that it is more difficult to sue in court (in case of undue corporate torts) in a proportional electoral system than in a majoritarian system. Taken together, and by comparing the three models, it appears that the relation between cooperation and disclosure of information is stronger than the relation between the two other components. The new analysis provides therefore additional insight by singling out disclosure of information as the most important component of the overall shareholder protection index, a result that requires to be considered in detail.

As the analysis suggests, cooperation pushes the practice of information disclosure, or the activity by which comprehensive and reliable information about the firm's financial matters as well as strategic decisions for the firm are made public (Martinova and Renneboog 2013). By providing reliable and standardized information, it can be shown that the firm's performances respond to the expectations of the financial markets, thereby enhancing the price of the firm (Gomez and Korine 2008:182).Disclosure brings thus direct benefits to labor and management.

Yet, disclosure has another backlash effect. Employees' changing perceptions on interests and the fact that they are increasingly involved in different forms of shareholding is likely to go together with an increasing demand for information. The communication of information allows employees to judge management on its decisions and strategies developed for the firm. Passing on information to employees has direct consequences for the power distribution within the firm. Well-informed employees are able to counterweigh managements' control and influence effectively the decision-making process (Gomez and Korine 2008). Often in position of different types of investment, employees are increasingly trained in the economics of business (Gomez and Korine 2008; 183). Could Douglas (1934) still assert that workers do not possess knowledge of the market and their economic worth so that they stand at a disadvantage in the bargaining process, today management is no longer the sole repository of insider knowledge and as a result has less opportunities to employ the asymmetry of information (Boyer 2000).The more the function of management loses hierarchical authority, and employees' voice increases, the more there is a possibility of cooperative behavior on the basis of a carefully constructed balance, where there is room for responsiveness to the concerns of each player. This possible explanation would confirm Rhodes' thesis (2001), arguing that labor and management have engaged in competitive corporatism, uniting labor's preferences for distributional policies and management's concern for performance and productivity.

### 5.2.2 Summary. Decline of Trade Unionization, Rise of Competitive Corporatism

This thesis aims to answer the question what factors explain the differences in the adoption of shareholder practices in countries worldwide. Empirical evidence of this thesis demonstrates that under the condition of economic rents, labor and management cooperate to block shareholder practices. This finding confirms a large body of scholarly work (Barker 2011; Gourevitch and Shinn 2005; Roe 2003). Furthermore, the analyses reveal that although unionization is negatively related to shareholder practices, this factor cannot significantly weigh on the outcome variable. This finding is consistent with recent research contending that union recognition did not have any significant effect on changes in practices at the firm level (Peccei et al. 2010). As this present analysis suggests, the traditional method of trade unionization providing voice for labor has been superseded by an alternative form of representation at the firm level.

The main finding of this thesis is that the more there is cooperation between labor and management in a country, the more it is likely that shareholder practices are favored. This result holds true in a economic context with a strong level of PMC. By examining the relationship between cooperation and shareholder practices more thoroughly, this study shows empirical evidence of the fact that disclosure of information is the key component to understand the nature of labor and management's cooperation. In response to the increasing pressures of the international markets, labor and management would have opened up new spheres of bargaining, seeking consensus on the basis of not only interest aggregation, but also responsiveness to mutual their concerns. The reduction of the asymmetry of information gap allows to strike a new balance, where there is room for labor's concerns for distributional policies as well as management's concerns for productivity.

The present analysis is of course only one of the many possible explanations, implying that further research is needed. However, this study's additional analyses would confirm Rhodes' competitive corporatism thesis (2001), where it is argued that a new form of corporatism is emerging. Confirmed is also a recent study on labor-management relations, arguing that the concept of bargaining has evolved into interests based negotiations, in which the two parties first identify mutual interests, and next, share information to choose options that offer mutual gains for both parties (McKersie et al.2008:68).

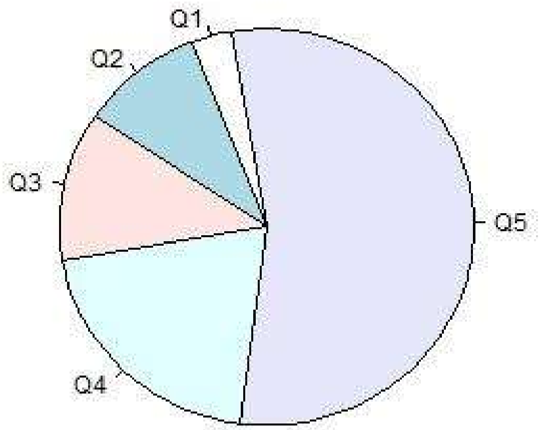
This thesis takes the existing theories a step further by showing that labor and management's compromise remains ambitious, since it is able to impact importantly on corporate governance outcomes. The analysis clearly demonstrates that the influence of the corporatist compromise -recreated and adapted to the new economic context- has not weakened, contradicting the theories of Baldwin (2003); Blanchflower (2006); Schmitt and Mitukievitch (2011); Wallerstein and Golden (2000). The potential applications of these new findings are extensive; new answers have to be found to a host of new questions. For example, more research is needed to examine how the corporatist compromise as an evolving phenomenon can acquire the status of a political actor strong enough to exercise a determining influence on corporate governance outcomes and as such impact on the political economy of a country.

### 5.2.3 Limitations

As was suggested in the aforementioned, it is likely that the new form of cooperation enables labor to maintain itself as an important political actor at the firm level. Jackson (2004) has demonstrated in his case study research that paradoxically, the reinforced cooperation between management and labor did not prevent measures of restructuration and downsizing of labor forces with lower qualifications. Apparently, labor's stronger position within the firm's boardroom comes at the price of a greater social divide between insider employees with a stable job who gain rights, and those with more flexible and precarious jobs who lose a part of their social rights (Jackson 2004: 24).

Undoubtedly, employees have gained substantial representation rights due to shareholding in the form of (pension) funds, ESOPs and equity portfolio's (Gourevitch and Shinn 2005). However, only the high income groups are likely to benefit from enhanced representation rights (Erturk et al. 2008; Jackson 2004). As figure 5 shows, in the US only those in the upper half of the income distribution are able to make savings required to participate in funds and to build equity portfolio's.

*Figure 5. Distribution of Assets by Type for US Households, 2003*




*Note:* Households are divided into quintile by income, where Q1 are the poorest 20 % and Q5 the richest 20 %. The figure shows that shareholding and pension contributions mainly concerns the two highest income groups. Adapted from Household Economic Studies May 2003, US Census Bureau.

Table 3. Explaining Disclosure of Information

| | Disclosure of Information | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Model 0 | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 | Model 7 |
| Country-year level variables | | | | | | | | |
| Cooperation | | 0.635 (0.20) ** | 0.325 (0.22) | 2.124 (0.65)** | 2.64 (0.79)** | 2.969 (0.82)*** | 2.468 (0.78)** | 2.511 (0.78)** |
| Product market competition | | | -0.815 (0.29) ** | 2.80 (1.27)* | 4.10 (1.62)* | 4.274 (1.64)* | 3.378 (1.56)* | 3.557 (1.56)* |
| Cooperation*Product market cpt | | | | | -1.159 (0.37)** | -1.240 (0.37)** | -1.048(0.36) | -1.099 (0.36)** |
| Trade union density | | | | | -0.002 (0.01) | 0.004 (0.01) | 0.008 (0.01) | 0.008 (0.01) |
| Governmental spending (log) | | | | | | -1.584 (0.72) | -0.806(0.71) | -0.856 (0.71) |
| Population size (log) | | | | | | | 0.457 (0.11)*** | 0.457 (0.11)*** |
| Electoral system | | | | | | | | 0.251 (0.23) |
| Cross-level Interactions | | | | | | | | |
| Intercept | 2.299 | 2.291 | 2.188 | 2.134 | 2.267 | 2.255 | 2.126 | 2.116 |
| Country-year level variance | 0.672 | 0.352 | 0.355 | 0.353 | 0.386 | 0.389 | 0.383 | 0.383 |
| Country level variance | | 0.577 | 0.598 | 0.599 | 0.663 | 0.673 | 0.675 | 0.676 |
| AIC | 4571.997 | 4535.54 | 4305.859 | 4299.61 | 3517.007 | 3407.261 | 3395.075 | 3395.882 |
| No of observations | 1810 | 1790 | 1670 | 1670 | 1270 | 1220 | 1220 | 1220 |
| No of groups | 181 | 179 | 167 | 167 | 127 | 122 | 122 | 122 |

*Note:* The dependent variable is disclosure of information. For this analysis, the component Disclosure of Information of the Minority Shareholder Index is employed. Entries are parameter estimates and standard errors (in parentheses) of a longitudinal multilevel regression model. All models include on the first level country-year level observations, and on the second level country(group) level observations. Sign: * <.05, **< .01 , ***<.001.

Table 4. Explaining Director's Liability

| | Director's Liability | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Model 0 | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 | Model 7 |
| Country-year level variables | | | | | | | | |
| Cooperation | | 0.774 (0.21)*** | 0.504 (0.23)* | 1.266 (0.71) | 1.562 (0.79) | 1.547 (0.82) | 1.630 (0.83) | 1.6 (0.83) |
| Product market competition | | | -0.693 (0.31)* | 0.838 (1.38) | 1.5 (1.62) | 1.572 (1.64) | 1.719 (1.65) | 1.6 (1.66) |
| Cooperation*Product market cp | | | | -0.372 (0.31) | -0.501 (0.37) | -0.490 (0.38) | -0.521 (0.38) | -0.487 (0.39) |
| Trade union density | | | | | -0.016 (0.01) | -0.018 (0.01) | -0.018 (0.01) | -0.017 (0.01) |
| Governmental spending (log) | | | | | | 0.445 (0.72) | 0.318 (0.75) | 0.350 (0.75) |
| Population size(log) | | | | | | | -0.071 (0.11) | -0.086 (0.12) |
| Electoral system | | | | | | | | -0.163 (0.24) |
| Cross-level Interactions | | | | | | | | |
| Intercept | 2.489 | 2.383 | 2.329 | 2.321 | 2.267 | 2.263 | 2.259 | 2.256 |
| Country-year level variance | 0.344 | 0.334 | 0.334 | 0.333 | 0.328 | 0.327 | 0.329 | 0.328 |
| Country level variance | 0.538 | 0.526 | 0.531 | 0.531 | 0.523 | 0.525 | 0.525 | 0.526 |
| AIC | 4429.781 | 4288.606 | 4017.576 | 4018.293 | 3019.978 | 2910.612 | 2912.253 | 2913.802 |
| No. of observations | 1810 | 1790 | 1670 | 1670 | 1270 | 1220 | 1220 | 1220 |
| No of groups | 181 | 179 | 167 | 167 | 127 | 122 | 122 | 122 |

*Note:* The dependent variable is director's liability. For this analysis, the component Director's Liability of the Minority Investor Protection Index is employed. Entries are parameter estimates and standard errors (in parentheses) of a longitudinal multilevel regression model. All models include on the first level country-year level observations, and on the second level country (group) level observations. Sign: * <.05, **< .01, ***<.001.

Table 5. Explaining Ease of Suing in Court

| | Ease of Suing in Court | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Model 0 | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 | Model 7 |
| Country-year level variables | | | | | | | | |
| Cooperation | | 0.777(0.18)*** | 0.526 (0.21)* | 1.394 (0.63)* | 1.795 (0.69) * | 1.781 (0.71)* | 1.632 (0.72)* | 1.559 (0.71)* |
| Product market competition | | | -0.725 (0.27)** | 1.017 (1.22) | 1.974 (1.44) | 1.948 (1.44) | 1.682 (1.44) | 1.382 (1.43) |
| Cooperation*Product market cpt | | | | -0.424 (0.29) | -0.599 (0.32) | -0.587 (0.33) | -0.531 (0.33) | -0.446 (0.33) |
| Trade union density | | | | | 0.006 (0.01) | 0.011 (0.01) | 0.011 (0.01) | 0.013 (0.01) |
| Governmental spending (log) | | | | | | -0.315 (0.63) | -0.084 (0.65) | -0.002 (0.65) |
| Population size (log) | | | | | | | 0.129 (0.10) | 0.090 (0.10) |
| Electoral system | | | | | | | | -0.418 (0.21)* |
| Cross-country Interactions | | | | | | | | |
| Intercept | 2.080 | 2.077 | 2.063 | 2.050 | 1.996 | 1.987 | 1.975 | 1.943 |
| Country-year level variance | 0.186 | 0.183 | 0.187 | 0.187 | 0.199 | 0.202 | 0.202 | 0.201 |
| Country- level variance | 0.236 | 0.236 | 0.243 | 0.244 | 0.270 | 0.276 | 0.277 | 0.277 |
| AIC | | 1870.471 | 1827.665 | 1827.528 | 1593.16 | 1576.083 | 1576.54 | 1574.607 |
| No. of observations | 1810 | 1790 | 1670 | 1670 | 1270 | `1220 | 1220 | 1220 |
| No. of groups | 181 | 179 | 167 | 167 | 127 | 122 | 122 | 122 |

*Note:* The dependent variable is ease of suing in court. For this analysis, the component Ease of Suing in Court of the Minority Shareholder Index is employed. Entries are parameter estimates and standard errors (in parentheses) of a longitudinal multilevel regression model. All models include on the first level country-year level observations, and on the second level country (group) level observations. Sign: * <.05, **< .01 , ***<.001.

# 6. Conclusion and Outlook

The central question if of this thesis, to explain differences in the adoption of shareholder practices, has often been examined from the institutional, economic and legal perspectives. This thesis examines the question from the political approach and directs its attention to policies enacted by two main players of the firm, labor and management. It is argued that the determining factor explaining the different attitudes towards shareholder practices rests in the strength of labor and management's corporatist compromise. The results of the multilevel regression analysis including 188 countries worldwide carry evidence that when rents are available, management and labor cooperate to block shareholder practices. This result is conform to the standard literature predicting a negative attitude to shareholder practices under the condition of availability of rents. The main finding of this thesis is that this effect is only half of the story; in absence of rents labor and management cooperate to favor shareholder practices.

Searching for additional insight for this new finding, a second analysis is conducted, which singles out disclosure of information as the most crucial component of shareholder practices. The strong relation between cooperation and the practice of disclosure suggests that the reduction of information asymmetries among management and labor has led to a new balance of power. As such, a new form of cooperation would have emerged, enabling labor and management to effectively aggregate interests and to gain the necessary political leverage to impose their favored choices. In none of the analyses the factor trade unionization showed to have a significant effect on adherence to shareholder practices. As is suggested by this study, in the new economic era employee voice is less expressed through the channel of trade unions, but rather through cooperation with management, characterized by responsiveness to the concerns of each of the two social partners, while avoiding adversial industrial relations. By linking power, labor and management ensure their position as main political players at the firm level. The findings of this thesis are concurrent with recent research suggesting that in parallel with the changing economic context, new forms of cooperation within the firm emerge (Peccei 2010; Rhodes 2001); theories announcing the demise of the corporatist compromise (Baldwin 2003; Blanchflower 2006; Wallerstein and Golden 2000) are contradicted.

One of the factors leading to the new corporatist bargain would be the increased levels of employee shareholder ownership in different forms, that gives employees new rights to representation and participation in the organization of the firm (Kaarsemaker et al. 2010:315). Undoubtedly, employees have gained leverage not only through share ownership plans and participation in funds, but also through enhanced financial literacy (Erturk et al. 2008). Some authors go as far as to interpret these developments as the 'democratization of the firm' (Gomez and Korine 2008:174). However, while the new developments are susceptible to bring benefits for insiders of the firm with regular jobs, new research is needed to examine the position of the growing number of labor forces excluded from the new bargain, e.g.(flex) workers employed within service sectors. Their situation may be different from insiders' position of the firm, since they face difficulties to align and represent their heterogeneous and often conflicting interests.

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