Varieties of Coordinated Market Capitalism in Continental Europe: the “well-oiled machine” of Management in Germany

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Abstract
This article presents the main characteristics and transformations of the German management model, that Hofstede has called a “well-oiled machine” as centrepiece of the corresponding economic model. We argue here that this machine is a specific piece of institutional engineering at the Continental European level, but at the same time contains elements of German culture and history. In particular, we compare different elements of the German model and its transition process with other blueprints of economic models, particularly with the French model, as an important variety of the Continental European capitalism with strong features of coordination. For that purpose we examine in the first part historical roots of the German model in the European context, based on its disperse geographical and political landscape. We then go on and show how this model is shaped in the post-war period, following a cultural and institutional context marked by long-term institutional specificities of the education system and industrial relations. In the third part, we analyse the consequences for the management model of global pressure and internal change in the first decade of the new century.

0. Introduction

After the difficult rebuilding phase of the post-war years (Wiederaufbau), the Federal Republic of Germany experienced strong growth and significant prosperity in the 1970s and 1980s based on its economic model as social market economy (soziale Marktwirtschaft), that combines a basic liberal and open market order with strong elements of welfare policy. Germany was then considered the “driving force of Europe”, and regularly held up as an example for its economic policy, social policy and model of capitalism (Albert 1991). Since re-unification in 1990, the country has gone through a series of crises and transformations, that have led to a positive economic evolution through a series of reforms (Bourgeois, 2005), that have also allowed it to circumnavigate the more profound waters of the 2008 world economic crisis. In recent years, it has leadership in the European Union in terms of its economic dynamics and stability, however with profound adjustments to its social model of justice and integration (Quelle?)..

Research in organisations and research in varieties of capitalism often analyse similarities and differences in order to gain a deeper understanding of the underlying logics of social systems (Gannon 2004, Sorge 1996). On a conceptual level, studies in organizations and studies about capitalism generally work with the construction of Max Weber’s ideal types, which take often the forms of metaphors (Gannon 2004). Ideal types are an intellectual construct, which serves to
“bring into sharp focus the characteristics of cultural achievements.” (Weber 1904, 202). An ideal type according to Max Weber

“[...] seeks to guide the formation of hypotheses. It is not a representation of the real, but seeks to provide representation with unambiguous means of expression. [...] It is formed by the one-sided accentuation of one or more viewpoints and by the synthesis of a great many diffuse, discrete, more or less present and occasionally absent concrete individual phenomena, which are arranged according to those one-sidedly emphasized viewpoints into a unified analytical construct.” (Weber 1949, 90)

Geert Hofstede and James Stevens created a widespread metaphor for the German management model as a “well-oiled machine”. In Hofstede’s work (1991, 2005), this metaphor corresponds to a management model characterised by a low power distance and a high uncertainty avoidance. We will discuss further on this topic of a less hierarchical and more participative management style in which formal rules, procedures and structures of the organisation play an important role in the regulation of relations between actors. We will show how this specific management model emerged in relation to a set of institutional and cultural elements: socioeconomic context, vocational training system, employee representation system, social and political history and religion.

In order to structure and understand the specificities of management and economic models Sorge (1996, 2004) and Whitley (1999) propose a combination of institutional and cultural approaches, taking into consideration political, social, economic and cultural institutions, using approaches of ‘national business systems’ (Whitley 1992), ‘varieties of capitalism” (Hall/Soskic 2001) and ‘societal effects’ (Maurice and Sorge 2000), seen as creating alternative paths of organising management (Geppert and Williams 2006). Like other authors (Hasse and Krücken, 2008; Heidenreich et al., 2012) they underline the interconnection of macro- and micro-levels, that is the ‘embeddedness’ of managerial and organisational practices in national systems. D'Iribarne (1994, 91) underlines that the examination of cultural aspects has been underestimated in the past: "Moreover, most of the contemporary streams of research involved in international comparisons of the functioning of organisations tend to stress actors’ strategies, or the role of institutions, rather than culture." Referring to the work of Elias (1974) d'Iribarne argues, that „the cultural frames of reference [...] existed before the emergence of the institutional systems with which they form coherent wholes. [...]” (1994, 92).

The purpose of this article is therefore to illustrate different cultural and institutional elements that explain the configuration or “design” of the “well-oiled machine”. This topic is part of the discussion about the characteristics of the German model as a variety of the so-called co-ordinated market economies (CME) in Continental Europe and Eastern Asia as opposed to the liberal market economies as archetypes of the typical economic model of Anglophone countries and cultures (Hall et al. 2001). This dualistic approach to the varieties of capitalism (see also Albert 1991) has been questioned from the beginning for its oversimplifying classification that ignores the differences between different groups of economies and the diversity of the related economic models (Crouch 2005). Some authors have proposed different typologies for CME countries, identifying groups like the central European economies (Germany, Netherlands), the Mediterranean economies (Italy, Greece), the Scandinavian economies (Denmark, Sweden), and the Asian CME (Japan, Singapore, South Korea) (ref). More controversy arose from the difficulty to classify specific countries, like France, in this kind of schemes, for its hybrid character inside the different groups. We still consider that France plays a crucial role in the development of the Continental European economies. That is the reason why we chose similarities and contrasts between Germany and France to explain details of the German model and to characterize the dynamics of the European context.
An additional aspect of the article relates precisely to the pathways of cultural and institutional change of this type of economic model in a framework of growing economic exchange and integration in Europe and the world. We want to give insight to several aspects of the adjustment process or the “maintenance program” of the “well-oiled machine” as process for institutional change. Again, the perspective on Germany adopted in this article will include comparative and intercultural studies on France and Germany, in order to highlight similarities and differences of two of the basic blueprints of the Continental model of European capitalism.

As we will show further on, there are core elements of the German economic and management model with profound cultural and institutional roots like federalism, labour market organization, the horizontal participation in decision processes or the protection of working conditions in the industrial sectors that have been quite stable in the process of transformation. At the same time, other parts of the model, like support for unemployment or the role of re-education, have seen stronger modifications. Based on these findings, what are the lessons for the configuration and long-term development of the Continental European model? What are the central institutional and cultural peculiarities of the German Model in comparison to France? What are the anchors for stability on the one hand and the drivers of change on the other hand? How can we improve our analysis of complex processes of cultural and institutional change of economic models? Can we observe tendencies towards a convergence of the different economic and management models in Continental Europe or in parts of them? If these tendencies exist, how do they relate to possible global dynamics of convergence, particularly following the role model of the liberal market economies like the US?

1. Preconfigurations: historical and cultural roots

Following Philippe d'Iribarne (1989, 2009), characteristics of national models are deeply rooted in the national history and culture. The differences between France and Germany (Maurice, Sellier and Silvestre 1992) can be explained, according to d'Iribarne, by cultural and institutional elements in the two countries in the 18th century. Following sociologist Norbert Elias (1974), d'Iribarne reminds us that the French and German societies did develop varying forms and perceptions of court society at the time. While in France, the principles, values and practices of court society spread to the provinces and to bourgeois milieus, and became institutionalised as the central frame of reference in French society, German bourgeois milieus evolved independently of princely court societies (too regional to be important), with their own specific biographies, values and practices. In this juxtaposition of social groups in 18th-century Germany and a non-hierarchical acceptance of the diversity of social identities, d'Iribarne finds the underlying principles, which form the basis of social identities in German companies until today. It is an organizational framework where everyone finds his place based on professional skills and on membership to a distinct group, whose identity derives from its organic complementarity within the societal or organisational system. He opposes this idea to the French conception of a single and strong hierarchy, which classifies organisational actors into socio-professional groups whose identity strongly depends on the rank assigned by a more hierarchical organisational system.

Demorgon (1996) and Pateau (1998) also relied on Elias’ work to show that the concerted management method and, more generally, the German culture of consensus find their roots in the high diversity of German social groups and in the specific characteristics of regional identities. In fact, while at the end of the Middle Ages, French kings succeeded in establishing a
centralised and hierarchical feudal system, the regional states of the Holy German Empire refused to relinquish their rights to the coexisting central power. Regions retained their autonomy and identity and collectively defined more “equal” operating methods for dialogue and cooperation, in the spirit of the political system of prince-electors. The Reformation period in the 16th century further accentuated these regional idiosyncrasies. Based on this history of difficult unity, Germany has kept a strong tradition of political powers as well as strong Länder identities, that remain highly autonomous as regards to economic and social policy (Grosser, 1985). For example, until today, there is no German federal ministry of culture, and cultural policy remains a field of political action reserved exclusively for the Länder.

Regional dialects also illustrate this cultural and social diversity. Dialects are openly accepted. According to Pateau (1998), regional diversity also has implications for the modes of communication that prevail in Germany, tending to favour “low-context” communication (Hall and Reed-Hall, 1984), i.e. more explicit communication, where the context of topics, situations and behaviours is specified. This mode of communication, which can be surprising to the French, who are used to more implicit communication, can be explained by the need to communicate and cooperate regardless of social and regional differences and characteristics. Such a phenomenon can also be encountered in the American melting pot.

Lutheran religion and heritage also are important elements to understand the culture of dialogue, the less hierarchical conception of social relations and even the value attached to professional skills in German companies. Above all, the Lutheran Reformation meant the rejection of the hierarchy of the Church of Rome and another conception of the relationship between man and God without the hierarchical mediation of a priest. By rejecting the ecclesiastical institution, individuals became more autonomous, but also more responsible for their actions, by sharing this responsibility with a community where the minister was regarded as a peer (Pateau, 1998; Nipperdey, 1992). This conception of the relationship with God and of religious practice had strong implications for German social practices and managerial culture, all the more so as Christian values were a fundamental reference in post-war Germany, in the doctrine of ordoliberalism as well as in employers’ circles (Brunstein, 2000). This conception of a community of believers responsible before God proved to have implications for professional life and work ethics (Weber, 1964), but more generally for the conception of relations with others. In this way, Usunier and Roger (2000) highlight a strong correlation between the types of religion practised in Europe and the value of trust in others, which is higher in countries of Reformed religion.

Although Reformed religion cannot be considered as the foundation of German culture, it certainly is one of its important components. However, it should be reminded that Catholic religion remains very present in several Länder and that it is the religion of the large majority in the thriving southern Länder of Bavaria and Baden-Wurttemberg. However, the influence of Lutheran thinking likely spread to the Catholic community, as use of his German translation of the Bible spread out. Max Weber reminds us that the German notion of Beruf, which refers to a profession, but also a vocation, first found its contemporary meaning in Luther’s writing (see box V.3.2).

**Box V.3.2**

**THE NOTION OF BERUF IN LUTHER**

“It now appears obvious that the German word Beruf [...] already suggests, at the very least, a religious connotation – that of a task imposed by God. This connotation is all the more noticeable as the stress is put on Beruf in a practical context. If we trace the history of this word through that of great languages, we first observe that, among peoples where Catholicism is predominant – the same holds true for the peoples of classical antiquity – there is no term with similar nuances to designate what we, German people, call Beruf (in the sense of a life task [Lebensstellung], of defined work), while there is one among all peoples where Protestantism is predominant. Moreover, we notice that this is not some kind of ethnic characteristic of the language studied, that it is not by
any means, for example, the expression of a “Germanic spirit”. In its current meaning, this word comes from the translations of the Bible; more precisely, it reflects the interpretation of the translator and not the spirit of the original. It appears to have been used for the first time, with the meaning it has nowadays, in Luther’s translation of the book of Jesus Ben Sirach, Ecclesiasticus (XI, 20-21). [...] This new meaning of the word corresponds to a new idea; it is a product of the Reformation”. Source: Weber (1964: 81-90, our translation).

The religious semantics of the word Beruf and its association with the Reformation give new meaning to vocational training practices (Berufsausbildung), to the development of professional skills (berufliches Fachwissen) and to the importance of professional identities and corporatism. The meaning of contemporary social practices is build in relation to this historical, cultural and religious dimension. Language is an important vehicle for this. However, these cultural roots should not be understood as a determinist programming of contemporary practices, but rather as a set of significant elements which may be used by a community as a collective frame of reference to give meaning to their practices. These frames persist through the different innovation cycles of industrial revolution and can be traced to the basic model of modern German capitalism that emerged from the reconstruction effort during the post-war period guided by the allied forces from 1945 to 1949.

2. The formation of the German model in the post-war era
The metaphor of the “well-oiled machine” not only relates directly to the companies of a country renowned for its industrial know-how and the exportation of its machines, but also to an instrumental and mechanistic view of organisations. In German organisations, control derives less from hierarchy but more from compartmentalization of responsibilities and a strong standardization of work routines and processes (Child and Kieser, 1979). Moreover, these organisations are characterised by engrained participation in decision-making processes and the search for consensus. This less pyramid-like and more compartmentalised conception of organisation may be analysed in various ways, using elements of the institutional context such as the vocational training system, the system of industrial relations or the governance specificities of the German variety of the “Rhine model of capitalism” (Albert 1991), as well as historical and religious elements of the German culture.

Mehr…

Restaablishing economic order: the social market economy
After WWII, German companies have developed and evolved in a national institutional context often described as an alternative model of capitalism to Anglo-Saxon market capitalism (Albert, 1991; Hall and Soskice, 2001; Hampden-Turner/Trompenaars, 1993; Hancké, 2009). The “Rhine model of capitalism” is a form of capitalism where negotiation between the main institutional actors plays a central role, and where negotiation has been facilitated by a culture of consensus and consensus-building institutions (Uterwedde, 2005). In the German model of capitalism, which became established during the post-war years, markets are “politically instituted” and subject to “societal regulation” (Streeck, 1996), in accordance with the concept of social market economy (soziale Marktwirtschaft) embodied by Ludwig Erhard. Ludwig Erhard had a great influence on the German model and the so called Wirtschaftswunder (“economic miracle”), as he was minister of economy for 14 years (1949-1963) and the German Chancelor (1963-1966). The concept of the social market economy is inspired by the doctrines of ordoliberalism and social balancing by Walter Eucken and Armin Müller-Armack, according to which the economic and social order guarantees the smooth functioning of markets where the state plays a central role.
as regulator by setting rules and voting laws, and by establishing and maintaining basic order of competition and individual freedom. Although the economic framework is liberal, the intensity of regulation efforts by the state is rather high, and accompanied by sizeable investments in local public services (Labrousse et al. 2001).

The labour market has also been regulated extensively, within the framework of sectoral collective agreements, on the one hand, and within companies, via the co-operative management or co-determination model (Mitbestimmung) on the other hand. The co-determination framework accords considerable power to employee representatives (Lasserre, 2005) in the board of directors and the supervisory board (Aufsichtsräte). This institutional system facilitated a balance between the interests of capital, management and employees.

Regarding corporate finance, the important role played by banks in corporate strategy led Michel Albert (1991) to assume that Rhine capitalism in general was a bank-based system of corporate financing. The ties between companies and banks were close and manifold, and companies often had privileged relations with their house bank (Hausbank) which fulfilled at the same time the functions of shareholder and lender, and whose representatives would often sit in the supervisory board of the company. Therefore, banks exercised 88% of voting rights in the 24 largest German companies, while 34% were exercised by large banks (Uterwedde, 2005, p. 197). There have been strong networks of reciprocal shareholding and mutual control mechanisms, that generated a strong interdependence between banks and large German companies, called “Deutschland AG” (“Germany public limited company”) at the time. This kind of networks have made it possible to limit the impact of financial markets and also to develop a strong German identity and national solidarity in the circles of top managers.

Lastly, one more element is important to understand the German version of the Rhine capitalism: the large geographical spread of economic and political decision-making centres, with “secret capitals” like Munich, Hamburg, Stuttgart, Düsseldorf and Frankfurt, but also with small towns, that are home to flagship innovative middle-size (Mittelstand) companies. German SMEs are indeed more often middle-sized than small-sized, specialised, and they often lead a niche in international markets while maintaining a strong provincial identity with a rather personalized management (Urban, 1997). These medium-sized companies, with close ties to local authorities, are presented by Simon (2007) as “hidden champions”, which are largely responsible for the excellent numbers of German export and the image of quality of “made in Germany”.

Regulation cultures: the role of the employee representation system

The most important institutional element characterising the German management model is the system of industrial relations and the framed dialogue between unions and management. This system was built during the post-war years, with the intention to re-establish democracy within German society, which involved promoting an original form of industrial democracy. This system was coherent with ordoliberalism, defining a regulatory framework essential to general macroeconomic and macro-social balances. The German system of industrial relations constitutes an exemplary mode of regulating dialogue between unions and management, without the intervention of the state, which operates on two levels: on the one hand, at the level of sectoral collective agreements (Tarifvertragsgesetz) and, on the other hand, at the level of the company (Betriebsverfassungsgesetz).

At the level of collective agreements, dialogue takes place between the majority trade union in the branch (in principle, it is an affiliated member of the confederation of trade unions – DGB: Deutscher Gewerkschaftsbund – which still had seven million members in 2005, i.e. around 80% of union members and from 15 to 20% of German employees) and employers’ representative in
the branch (affiliated member of the confederation of German employers’ associations – BDA: Bundesvereinigung der deutschen Arbeitgeberverbände).¹ In times of recession, the work schedule standards defined in collective agreements have been revised upwards and wage standards have been modified to add flexibility, for example in the case of the 1993 agreement of the metallurgical sector, which includes a clause enabling some companies having difficulties to breach the standards of the agreement. The sectoral agreement is generally considered by unions and management as a negotiation system making it possible to channel industrial disputes and reach compromises. For employers, the stabilisation and homogenisation of wages and working conditions made it possible to avoid social dumping by competitors and to facilitate the retention of skilled employees (Lattard, 2005).

At a company level, the participation of employees has been governed by the Betriebsverfassungsgesetz adopted in 1952, which defines the rights, duties and decision powers of the works council (Betriebsrat), for companies with over 50 employees. The Betriebsrat, whose members are elected by the staff, is vested with joint decision-making power for all industrial matters within the company, for example recruitments, redundancies, training, the by-laws or working conditions. Any decision made by the employer must be validated though the formal approval of the committee. Concerning economic matters, the Betriebsrat is also vested with advisory powers and can put opinions forward and make proposals. When an economic decision has consequences on workers, for example redundancies, the approval of the Betriebsrat becomes necessary to validate ancillary measures. This extended power of employees’ representatives means that the Betriebsrat is a key negotiator and player in human resources management policies in German companies. This consultation system, whose scope is unequalled in Europe, concerns nearly all large German companies and about three quarters of SMEs with over 50 employees (Lasserre, 2005). It is complemented, for companies with over 500 employees, by another consultation system at the level of the supervisory boards (Aufsichtsrat). In companies with 500 to 2,000 employees, employees’ representatives hold one third of seats on supervisory boards. For German companies with over 2,000 employees, the cooperative management law of 1976 even provides for equal representation of employees on the supervisory board (shareholders’ representatives have a special vote in case of a draw). This system implies that employees’ representatives not only have access to all economic information on the company, but that they also take part in all corporate decisions, whether they concern the long-term strategy, the choice of a director or even the distribution of profits. Although employees have a minority representation, this coordination scheme makes it possible to assert employees’ interests as regards to strategy and it enables the Betriebsrat to be better informed and to define its actions according to the strategic orientations of the company. This multi-level institutional system results in a management approach based on dialogue and negotiated consensus. For a long time, this concerted approach to management was considered one of the success factors of the German model, thus ensuring a collaborative approach between management and labour and an adhesion of all employees to the strategic objectives of the company. It also provided an ideal breeding ground for actions aimed at getting employees more involved and to assume more responsibility concerning productivity and quality (Kissler, 1992).

¹ There are eight sectoral trade unions affiliated to the DGB, the most important of which are Ver.di (services) and IG-Metall (metallurgical industry). They both have nearly 2.5 million members (see the synthesis in Lattard, 2005). Collective agreements lay down general standards regarding working conditions and wage plans for each branch: some branches such as the metallurgical industry for example have a standard of 35 hours per week for their work schedules, while other branches such as the building industry have a standard of 39 hours per week.
Institutional backbones: The dual vocational training system

A second important institutional element of the German management model has been the education system, and more particularly the dual vocational training system (*Berufsausbildung*). This element is crucial to understand the great importance attached at all hierarchical levels to professional skills and technical expertise, as well as the strong sense of identity involved in company jobs, which are the reflection of the occupations learnt during vocational training. German vocational apprenticeship lies within the tradition of apprenticeship in craft trades, where crafts are also a “vocation”, a “calling” (*Berufung*), but it extends widely beyond the bounds of the craft industry as most apprenticeship positions are offered by medium or large-sized companies from the industrial or service sector (Oerter, 1997). Over 350 occupations have been defined, from carpenters to bank employees. In Germany, vocational apprenticeship involves an alternation between periods spent at a training company and periods spent at a vocational school; it is based on trade standards (*Berufsbilder*) which are defined and regularly updated by a committee at the federal level and within the legal framework of the German Vocational Training Act *Berufsbildungsgesetz* of German labour laws. These standards include lists of operations that the apprentice must learn to perform in the various departments of the company (Davoine, Walliser and Riera, 2000). Companies award apprenticeship positions to the applicants they select, as would be the case for any other position.

At the end of the apprenticeship, a vocational certificate is awarded by the local chamber of commerce and industry or by a chamber of handicrafts. Unlike in certain countries such as France, this certificate is awarded independently of the school and university system and does not give access to general education courses leading to a diploma. In France, vocational training is integrated into the single hierarchy of the education system, while in Germany, the general education system and the vocational training system are independent from one another – no bridge or reorientation class is available – and can be considered to be juxtaposed (Maurice and Sorge, 1980; Maurice, Sellier, Silvestre, 1982). Despite being independent of the hierarchies and levels of the general education system, the German vocational certificate is still recognised and valued by companies and it favours the integration of young people into the labour market (Mayer and Konietzka, 1998). Moreover, it is quite common to see young Germans go through vocational apprenticeship after a successful school career in the general education system and before undertaking academic studies. Vocational apprenticeship concerns a large part of the working population: before the reunification, over 55% of the working population of West Germany held a dual vocational training certificate (Möbus and Sevestre, 1991), while ten years after the reunification, this proportion had reached 60% (Wolter, Mühlemann and Schweri, 2006). Consequently, the unemployment rate of 22-year-olds is the lowest in OECD countries.

The success and extent of the dual vocational training phenomenon has three consequences on the hierarchical relations and organisation of German companies. The first consequence is that, thanks to vocational training, employees acquire a recognised and valued professional qualification to work as a *Sachbearbeiter* (qualified employee) or Facharbeiter (skilled worker). This type of position is a product of the German vocational training system and corresponds to a specific area of competence and field of responsibilities, which is usually in line with the vocational apprenticeship performed by the employee. The occupation learnt during initial training, i.e. the knowledge of the work procedures and processes specific to a job within the company, is associated with a specific position in the corporate organisational structure, with a specific field of responsibilities, competence and expertise. Each employee is thus the “owner” of a recognisable area of competence. Within this area, the employee is both deemed to be able to solve a certain number of problems on his own – using problem-solving routines learnt during training – and authorised to solve them without submitting the matter to his superior. The high formalisation and standardisation of internal procedures induced by in-house vocational training in Germany enables the organisation to check the work of employees beforehand via the
processes learnt, thus rendering part of the supervision performed by superiors redundant. Maurice, Sellier and Silvestre (1982) have shown that the German system for the recognition of qualifications goes hand in hand with a less pyramid-like organisational structure and a lower management-staff ratio than the French one. This does not necessarily mean that employees’ work is supervised less closely in German companies; it is supervised differently, beforehand, through the assessment of qualifications carried out by the company.

The second consequence on German companies is that this vocational training period is also a period for professional socialisation, a special time to build social cohesion and develop one’s identification to a professional group and a company. The professional identity of young German employees is heavily marked by the expertise group and company in which young employees begin their career, even when this is a first experience after obtaining a diploma from a university or a college for applied sciences (Fachhochschule). Several sociologists (Hartmann, 2007; Lanciano and Nohara, 1994; Locke and Meuleau, 1998) underline the importance of the role played by German companies in the socialisation of young managers and young engineers; for instance, people speak of a Siemens-Engineer to refer to an engineer trained within the Siemens company or of a Maschinenbau-Engineer to refer to an engineer trained to build machines, without specifying in which establishment the engineering degree was obtained. In France, this role is instead played by the academic institution, i.e. the Grande École or university; people speak of a polytechnicien or centralien, if the engineer received his training at the École polytechnique or the École centrale).

The third consequence is that dual vocational training also turns company employees into occasional trainers for apprentices, which gives them a sense of responsibility and raises their awareness of the importance of identifying and transferring work processes and professional skills (Davoine, 2002). By formalizing and preparing the transfer and the development of professional skills, the dual vocational training system introduces an organisational learning approach affecting all company employees.

Management hierarchies: the role of Führungskräfte

After establishing the broad outline of the institutional context of German-style Unternehmensführung, we now wish to present its main actors, i.e. German managers or Führungskräfte, which literally means “leadership forces”, and explain what sets them apart from French managers.

The notion of Führungskräfte is semantically and sociologically different from that of cadre (manager in France). Like the Anglo-Saxon notion of manager, it is only associated with a managerial function within the organisation while the French notion of cadre is a managerial, sociological and legal notion. In her commentary on the German translation of the sociological book Les cadres written by Luc Boltanski, the sociologist Beate Krais (1992) considers that “in Germany, there are no cadres” and defends the argument that Führungskräfte do not constitute a social group like in France. To translate the French notion of cadre into German, one must resort to various notions taken from various registers. The notion of Führungskraft only conveys the managerial aspect: a Führungskraft can be defined as a person exercising managerial, people management or supervisory duties. For example, in Germany, German foremen (or Meister) are also considered as Führungskräfte as they are in charge of managing a team. The sociological or socio-professional aspect of the notion of cadre is imperfectly translated as Akademiker (holder of a higher education diploma) or Angestellte (white-collar employees). The legal aspect of the French notion of cadre is translated instead by the notions of außertarifliche Angestellte (employees not covered by a collective agreement) or leitende Angestellte (top executives); these legal notions are associated with employee statuses for which remuneration is not precisely determined by sectoral collective agreements or having more important legal
responsibilities within the company (Bournois and Livian, 1996). However, the differences between Führungskräfte and cadres are more clearly apparent at the level of professional socialisation and career paths. An analysis of European manager development models was performed by Evans, Lank and Farquhar (1989), researchers at the INSEAD, and showed that the career paths of French and German managers are dissimilar (see figure V.3.1). In the German career model, the phase for identifying managerial potential corresponds to the phase dedicated to learning a professional expertise; career advancement then occurs relatively slowly and often within the same company and position. In this “mountain climber’s” career model (Bauer and Bertin-Mourot, 1996; Joly, 1996), the acquisition of professional skills by future Führungskräfte is not only a step towards building a professional identity, but also a step towards gaining legitimate authority based on technical expertise, or Fachwissen (Barmeyer, 2007; Lawrence, 1980; Bauer, Bertin-Mourot, 1996). The expression “chimney careers” (Walgenbach, 1994) is also used to characterise the career paths of these experts who are compartmentalised within a single function, as if they were climbing within a chimney flue. At the level of top executives, the compartmentalised career paths of these experts explain the collegial nature of German boards of directors (Vorstand), which are made up of peers whose careers, skills and viewpoints are different and complementary. In the French or Latin model, the phase for identifying potential rather takes place outside the company, within the framework of an elitist and selective education system based on competitive entrance examinations which assign a symbolic and sociological “rank” to individuals (d'Iribarne, 1989). In the French system, diplomas legitimise graduates’ membership of the social group of executives and engineers, an elite which mirrors the national school elite in the microcosm of companies, thus justifying their authority within this microcosm (Naulleau and Mendoza, 1993). Careers are rather generalists’ careers with high mobility between positions and companies. Owing to the functional mobility of their careers, French CEOs are generalists and they are also better prepared to run their company alone.

Figure V.3.1: NATIONAL MANAGER DEVELOPMENT MODELS
German managers are often specialists and experts: a German manager has to be a *Fachmann*. As a mark of scientific expertise, the title of doctor is very widespread among German senior executives and top executives. Studies conducted with samples of 150 to 500 company managers, show that around 50% of German top executives hold the title of doctor (Opitz, 2005), unique in Europe and „which shows that German society and its companies value the expertise of the academic elite that is selected by universities based on the Humboldtian principle of educating by researching“ (Davoine and Ravasi, 2013, 154). Like in France, this title also shows the belonging to a certain academic elite, as only the best students gain access to doctoral programmes at German universities. However, contrary to the French system, where the most valued qualifications are the degrees awarded at the end of general education programmes in the *Grandes Écoles*, the most valued academic qualifications in Germany are titles which recognise expertise and the successful completion of more in-depth work in a specific area of knowledge.

The choices made by students in the German university system underline the importance of the “well-oiled machine”, for the future as well. In 2011, 2 million students were enrolled, i.e. 1.4 million at universities and 600,000 at *Fachhochschulen* (universities of applied sciences). The most prized subjects are management sciences and law (613,946) and engineering sciences (365,506) (Statistisches Bundesamt 2011).

Obtaining the title of doctor does not however guarantee an entry into the top of the pyramid; a young doctor must first hold positions as an expert, project leader or board member assistant before considering a managerial position. Lastly, the university training of young doctors often begins with dual vocational training and is often punctuated with work placements.

In the German model, it is often the professional skills, or Fachwissen, acquired through experience in lower-level positions that give access to a first position of middle manager. Technical skills are essential for gaining legitimate authority within the company: for white-collar and blue-collar employees alike, the sense of professional identity often prevails over hierarchical or status markers (Heidenreich, 1993). In Germany, the strength of professional or vocational identities (*Beruf*), which mitigates hierarchical identities, is certainly a consequence of the importance of vocational training. This special career path of German managers and this acquisition of technical skills strongly condition behaviours and the perception of their role with respect to their direct colleagues (Delmestri/Walgenbach 2005, Walgenbach, 1994). The perceived role of German managers is thus less a role as a “superior” and more a role as a *primus inter pares* (the first among equals) having gained more technical expertise. The case of military officer training in both countries (see box V.3.1) is a good illustration of the two career path models.

**Box V.3.1**

**THE TRAINING OF YOUNG OFFICERS IN THE FRENCH AND GERMAN ARMIES**

The officer ranks of the two armies correspond relatively perfectly, but there is a difference at the bottom of the hierarchy of officers, which marks a difference in the procedure for accessing to the first lieutenant rank for military service conscripts. In France, the first officer rank is that of *aspirant* (lieutenant in training): it is reached directly following a selection (competitive examination) and after studying for four months at a Reserve Officers’ School (or military academy) where the trainee is integrated within a group of future officers. After these four months, the candidate becomes a “trainee officer” as his name indicates, but he is called “*mon lieutenant*” (my lieutenant). He reaches officer status (and wears the corresponding insignia: a horizontal ribbon bar of second lieutenant with a thin border) and is integrated into the social group of officers with statutory benefits (reserved cafeteria, first-class train tickets).
In the German army, future officers only reach officer status upon the completion of a two-year military service with all other conscripts. A thin grey ribbon on their epaulettes marks this difference in purpose, which never amounts to a difference in status. During those two years, they spend a first year serving as a private and corporal with other privates, and a second year during which they are promoted to non-commissioned officer status and wear insignias similar to that of non-commissioned officers on their epaulettes with grey ribbons (Unteroffizier and then Feldwebel). Despite their non-commissioned officer status, they are called Fahnenjunker and then Fähnrich during this period, and are therefore the German “equivalent” of aspirants (lieutenants in training). The Fähnrich and the aspirant, who are both future lieutenants, do not however follow the same career paths. The German counterpart is in the phase of identification of potential during two years, a phase during which he is still neck and neck with those he will later lead. While the French counterpart is already, to a certain extent, a “novice executive” and enjoys officer status from the onset of his career, thus setting him apart from those under his command.


The general framework of collective agreements and co-operative management in the German model favours practices of dialogue and a culture of consensus negotiated at various levels within the company. In the same way, the dual vocational training system, by developing the professional skills acquired within companies, goes hand in hand with a less hierarchical form of organisation in which fields of responsibilities are distributed in a more horizontal manner; this form of organisation corresponds to a conception of hierarchical relations which Hofstede (2005) would describe as a low power distance.

3. Adaptation and institutional change at the turn of the century

By laying emphasis on the institutional mechanisms and systems in which social practices are reproduced, the institutionalist approach makes it possible to follow the pathways of transition, evolution and change. The German model has encountered several challenges since the 1990s: the reunification process, a period of stagnation and a series of profound reforms, particularly in the labour market. These challenges have occurred in a context of enhanced competition in manufacturing and services, transformation of global markets, and the rise of new schemes of regulation.

Complex adjustments: the internal and external effects of the process of reunification

The first major challenge for the German Rhine model was of a cultural, political and economic nature: the reunification process with the former German Democratic Republic. Although the G.D.R. had been considered a role model for other countries in the Eastern Bloc in the post-war years, the gap in income, performance and technology between the two Germanys was considerable when the wall came down. A rather short period of evaluating alternative scenarios of integration the two countries and its contrasting economic and social systems reflected the urgency to avoid a collapse, but also the failed attempt to learn from the cultural and social experience of the Eastern German population (Box 3.2.)

When the exhilaration of the first few months subsided, West German people also discovered that the people of East Germany were culturally different. To the slogan of reunited Germany “Wir sind ein Volk” (We are one people) chanted in the enthusiasm of the day the wall fell, some disappointed voices in the East replied, in the years that followed, “Wir auch!” (So are we!). In 1995, the magazine Spiegel (Spiegel, 1995) published the results of a comparative study between the East and the West conducted by the East German psychologist Michael Geyer, which showed among other things that East German people were more social, more spontaneous, more favourable to
women working, and had less competitive spirit than West German people. The study also underlines that East German people went to sleep and got up one hour earlier and only left a 15cm space between two individuals in queues at the counter, while West German people left a 45cm space on average. These anecdotes allow us to imagine what the differences in work behaviour and work values could be between national groups which certainly had the same language and the same history, but which had evolved during forty years in entirely different ideological contexts and institutional systems.

Consequently, a de facto extension of the Western economic and social model was decided and applied in a complex legal, administrative and organizational process that took more than a decade. changing rapidly through the same effects of the communist disintegration, which affected also thoroughly the process of extension and integration of the European Union. New economic powers like China and India appeared on the global economic stage, with lasting effects. For the long-term development of the German economic and management model, that meant mounting internal and external pressures, liberated by conserving its institutional core structure without major changes, but opening social and organizational arenas where exceptional regimes developed, and insider-outsider scenarios appeared, that were not known before. Differences in salary caps and pension schemes between east and west do still exist today, in spite of the public investments made by Western Germany after the reunification, which reached a maximum of 90 billion Euros per year (Uterwedde, 2003). The economic situation of the “new Länder”, and especially their unemployment rate, remained problematic, although the economies of some regions have been perceptibly catching up. In general, the adaptation process was based on the established Rhein-model of social market economy, allowing a series of exceptions, but otherwise defending its institutional foundations.

Causes and consequences of the labor market reforms

Being confronted with the liberalisation of some traditionally protected markets, with the diffusion of the Anglo-Saxon variety of market capitalism, the German model of social market economy and negotiated capitalism has been frequently criticised by employers since the recession of 1993. Employers’ representatives (BDI/BDA, 2004) were demanding changes in the cooperative management law, a system they considered anachronistic and little attractive to foreign investors. The Anglo-Saxon conception of shareholder value challenged the stakeholder approach developed during the post-war years (Wirtz, 1999). The German decision-making system with stakeholders was seen as inadequate when there is a need to act quickly and radically (Uterwedde, 2003). The difficult process of internal adaptation or convergence apparently further obstructed the view for the bigger picture of external conditions and delayed adjustments, which possibly were already necessary at the time when reunification happened, as for example the growing problem of long-term unemployment also in different regions of Western Germany indicated. By the beginning of the new century, this problem had become even more obvious and created again a growing sense of urgency for reform.

With the rising national debt and unemployment rate, pressure on the German social welfare system grew: the so-called Hartz laws of the Schroeder government changed the employment policy and the handling of unemployment widely and modified the principles of the German social solidarity system (Bourgeois, 2005). Corporate investment in dual vocational training was declining (Zettelmeier, 2005).

Some scientists were observing an “academisation” of skilled posts which resulted in an early plateauing of traditional “mountain climbers” careers for skilled employees with no university
training (Drexel, 1993). Moreover, some large-sized companies were experiencing the inclusion of a new type of managers in boards of directors, with MBA degrees, a more Anglo-Saxon ideology and who come from more privileged social backgrounds than the managerial elite of the 1980s (Hartmann, 2005). The impact of sectoral collective agreements on wages and working hours was reduced with a switch of negotiations to the level of the works councils (Betriebsräte, Lattard, 2005), with less freedom of action. In 2004, they signed agreements on the extension of working hours at Siemens, Daimler and Volkswagen.

The Hartz reform was successful in reducing rigidities in the mechanisms of assignation of work by creating new forms of obligatory elements of re-education and re-entrance in the market for long-term unemployed workers combined with reductions in social transfers. The result was on the one hand more flexibility in the labour market in general, that led to significantly lower levels of unemployment and a growing sector, especially in services, with lower levels of salary. On the other hand this “second” labour market did not follow the coordination rules established in the model in the post-war era. This new configuration proved to be resilient after the crisis of 2008, when Germany overcame the global effects of the crisis quicker than most other European countries. This success has been attributed to the combination of pillars of traditional bargaining schemes that helped to avoid the negative consequences of hire-and-fire strategies on the one hand, and the higher flexibility of important segments of the labour market (Möller 2015).

Parallel processes of stability and convergence

During this period, several elements of the Rhine model of capitalism have been seriously called into question in Germany, France and other countries classified as CME economies. These changes in the national context obviously have an important impact on life at work, on social relations and on the strategy of German companies. However, these are gradual changes and German management culture does not radically change from one day to the next. For that matter, a scenario of “negotiated adaptation” of the Rhine model, as the most “German” approach to resolving the crisis, prevailed (Lasserre, 2005; Uterwedde, 2005).

The adaptations in France and Germany in the last twenty years did certainly not eradicate the basic institutional configuration of the Rhine model based on a widespread culture of social stability and mobility with strong institutions as anchors for working conditions and corporate decision-making. However, they did lead to a certain degree of erosion of social protection for a significant part of the workforce and to a weakening of the traditional institutions of bargaining and standard setting for the labour market. Consequently, “non-standard” employment arrangements and firm-based contracting have grown and a process of “dualization” has taken place, where traditional institutions only protect established sectors of the workforce (Palier et al. 2010).

Conclusion

The contextual multi-level framework of this article contributes to a better understanding of the German management and economic model in a European context. The illustration of the allows to identify the underlying institutional and cultural structures, driving the evolution and coordination processes within Germany, by taking into account the French contrast. Therefore, institutional and cultural factors can be understood and used for understanding the complex processes in the reality of German management and economic model because they enable to
consider different aspects and to overcome mono-causal explanations. It demonstrates the importance of contextual factors, which also shape the behaviour of managers.

The German economic model shows both elements of stability and evolution. Institutionalist approaches actually help to better apprehend this transformation change. The cultural transformations of the former GDR are, on this account, exemplary (Grosser, 1985) and the contemporary changes in the German institutional system must be regarded as serious threats, not only to the Rhine model of capitalism, but also to the German management style which has been built in this specific national context, favouring negotiated participation and development of professional skills.

The transformation paths of CME countries, particularly Germany and France, in the last 20 years show a combination of continuities and changes. Some characteristic elements of coordination have been preserved and strengthened through the reform processes, and other elements show tendencies of adaptation and convergence. Hybrid patterns can be observed either on a European level as part of the homogenization of models between members of the European Union or on a global level as part of a liberalization of markets and the intensified exchange of goods, services and financial resources. Overall, these three elements of internal stability in certain sectors, convergence effects inside the closer group of political and economic partners and convergence effects in the global community of states that are connected through commercial exchange and global institutions like the WTO, among others coexist in processes of co-evolution.

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