

What is the role of informal institutions in the institutional
constellations of the VOC framework?

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Abstract

The Varieties of Capitalism (VoC) tries to explain institutional differences in the western developed world. It does this by taking a firm based approach and compares institutional complementarities in different economies. While Informal institutions show to be relevant for economic outcomes, within this theory their role has been undeveloped.

The aim of this study is to fill this gap and find out what role informal institutions play within the Varieties of Capitalism. To this end, the research questions is as follows: *What is the role of informal institutions in the institutional constellations of the VOC framework?* To answer this question I use individualism and historical family systems to find the relevance of informal institutions for the VoC.

The research question is answered by comparing the level of individualism in the VoC countries with the type of coordination found at an institutional level, and by exploring the persistence of individualism through family systems.

My findings are that individualism, while not in all cases, can be complimentary to the institutional constellation in the VoC. The relevance of individualism is evident from the link with historical family systems and the persistence of the latter. Furthermore historical family system show to have a direct relation with the type of coordination found today.

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1. Introduction

Is there a single best practice to stimulate economic performance? Can multiple routes lead to the same level of success? Would it be optimal for economies to converge towards a single institutional model or is there room for diverse systems? If we take a look across Europe we find major differences in the economic composition of nations which seem confirm that there are multiple routes to economic success.

Within the literature that tries to provide an explanation for these differences, we find a debate surrounding the roles that institutions play within an economy. In this field people try to explain where the differences origin from. In this field institutions are found to be a root cause or driver for economic performance.¹ Evidence that institutions are the main cause of economic growth is argued by Acemoglu, Daron and Robinson,² as well as by Knack and Keefer.³ Porter provides further evidence for the relevance of institutions and uses them to explain a comparative advantage.⁴ He argues that an advantage over a long period of time can only be obtained when multiple institutions, such as governmental en firm behavior are complementary to each other. In general the bulk of this literature focusses on the diversity found among the institutions at a national level and their relevance.⁵

A type of institution which as received a lot less attention has been informal institutions. Where formal institution encompasses the dimensions of firms, legislations, government and official organizations, informal institutions are the unwritten rules of society. Informal institution can take some form of organization, such as family, but also include values, such as individualism.⁶

The literature surrounding informal institutions try to add to this debate by adding culture as a factor. Helmke, Gretchen and Levitsky provide a model for the assessment of the interaction between formal and informal institutions that shows the relevance of informal institutions for

¹ North, Douglass C. "Economic performance through time." *The American economic review* 84.3 (1994): 359-368. 366.

² Acemoglu, Daron, and James Robinson. "The role of institutions in growth and development." *World Bank, Washington DC* (2008). 135.

³ Knack, Stephen, and Philip Keefer. "Institutions and economic performance: cross-country tests using alternative institutional measures." *Economics & Politics* 7.3 (1995) 18, https://mpra.ub.uni-muenchen.de/23118/1/MPRA_paper_23118.pdf, accessed on June. 24, 2018.

⁴ Porter, Michael E. "The competitive advantage of nations." *Competitive Intelligence Review* 1.1 (1990): 74-91. 86.

⁵ Jackson, Gregory, and Richard Deeg. "How many varieties of capitalism? Comparing the comparative institutional analyses of capitalist diversity." (2006). 11, <https://www.econstor.eu/bitstream/10419/19930/1/dp06-2.pdf>, accessed on June. 24, 2018.

⁶ North, "Economic performance through time," 360.

on the effectiveness of formal institutions.⁷ For political dimensions Lauth shows that informal institutions need to complement the formal ones for an effective democracy.⁸ Adding to this, Williamson would go as far as state that informal institutions matter as much as the formal institutions regarding economic outcomes.⁹

A more recent addition to the literature surrounding the role of institutions on economic performance that tries to encompass the institutional framework is the Varieties of Capitalism. In the Varieties of Capitalism (VoC) Halls and Soskice, try to provide an explanation for the institutional differences observed around the world.¹⁰ By using an institutional approach, in which firms are the main actors, Halls and Soskice share their vision on the economic performance of developed economies. The main premise of this theory is that different types of economies can obtain similar economic growth and performance through institutional complementarity.¹¹

Halls and Soskice argue that different institutions do not randomly appear across nations.¹² There is a logic at work in which institutions would complement or are complemented by each other. They categorize the institutions within a nation into five dimensions: Industrial relations, vocational training and education, corporate governance, inter-firm relations and employees.¹³ Furthermore they acknowledge the relevance of informal institutions such as culture and state that because they are persistent these are inherently part of these five dimensions.¹⁴

Based on the five dimensions they classified numerous developed countries on a scale from coordinated to liberal. One side we find the Coordinated Market Economy (CME), which is characterized by its high employee influence on firm decisions, access to investment capital based on firm reputation and the education of individuals focused of industry specific skills.¹⁵

⁷ Helmke, Gretchen, and Steven Levitsky. "Informal institutions and comparative politics: A research agenda." *Perspectives on politics* 2.4 (2004): 725-740. 728.

⁸ Lauth, Hans-Joachim. "Informal institutions and democracy." *Democratization* 7.4 (2000): 21-50. 22, <https://www-tandfonline-com.proxy.library.uu.nl/doi/pdf/10.1080/13510340008403683>, accessed on June. 24, 2018.

⁹ Williamson, Claudia R. "Informal institutions rule: institutional arrangements and economic performance." *Public Choice* 139.3-4 (2009): 371-387. 373, <https://link-springer-com.proxy.library.uu.nl/content/pdf/10.1007/s11127-009-9399-x.pdf>, accessed on June. 24, 2018.

¹⁰ Hall, Peter A. and David W. Soskice (eds), *Varieties of capitalism: The institutional foundations of comparative advantage*. Oxford: Oxford University Press, 2001.

¹¹ *Ibid*, 17.

¹² *Ibid*, 18.

¹³ *Ibid*, 22.

¹⁴ *Ibid*, 12.

¹⁵ *Ibid*, 26.

Corporations in these economies coordinate their efforts on industrial and strategic level.¹⁶ While the institutions in the CME are not the same and their performance shows different outcomes, it's is how they organize themselves that makes them CME. Examples of countries grouped by this type of coordination within the VoC are the Netherlands, Finland, Denmark, Belgium, Sweden and Norway.¹⁷

On the other side of the spectrum there is the Liberal Market Economy.¹⁸ Some characteristics of LME's are that investments are generally done based on share profitability, there is weak employment protection, education is generalized rather than specialized, and coordination is done based on the fluidity of the market. Supply and demand and individual responsibility are the driving factors behind the market based coordination found in these economies.¹⁹ Nations that fit this model are the United Kingdom and the United States.²⁰

They further argue that it is likely that the type of coordination in the LME's and CME's are persistent and that they would slowly converge to an ideal type in order to obtain an optimal comparative advantage.²¹ In this typing Germany is the quintessential CME, while the United States and the United Kingdom are the prime examples of an LME.²²

The Varieties of Capitalism approach is not without its flaws, Hall and Soskice themselves note that their framework is not an all-encompassing theory.²³ It just provides a comparative look on whether countries are more coordination or less coordinated. For the outliers it can still provide an insight in the manner in which firms and organizations operate in an economy. One of the more persistent criticisms on Halls and Soskice is on how they deal with the historical development of their presented cases. The VOC framework does not explain institutional change and does not take into account that countries actually change over time, Sluyterman has argued that institutions in the Netherlands have shifted from CME to LME over time.²⁴

¹⁶ Ibid, 33.

¹⁷ Ibid, 21.

¹⁸ Ibid, 27.

¹⁹ Ibid. 33

²⁰ Ibid, 19

²¹ Ibid, 63.

²² Ibid, 20

²³ Ibid, 35.

²⁴ Sluyterman, Keetie. "Introduction: Changing business systems in the Netherlands in the twentieth century." *Business History Review* 84.4 (2010): 737-750.

This criticism is confirmed by Hall and Thelen.²⁵ They suggest that the VoC needs to expand on the original framework. They go as far as to state that there might be a shift towards a new form of dualism between the types. Complementing this reflection on the VoC is that it takes little to no account of how the external factors, such as international competition, affect the institutions.²⁶

Another dimension of this framework that could use more exploration is that on the role of the informal institutions. While Halls and Soskice explicitly acknowledge that informal institutions do play a role in the framework they do not explore these institutions further and have been silent on their workings.²⁷ This is contradictory to the findings in the debate where the relationship between formal and informal institutions has been researched and shown relevant.

Examples of these are Williamson who showed the influence on economic performance,²⁸ Taylor and Wilson who explored the relation with innovation,²⁹ and Alesina et al who found a link with employment protection,³⁰ So far no one has looked into the role that informal institutions play specifically within the varieties of capitalism framework.

My aim for this study is to open this black box on informal institutions within the VoC literature. I want to find out: *What is the role of informal institutions in the institutional constellations of the VOC framework?* In order to answer this question I will take a three pronged approach. First I need to explore which identifiable institutions are present within the VoC framework? Second I want to find out to what extent informal institutions complement the formal institutions identified in the VOC framework? And finally I want to find out to what extent historical institutions help explaining the informal institutions and as such the institutional complementarities in the VoC?

To answer the first sub question I will make a comparison between a number of the countries mentioned in the VoC. For formal institutions I will make use of research done by Witt and Jackson, who have identified institutional indicators for each of the five dimensions in the

²⁵ Hall, Peter A., and Kathleen Thelen. "Institutional change in varieties of capitalism." *Socio-economic review* 7.1 (2009): 7-34. <https://academic-oup-com.proxy.library.uu.nl/ser/article/7/1/7/1690783>, accessed on June. 24, 2018.

²⁶ Jackson and Deeg. "How many varieties of capitalism," 35.

²⁷ Hall and Soskice, *Varieties of Capitalism*, 17.

²⁸ Williamson, Claudia R. "Informal institutions rule: institutional arrangements and economic performance." *Public Choice* 139.3-4 (2009): 371-387.

²⁹ Taylor, Mark Zachary, and Sean Wilson. "Does culture still matter?: The effects of individualism on national innovation rates." *Journal of Business Venturing* 27.2 (2012): 234-247.

³⁰ Alesina, et al. "Family values and the regulation of labor." *Journal of the European Economic Association* 13.4 (2015): 599-630.

VoC.³¹ I will explain how each of these indicators is linked to the different dimensions and why they are relevant. Second, I will explore the general role that informal institutions can play within the VoC framework. This gives an idea on how the VoC is put together and on which aspects the level and type of coordination for each country is based.

In chapter three I will examine the informal institutions. To find out to what extent informal institutions complement the formal institutions, I will use a research study by Geert Hofstede.³² Through his research he identified four different values that are found within cultures around the world.³³ Through comparing one of these values, individualism, to the levels of coordination, I should be able to assess if there is in fact a relationship between individualism and the level of coordination in each country. I will compare these values on a case by case basis for each of the dimensions in the VoC.

To find out to what extent historical institutions help explaining the informal institutions and as such the institutional complementarities in the VoC, first I will be looking at historical family types identified by Todd and expanded on by Carmichael and Rijpma.³⁴ I will test if we can link certain aspects of individualism to these historical family typing. Second, I will explain how these family systems are persistent over time, and finally I will see if these family types and the value of individualism can be linked to the classification found in the VoC.

Overall, this research tries to address the gap in the VoC framework and wants to add to the literature on informal institutions. This project will target the further understanding the role of informal institutions in the varieties of capitalism, but the findings can also be applied to the broader institutional spectrum. It can help us understand why institution develop in the way they do, why certain institutions are effective in some nations, but ineffective in others. It can effectively broaden our perspective on the perpetual influence that both formal and informal institutions can have on a nation's prosperity.

³¹ Witt, Michael A., and Gregory Jackson. "Varieties of Capitalism and institutional comparative advantage: A test and reinterpretation." *Journal of International Business Studies* 47.7 (2016): 778-806.

³² Hofstede, Geert. *Culture's consequences: Comparing values, behaviors, institutions and organizations across nations*. Sage publications, 2001.

³³ Ibid, 29

³⁴ Rijpma, Auke, and Sarah G. Carmichael. "Testing Todd and Matching Murdock: Global data on historical family characteristics." *Economic History of Developing Regions* 31.1 (2016): 10-46.

Chapter 2. The VoC framework

In the Varieties of Capitalism (VoC) Halls and Soskice present a framework on the nature of institutional complementarities in the political economies of the developed world.³⁵ The theory suggests that nations can be clustered by how and to what degree institutional coordination. At the heart of this framework lies the idea that institutions in these countries are effectively complementary. Different sets of institutions can all provide a comparative advantage.³⁶ One set of institutions is not found to be better than another. They are different, but can potentially both lead to strong economic development and performance.³⁷

An example of how this institutional complementary according to Hall and Soskice functions can be found in the German case.³⁸ In Germany firms have strong relationship with their employees through for example work councils. This is further enforced by the level of employment protection present. Because of the high levels of employment protection employees are more likely to reciprocate an investment in their own education and bind themselves longer to a single company. Because the relationship between employees and firms is intertwined they are less likely to take short term decisions based on profit only. As a consequence the investment climate and share value is more based on a firm's reputation than its current stock value.³⁹

The varieties of capitalism framework is further centered around the role that firms play within the institutional framework, as Hall and Soskice consider them the most important agents.⁴⁰ They compare the different economies by comparing to the way the agents resolve the coordination problems they face. The main distinction the authors make is the one between two types of economies. The types are liberal market economies (LME) and coordinated market economies (CME).⁴¹ These two archetypes of institutional systems are polar opposites that lie along a scale of ideal types on which they place the different nations. In this chapter I will identify several institutions that are part of the five dimensions defined in the VoC. I will then compare these dimensions for the bulk of the countries mentioned in the framework. By comparing the type of coordination found within the dimensions in Germany, Belgium, the Netherlands, the United Kingdom, the United States, Sweden, Norway, Finland,

³⁵ Hall and Soskice, *Varieties of Capitalism*, 6.

³⁶ *Ibid*, 7.

³⁷ *Ibid*, 32.

³⁸ *Ibid*, 21.

³⁹ *Ibid*, 22.

⁴⁰ *Ibid*, 6.

⁴¹ *Ibid*, 19.

France, Spain, Portugal, Germany, Italy and Denmark we should be able to clarify further what interaction between different institutions defines the LME or a CME.

To be able to make a better comparison between the countries I will expand on the base premise of the VoC by using data from Witt and Jackson.⁴² Witt and Jackson make use of specific indicators of institutions found in the VoC to create a model that allows them to score whether the coordination within the different dimensions can be considered coordinated (CME) or liberal (LME).

They expand on the VoC by providing further evidence for the levels of coordination in different nations.⁴³ Witt and Jackson found that the varieties of capitalism framework provided to much of a restrictive view on how the institutions combined and interacted with each other and wanted to identify the coordination per dimension.⁴⁴ Thus, this data will help explain the core characteristics of the different dimensions and provide a foundation for further research towards the relationship with informal institutions.

As stated the classification for LME and CME by Halls and Soskice is based on how actors within different economies coordinate their efforts. On one side of the scale, the liberal market economies, coordinate their activities hierarchical and via competitive market arrangements.⁴⁵ The main premise is that in LME the market relations are defined by the short distance exchange of goods and services, generally supported by legal constructs to protect the different parties.⁴⁶ The level of supply of goods and services in turn is driven by profit margins. The LME's are the classic example of a free market economy in which demand drives supply. The nations classified as such are the United Kingdom and the United States. On the other side of the spectrum we find the coordinated market economies. CME's depend less on market relations and are more focused on nonmarket relations to coordinate with the other actors in the economy.⁴⁷ The actors in these economies are likely to coordinate themselves within strategic networks and are more reliant on collaboration than competition. The status quo in these economies is often a result of strategic interaction between firms and the other formal institutions.⁴⁸ Countries considered to be CME's are Germany, the Netherlands, Norway, Sweden, Finland, Denmark and Belgium.

⁴² Witt and Jackson, "*Varieties of Capitalism and institutional comparative advantage.*" 793.

⁴³ Ibid, 788.

⁴⁴ Ibid, 782.

⁴⁵ Hall and Soskice, *Varieties of Capitalism*, 27.

⁴⁶ Ibid, 27.

⁴⁷ Ibid, 21.

⁴⁸ Ibid, 19.

In addition to these two core typing's Halls and Soskice identify a third group.⁴⁹ The Mediterranean countries. Consisting out of Italy, Spain, France and Portugal these countries show coordination patterns that do not fit the their model as well as the other nations. Heavy state intervention and a relatively large agrarian sector meant that for some dimensions they show more market coordination while for other dimensions, such as employees, they are considered to be more liberal.

As with Halls and Soskice, Witt and Jackson placed institutions in the different economies alongside a scale ranging from liberal coordinated institutions, or institutions associated with LME's and non-market driven coordinated institutions, associated with CME's.⁵⁰ The liberal institutions are identified by their high use of market relationships and transferable assets, while the non-market coordinated institutions are characterized by their long-term strategic relationships.⁵¹ While the main focus of their research was to find how national-level institutions relate to national comparative advantages, it provides a great insight into institutions found relevant for the five dimensions.⁵²

In table 1 I present an overview on the different levels of coordination for each of the dimensions and their relative position compared to the general coordination index, as presented by Witt and Jackson.⁵³ In this table, but only for the five dimensions, the countries with a coordination of 0 to 0,5 are considered to show low liberal to medium coordinated features found in LME's while 0,5 to 1 show medium to high type of coordination found in CME's. For average coordination higher is more coordinated following the ideas from halls and Soskice (CME) and a lower score means less coordination (LME)

Table 1 Set membership of countries in highly coordinated institutions, 1995–2003 average⁵⁴

| Country | Corporate Governance | Inter-firm relations | Employees | Industrial Relations | Education | Average Coordination |
|---------|----------------------|----------------------|-----------|----------------------|-----------|----------------------|
| Belgium | 0,83 | 0,45 | 0,4 | 0,86 | 0,7 | 0,78 |
| Denmark | 0,61 | 0,36 | 0,73 | 0,3 | 0,17 | 0,61 |
| Finland | 0,4 | 0,14 | 0,73 | 0,36 | 0,19 | 0,56 |

⁴⁹ Ibid, 21.

⁵⁰ Witt and Jackson, "*Varieties of Capitalism and institutional comparative advantage.*" 790.

⁵¹ Ibid.

⁵² Ibid, 779.

⁵³ Ibid, 793

⁵⁴ Ibid, 793.

| | | | | | | |
|----------------|------|------|------|------|------|------|
| France | 0,4 | 0,4 | 0,6 | 0,38 | 0,38 | 0,57 |
| Germany | 0,36 | 0,63 | 0,95 | 0,74 | 0,83 | 0,82 |
| Italy | 0,79 | 0,49 | 0,2 | 0,86 | 0,72 | 0,68 |
| Netherlands | 0,4 | 0,28 | 0,8 | 0,7 | 0,26 | 0,7 |
| Norway | 0,79 | 0,44 | 0,73 | 0,59 | 0,13 | 0,62 |
| Portugal | 0,77 | 0,83 | 0,05 | 0,57 | 0,02 | 0,48 |
| Spain | 0,45 | 0,63 | 0,2 | 0,17 | 0,13 | 0,38 |
| Sweden | 0,4 | 0,22 | 0,73 | 0,6 | 0,51 | 0,64 |
| United Kingdom | 0,01 | 0,07 | 0 | 0,22 | 0,05 | 0,05 |
| United States | 0,01 | 0,07 | 0 | 0,19 | 0,05 | 0,09 |

From this table we find that the average levels of coordination of the different nations researched is congruent with the classification as done by Halls and Soskice. The countries classified as LME show low levels coordination, while the countries classified as CME generally show medium to high levels of coordination. The Mediterranean countries don't show a clear pattern on general coordination. In the next section I give a more concise overview of what makes up the measurements for each of different dimensions and why they are relevant.

Corporate Governance

The first dimension that Hall and Soskice discuss is that of corporate governance. The difference between CME's and LME's in this dimension lies primarily in the manner in which firms have access to financing and the way in which investors seek assurances of return on their investments and their relationship with the firms⁵⁵. Halls and Soskice find that the way actors in the economies deal with this affects both the availability of funding and the terms on which firms can secure funds.⁵⁶

To further explore this view on coordination within the sphere of corporate governance Witt and Jackson use three indicators. First they look at the index of legal rules for shareholder protection. This measures whether laws in a country adopt particular protections related to,

⁵⁵ Hall and Soskice, *Varieties of Capitalism*, 22.

⁵⁶ *Ibid.*

among others, the disclosure of information of firms towards investors and shareholder voting rights of which the relevance was shown.⁵⁷

The type and level of shareholder protection indicates the degree in which investors have their investments protected.⁵⁸ Countries with less shareholder protecting legislation generally tend to push for more direct firm control than countries with high levels of shareholder protection.⁵⁹ In the LME outcome investors tend to look more towards return on investments and find it important that these investments are protected, while in CME there is more coordination between firm and investors.⁶⁰ Investors create a bond with the firms, want to influence firms more directly and thus coordinate their return on investments differently. The second indicator for corporate governance used is stock market valuation as a percentage of GDP.⁶¹ This was done to capture characteristics and size of the stock market. A large stock market is associated with more liberal features, where a smaller stock market is associated with more coordinated features.⁶²

Behind this lies the premise that when a stock market is relatively large compared to the GDP, institutions in this dimension stimulate private investments, which is attributed to liberal institutions.⁶³ One example is that in Germany banks are the main providers of firms finance while in the US finance is mostly done with private capital.⁶⁴ The type of capital invested shows a relationship with the size of the stock market.⁶⁵

The third indicator used by Witt and Jackson is the spread of share ownership by the percentage of large firms in each country that have blockholders with an ownership stake of 10 % or greater.⁶⁶ High blockholding, or the amount of shares a single agent controls in a company, is generally associated with CME type coordination because it implies a stronger firm-investor relationship. The reason for this is that blockholders can influence the decision making process surrounding reorganizations and take overs.⁶⁷ Furthermore less investment in

⁵⁷ La Porta, Rafael, et al. "Investor protection and corporate governance." *Journal of financial economics* 58.1 (2000): 3-27.

⁵⁸ Witt and Jackson, "*Varieties of Capitalism and institutional comparative advantage.*" 789.

⁵⁹ La Porta et al, "*Investor protection and corporate governance,*" 6.

⁶⁰ Witt and Jackson, "*Varieties of Capitalism and institutional comparative advantage.*" 789.

⁶¹ Ibid.

⁶² Ibid.

⁶³ Hall and Soskice, *Varieties of Capitalism*, 22.

⁶⁴ La Porta et al, "*Investor protection and corporate governance,*" 22.

⁶⁵ Hall and Soskice, *Varieties of Capitalism*, 22

⁶⁶ Witt and Jackson, "*Varieties of Capitalism and institutional comparative advantage.*" 790.

⁶⁷ Lee, Peggy M., and Hugh M. O'Neill. "Ownership structures and R&D investments of US and Japanese firms: Agency and stewardship perspectives." *Academy of Management Journal* 46.2 (2003): 212-225, 214.

a single firm means investors can switch their investments more easily and the need to coordinate efforts to break with the firm is lower.⁶⁸ This is associated with LME's. From the data in table one it becomes clear that for the dimension of corporate governance only two CME's show CME type coordination, namely Belgium and Norway. The other CME's and Spain and France show a type of coordination that lies between LME and CME. In addition Portugal and Italy do show high levels non-market coordination and the United Kingdom and the United States show LME type coordination.

Inter-firm relations

The second dimension relevant to the VoC framework is that of the inter-firm relations, or the interaction and dealings between firms. Halls and Soskice use this broad term to encompass all the relations that a company has with other corporations, most notably the relationship with suppliers or clients.⁶⁹ This encompasses standardization of products, research and development, innovation and knowledge sharing, inter-firm collaboration and mergers and acquisitions.⁷⁰

While this dimension is really broad, Witt and Jackson narrow themselves, based on the available data, to two specific indicators based on merger and acquisition activity. The first indicator is the number of merger and acquisition deals by acquiring firms in each country.⁷¹ The second is the amount of merger and acquisition deals that result in a full-scale merger.⁷² The number of mergers and acquisitions provide a general indication that companies want to obtain relevant sections of other firms through market driven acquisition of ownership rights.⁷³ For the coordinated economies the amount of mergers and acquisitions is lower because they are more likely to coordinate their efforts rather than protecting their own interests.

Within liberal market economies countries would put their own success first.

The amount of full-scale mergers is chosen as an indicator because a higher number indicates the use of strong market relationships.⁷⁴ Mergers and acquisitions may involve arms' length transactions, which is linked to a liberal market economy, where ownership is directly purchased. A higher number of acquisitions of minority ownership stakes generally indicate

⁶⁸ Witt and Jackson, "*Varieties of Capitalism and institutional comparative advantage.*" 790.

⁶⁹ Hall and Soskice, *Varieties of Capitalism*, 26

⁷⁰ Ibid.

⁷¹ Witt and Jackson, "*Varieties of Capitalism and institutional comparative advantage.*" 789.

⁷² Ibid.

⁷³ Ibid.

⁷⁴ Ibid.

that the target firms remain legally independent and the obtaining firm wants to build towards a long-term relationship with the now controlled firm.⁷⁵

Out of the five dimensions these are the indicators that show among the greatest difference with the general levels of coordination. Multiple CME's, such as the Netherlands, Finland and Sweden actually lean more towards the LME type of coordination. Implying more mergers and acquisitions in general and added to that a larger quantity of full scale mergers. All the other CME's lean towards the liberal side of medium coordination with the exception of Germany which leans more to the CME level of medium and Finland showing high levels of LME type coordination. The LME's show no surprises and match the expected results. The institutions are highly liberal. An explanation for this diverging from the general levels of coordination could be the limited scope of indicators used by Witt and Jackson compared to what makes up the entire dimension.

Employees

The third dimension in the VoC, Internal structure or employees is a more troubled one. Unlike the other dimensions this one doesn't look at relations between firms or other institutions but it encompasses the core make up of every firm, the relations of the employee with the company. Halls and Soskice found that the challenge firms face within this dimension, is to make sure the employees match the firms.⁷⁶

The general idea is that employees develop and gather large quantities of knowledge about a firm's operational functioning that can be of value to managers. However, they can both share or withhold this knowledge with the firm. The type of coordination in this dimension stems from the manner in which firms develop relationships with their employees.⁷⁷

For the sphere of employees, Witt and Jackson examine the degree of employee participation of work councils. They use data for both the level of corporate boards as well as on the operational level. They specifically look at the legal structure surrounding employee representation on these boards.⁷⁸ By looking at these indicators they explore embeddedness of employee participation within a firm.

The link with the VoC in this case is that strong legal right for works councils surrounding the availability to information, consultation or at the decision making level would be more

⁷⁵ Ibid.

⁷⁶ Hall and Soskice, *Varieties of Capitalism*, 25.

⁷⁷ Ibid, 24.

⁷⁸ Witt and Jackson, "*Varieties of Capitalism and institutional comparative advantage.*" 789.

likely to found in the coordinated market economy.⁷⁹ In the CME firms would be more likely to enter a stronger strategic relationship with their employees.⁸⁰ A lower amount of work council representation and less rights fits the model of the liberal market economy where the relationship is less relevant because management is more profit driven.⁸¹

The data for all these countries, as found in table 1, shows that this dimension matches the classification as CME or LME the best. All of the CME's, except for Belgium show CME type coordination. In addition to this the LME show a fully LME type of liberal coordination. Out of the Mediterranean countries Italy and Spain and Portugal show liberal coordination, while France again averages out around the middle.

Industrial relations

The fourth dimension within the varieties of capitalism is that of the industrial relations. Within this sphere falls the interactions between companies and employees surrounding wage bargaining, working conditions and in general employment relations.⁸² Employees tend to have a strong bargaining position in the CME's while having little to no influence in the LME. Institutions surrounding this sphere are unions, labor movements and employment protection legislation.⁸³

Witt and Jackson used three indicators to identify the type of coordination for industrial relations. First, they examined the proportion of employees with short job tenure of less than one year. While they state that all countries have some new hires, a high proportion of new hires indicate a more liberal market-oriented to employment practices, whereas a low proportion indicates that employment may be more long-term and coordinated.⁸⁴

Second, they examined the strictness of employment protection for regular employees based on well-known OECD indices.⁸⁵ Greater difficulty in firing workers indicates again a higher degree of coordination in employment relations.⁸⁶ A liberal market economy is more likely to react to market demands and flexibility of labour facilitates this. On the other hand a coordinated market economy is more likely to have long term relation with employees.

⁷⁹ Ibid.

⁸⁰ Hall and Soskice, *Varieties of Capitalism*, 24.

⁸¹ Ibid.

⁸² Ibid, 29.

⁸³ Ibid, 25.

⁸⁴ Witt and Jackson, "*Varieties of Capitalism and institutional comparative advantage*." 789.

⁸⁵ Ibid.

⁸⁶ Ibid, 790.

Employment protection guarantees that employees and employers are coordinating their cooperation.⁸⁷

The third indicator Witt and Jackson use is the degree of coordination in wage bargaining across firms, industries and national levels. This indicator shows the degree to which firms engage in individualized market transactions in setting wages, or whether these are coordinated with other employers in the same industry or even nationally.⁸⁸ Again, in liberal market economies wage bargaining is less likely to be done in LME because of market coordination, or the supply and demand of labour. In the CME's agents are more likely to coordinate this on the national or industrial level in order to benefit the long term relationships.⁸⁹

For industrial relations, the data in table 1 shows that most of the CME's lean more towards the CME type of coordination, one exception being Finland. Most notable for this dimension is that, compared to the other dimension the United Kingdom and the United States show are less liberally oriented. From the Mediterranean countries Spain in this case shows the most LME type of coordination, France again hovers around the medium, but Portugal and Italy show CME type of coordination.

Education

The fifth and final dimension in which coordination takes place is that of vocational training and education. In this sphere *firms* have to address the manner in which they can secure a workforce with the suitable knowledge and skill needed by a company.⁹⁰ This dimension also addresses the issues surrounding the type of education a workforce needs in order to benefit firms the in CME's or LME's the most.⁹¹

For this dimension Witt and Jackson narrowed themselves to two indicators to examine the characteristics of education and training institutions. First, they took the share of graduates from upper secondary or post-secondary non-tertiary as a broad indicator for occupationally-based vocational training.⁹² Second, they used university training, as measured by the number of graduates from university as a share of the population in the typical graduation age range, as an indicator of general training.⁹³

⁸⁷ Hall and Soskice, *Varieties of Capitalism*, 30.

⁸⁸ Witt and Jackson, "*Varieties of Capitalism and institutional comparative advantage.*" 789

⁸⁹ Hall and Soskice, *Varieties of Capitalism*, 29,

⁹⁰ Hall and Soskice, *Varieties of Capitalism*, 30.

⁹¹ Ibid.

⁹² Witt and Jackson, "*Varieties of Capitalism and institutional comparative advantage.*" 789

⁹³ Ibid.

The argument for this is that in liberal market economies people benefit more from a generalist education through which they have a flexible position in the labour market and can switch relatively easily between employers.⁹⁴ On the other hand they found that in coordinated economies firms are more likely to invest heavily in a more specific set of skills because the employer-firm relationship tends to be longer and more coordinated.⁹⁵ This is the second dimension in which most patterns are broken. Only Germany and Italy show high levels of CME type coordination. For all the other CME countries this is medium as the highest point. Yet none of the CME's shows LME type coordination as much as the United States and the United Kingdom do. For the Mediterranean countries however Portugal shows the most LME type of coordination, rating even lower than the UK and the US. And finally France, again, hovers around the medium, this time leaning towards the LME side.

Informal institutions

As mentioned in the introduction the varieties of capitalism does leave out the specifics another, potentially relevant, sphere, that of the informal institutions. While Halls and Soskice mention briefly that they are in fact relevant, they state that their embeddedness in all of the other dimensions makes it less important for their research.⁹⁶ However informal institutions have been found to have an effect on economic outcomes.

Informal institutions, or the unwritten rules of the game, has been discussed in a large bulk of literature regarding economic performance and entails dimensions and outcomes that are directly relevant for the varieties of capitalism framework. For example Williamson found a direct link between the strength of general informal institutions, and the GDP growth and performance of countries worldwide.⁹⁷ Taylor and Wilson link the level of innovation to individualism,⁹⁸ and Alesina et al. show that and how strong family ties lead to more unemployment.⁹⁹ These can be linked with the VoC framework in general, but also with the underlying dimensions. Innovation for example is an important part of inter-firm relations.¹⁰⁰ Now to address the issue about the role that informal institutions play within the varieties of capitalism framework, I will specifically research individualism. To do so I will use the research and data provided by Geert Hofstede. Hofstede took a large international survey

⁹⁴ Hall and Soskice, *Varieties of Capitalism*, 30.

⁹⁵ Ibid, 25.

⁹⁶ H&S [Look up]

⁹⁷ Williamson, Claudia R. "Informal institutions rule: institutional arrangements and economic performance." *Public Choice* 139.3-4 (2009): 371-387.

⁹⁸ Taylor and Wilson. "Does culture still matter?: 234-247.

⁹⁹ Alesina et al, "Family values and the regulation of labor," 599-630. 601.

¹⁰⁰ Hall and Soskice, *Varieties of Capitalism*, 3.

among IBM employees to identify different cultural values within organizations and a society. In his book, based on this research, the author defines four important cultural measurements. Namely, individualism, masculinity, power distance and uncertainty avoidance.¹⁰¹

In this chapter I have presented the different dimension found within the varieties of capitalism framework and explained the underlying indicators. From this we can conclude that for CME's coordination from Witt and Jackson is congruent for three dimensions: corporate governance, employees and industrial relations, the other two dimension show different results. This is potentially explainable by the limitation of the indicators used. LME's on the other hand do match the type of coordination with their expected levels of coordination for all of the dimensions.

The final group, the Mediterranean cluster, shows why Hall and Soskice found them hard to define as either CME or LME scale. The different individual coordination levels are hard to explain by only using the CME or LME foundation. Italy, Portugal and Spain show somewhat similar patterns and might be grouped together, but France seems to be something different altogether, being medium all across the board.

In the next chapter i am going to use the data from this chapter on the different dimensions. I will explore the role that informal institutions play within the VoC framework. I will do so specifically by looking at the relationship between the indicators by Witt and Jackson and will link it to the value of individualism for the countries from the VoC.

¹⁰¹ Hofstede, Geert. "*Culture's consequences*", 28.

Chapter 3. Individualism and its role within in the VoC Framework

In this chapter I am going to examine the relationship between individualism and the VoC framework. First I will provide an insight on the relevance of individualism for the VoC framework. Second I will explore how individualism relates to the level of coordination for each of the dimensions mentioned in chapter two.

Going per dimension, I will first explain the theory on how individualism is linked and I will test if the theories on individualism are congruent with the data on coordination. By looking at how individualism relates to each of these dimensions I can provide a better understanding of the role informal institutions in the VoC framework.

One problem that first needs to be addressed is that it is sometimes hard to define informal institutions. They encompass relatively organized systems such as family, religion and traditions, but also refer to taboos, behavioral codes and values.¹⁰² For clarity, when referring to informal institutions it encompasses all of the above. When referring to underlying dimensions of informal institutions I will refer to them specifically. Most notably I will mention family and individualism.

Hofstede defines individualism and its counterpart collectivism, as manner in which individuals prefer to act and are expected to act based on the collective.¹⁰³ Collective in this case encompasses a firm, a social group or even a family. High individualism would match a general focus on the welfare of oneself or the direct family or another specific in-group, while high collectivism applies to a broader section of society and the wellbeing of larger group generally also including an outgroup.

Individualism affects nations and organization in several manners. The degree of individualism or collectivism that is expected in a society directly affects the nature of the relationship between an individual, an organization or other individuals. One example is that more collectivist societies call for greater emotional dependence of members in their organizations.¹⁰⁴ It will furthermore affect their motivation for complying with company requirements.

An example of this is how more individualist societies tackle problems differently from the more collectivist societies. In more individualistic countries companies tend to foster

¹⁰² North, *"Institutions,"* 78.

¹⁰³ Hofstede, *Culture's consequences,* 209.

¹⁰⁴ *Ibid,* 212.

flexibility in an organization, with the downside of exporting problems outside of their organization. In more collectivist societies the individuals feel more morally obligated to solve their issues as a group and coordinate efforts.¹⁰⁵

In table 2 present an overview of traits associated with higher and lower individualistic values as identified by Hofstede.¹⁰⁶ On the left side of table are the values that come with a high value of collectivism, on the right the values that are inherent to high levels of individualism. These traits can be used to explain the relationship between the dimensions in the VoC and individualism.

Table 2 General Traits of individualism and collectivism¹⁰⁷

| Low value of individualism | High value of individualism |
|--|---|
| Importance of provisions by company, such as physical conditions | Importance of employees personal lives (time) |
| More importance attached to training and use of skills in Jobs | More importance attached to freedom and challenge in jobs |
| More acquiescence in response to “importance” questions | More differentiation in response to “importance” questions |
| Qualification for jobs in terms of years of schooling | Qualifications for jobs in terms of performance at previous tasks |
| Staying with one company desirable, old-timers make better managers | Staying with company undesirable, old-timer managers not better |
| Company responsible for employees | Employees responsible for themselves |
| Moral involvement with company | Calculative involvement |
| Knowing the right people most important for career | Ability most important for career |
| Group decisions are better | Individual decisions are better |
| We consciousness | I consciousness |
| People are born into extended families or clans which protect them in exchange for loyalty | Everyone is supposed to take care of him- or herself and his or her immediate family only |
| Focus on the community | Focus on the society |

¹⁰⁵ Ibid, 213.

¹⁰⁶ Ibid, 226.

¹⁰⁷ Ibid, 214.

| | |
|--|---|
| Value standards should differ for groups | Value standards should be universal |
| Shame cultures | Guilt cultures |
| Emphasis on belonging, membership ideal | Emphasis on individual initiative and achievement, leadership ideal |
| Private life is invaded by institutions and organizations to which one belongs | Everyone has the right to a private life |
| Survival | Hedonism |
| Expertise, order, duty, security | Autonomy, variety, pleasure, individual financial security |

By using, among others, these traits Hofstede defined the level of individualism in countries around the world.¹⁰⁸ Table three gives an overview on the levels of individualism for the countries from the VoC Framework. This table contains the data from the Hofstede research. These numbers are based on a scale from one to a hundred where a one represents a highly collectivist society and a hundred represents a highly individualistic society. Compared to countries worldwide the western countries are, except for Portugal, above average individualistic.

Table 3 Individualism index values for countries within the VoC.¹⁰⁹

| Country | Individualism |
|-------------|---------------|
| Belgium | 75 |
| Denmark | 74 |
| Finland | 63 |
| France | 71 |
| Germany | 67 |
| Italy | 76 |
| Netherlands | 80 |
| Norway | 69 |
| Portugal | 27 |
| Spain | 51 |
| Sweden | 71 |

¹⁰⁸ Ibid, 215.

¹⁰⁹ Ibid, 215.

| | |
|----------------|----|
| United Kingdom | 89 |
| United States | 91 |

Important to note regarding this table is that when compared to countries worldwide, the western countries are, except for Portugal, above average individualistic. Yet there is a sufficient enough difference between the countries themselves to make a relevant comparison between the countries in the VoC.

What table three does show is that the LME's in the VoC show to value individualism the most? The United States and the United Kingdom, pure LME's, peak at respectively 89 and 91. For the CME's the value of individualism lies between 63 and 80. However because Germany is considered the prime example of a CME, Germany and the United States will be my points of reference when comparing individualism and the five dimensions.

Individualism in the five dimensions

Now that i have presented both the level of the coordination for the countries within the VoC framework and the level of individualism I use this information to explore the link between individualism and the type of coordination in the CME and LME. Are individualistic countries actually more likely to be liberal and are the more collectivist countries in the VoC more coordinated? I will take a look at the five different dimensions as identified by Hall and Soskice, take the research data by Witt and Jackson and reference this to the levels of individualism in each country.

Corporate Governance

Using the indicators for corporate governance from Witt and Jackson we find three points of interests to compare to individualism. These points are shareholder protection, size of the stock market, and share ownership and blockholding.

With a high value of individualism comes the focus on the individual and there is no moral obligation to pursuing personal gain rather than looking at the interests of others.¹¹⁰ Investors in more individualistic countries are therefore more likely to emphasize individual gain and profit and will use an investment strategy that optimizes their own gains, even at the cost of

¹¹⁰ Licht, Amir N., Chanan Goldschmidt, and Shalom H. Schwartz. "Culture, law, and corporate governance." *International review of law and economics* 25.2 (2005): 229-255. 236.

other agents. This means the investment patterns in individualistic societies can be based on the short-term profitability of a company.¹¹¹

As a consequence company management would be more inclined to withhold information that could negatively impact stock value.¹¹² If a company appears to be performing less than expected investors would react by moving their investment. This leads to companies taking more risks and withholding information about negative performance.¹¹³

The first argument for the complementarity of individualism is the availability of information on the performance of a firm. Investments in individualistic societies are generally done with the aim of obtaining a profit.¹¹⁴ If a company appears to be performing less than expected investors would react by moving their investment. This leads to companies taking more risks and withholding information about negative performance.¹¹⁵

As a consequence investors would need more protection surrounding the availability of information and return on investments. The system, rather than the agents needs to guarantee that the market function optimally. When the market functions optimally there will be more investments increasing the total size of investments.¹¹⁶

In more collectivist societies the withholding of information and the necessity for protection is less because risk-taking by investors is less.¹¹⁷ Because collectivism comes with stronger relations blockholding in the more collectivist countries is higher and investments are done based more reputation rather than the profitability.¹¹⁸

Based on these characteristics it is expected that the countries with high level of individualism would score the highest for liberal type coordination. In table 4 I present the type of coordination found in the countries in the VoC and the value of individualism. From this table it becomes apparent that is indeed the case that the United States and the United Kingdom show the most liberal type of coordination.

¹¹¹ Chui, Andy CW, Sheridan Titman, and KC John Wei. "Individualism and momentum around the world." *The Journal of Finance* 65.1 (2010): 361-392. 364.

¹¹² Li, Kai, et al. "How does culture influence corporate risk-taking?." *Journal of Corporate Finance* 23 (2013): 1-22. 4.

¹¹³ Ibid.

¹¹⁴ Chui, Titman and Wei. "*Individualism and momentum around the world.*," 363.

¹¹⁵ Li, Kai, et al. "How does culture influence corporate risk-taking?." *Journal of Corporate Finance* 23 (2013): 1-22. 4.

¹¹⁶ Chui, Titman and Wei. "*Individualism and momentum around the world.*," 375.

¹¹⁷ Dang, Tung Lam, et al. "Individualistic cultures and crash risk." *European Financial Management*. 5. https://www.researchgate.net/profile/Hoang_Luong8/publication/314610084_Individualistic_Cultures_and_Crash_Risk/links/5af38b3a0f7e9b026bcc6b3d/Individualistic-Cultures-and-Crash-Risk.pdf, accessed at June. 24, 2018

¹¹⁸ Chui, Titman and Wei. "*Individualism and momentum around the world.*," 389.

Table 4 Individualism and Corporate Governance in VoC Countries¹¹⁹

| Country | Individualism | Corporate Governance |
|----------------|---------------|----------------------|
| Belgium | 75 | 0,83 |
| Denmark | 74 | 0,61 |
| Finland | 63 | 0,4 |
| France | 71 | 0,4 |
| Germany | 67 | 0,36 |
| Italy | 76 | 0,79 |
| Netherlands | 80 | 0,4 |
| Norway | 69 | 0,79 |
| Portugal | 27 | 0,77 |
| Spain | 51 | 0,45 |
| Sweden | 71 | 0,4 |
| United Kingdom | 89 | 0,01 |
| United States | 91 | 0,01 |

For the CME's there is a division when comparing the individualism levels with the type of coordination. While Belgium, Norway and to some degree Denmark show higher levels of CME type coordination, the other CME's show medium to liberal types of coordination. The most noticeable case however is Germany. While being the prime example of a CME and showing the second lowest level of individualism among CME's, it also shows the third highest level of liberal coordination.

For the Mediterranean countries there is a mixed result as well. Portugal does match the type of coordination expected, but Spain clearly doesn't. For Italy it would match the CME type when comparing it to the UK, but France shows similar levels of individualism and a more LME type of coordination.

Inter-firm relations

The second dimension in VoC framework is that of the inter-firm relations which encompasses the dealings and relations between firms. Unfortunately there is little to no research done regarding individualism and mergers and acquisitions within nations. While there is evidence that mergers and acquisitions can be problematic across cultures with either

¹¹⁹ Information from table 1 and table 3

collectivist or individualist traits, this does not explain the national differences.¹²⁰ This means that the relation between the VoC and individualism for this section will be solely based on the traits mentioned by Hofstede.

Witt and Jackson based their indicators on mergers and take overs and the percentage of these takeovers that take the form of a full scale merger.¹²¹ This dimension shows strong relations with corporate governance because they are also stock market based. The same traits found there will therefor also be relevant for this dimension.

With high individualism comes the belief that firms will seek to only better themselves.¹²² For mergers and acquisition it is arguably the case that companies would therefor base their strategic planning surrounding mergers and acquisitions on the best outcome for their own firm. While there are multiple ways in which mergers and acquisitions can benefit a firm. For example takeovers tend to bring with them a short term boost in stock value.¹²³

Individualism can arguably best be linked to the type of merger and acquisition that takes place.

The first outcome of a merger and acquisition is that control is purchased and the obtained firm fully assimilated under the same management. Ignoring the consequences for the employees, this would mainly benefit the acquiring company. This would be associated with high individualism because it is purely market driven; there is no building of a relationship and more “i” thinking. Therefor a higher level of full-scale mergers indicates a higher value of individualism.

On the other side, in the case where target firms remain under own management, but a strong vertical or horizontal relationship is formed, more collectivist values appear to be more relevant. This type of merger and acquisition benefits multiple parties, creates bonds and stimulates “we” thinking. In general the higher the level of individualism in a country the more they are drawn to market based capitalism.¹²⁴

Based on these characteristics I would argue that for this dimension higher individualism would be attributed to the LME type of coordination, while relatively lower individualism would be complementary to CME type of coordination. In table five I present an overview on the levels of Individualism by Hofstede and types of coordination from Witt and Jackson.

¹²⁰ Ahern, Kenneth R., Daniele Daminelli, and Cesare Fracassi. "Lost in translation? The effect of cultural values on mergers around the world." *Journal of Financial Economics* 117.1 (2015): 165-189. 165.

¹²¹ Witt and Jackson, "Varieties of Capitalism and institutional comparative advantage." 789.

¹²² Ahern, Daminelli, and Fracassi, "Lost in translation?," 169.

¹²³ Cartwright, Susan, and Richard Schoenberg. "Thirty years of mergers and acquisitions research: Recent advances and future opportunities." *British journal of management* 17.S1 (2006).

¹²⁴ Hofstede, *Culture's consequences*, 245

Table 5 Individualism and Inter-firm relations in VoC Countries¹²⁵

| Country | Individualism | Inter-firm relations |
|----------------|---------------|----------------------|
| Belgium | 75 | 0,45 |
| Denmark | 74 | 0,36 |
| Finland | 63 | 0,14 |
| France | 71 | 0,4 |
| Germany | 67 | 0,63 |
| Italy | 76 | 0,49 |
| Netherlands | 80 | 0,28 |
| Norway | 69 | 0,44 |
| Portugal | 27 | 0,83 |
| Spain | 51 | 0,63 |
| Sweden | 71 | 0,22 |
| United Kingdom | 89 | 0,07 |
| United States | 91 | 0,07 |

For inter-firm relations it is apparent that the LME's that show the highest level of individualism also show the most liberal type of institutions.¹²⁶ Other countries that show strong LME type of coordination are Sweden, the Netherlands and Finland. Denmark also show liberal tendencies, but leans more towards the middle ground between LME and CME. When using Germany as a reference, for this dimension it makes sense that the majority of CME's that show higher levels of individualism would show less signs of market coordination. The difference in individualism however is not enough to explain the greater difference between individualism and coordination.

The Mediterranean countries again show differentiated pattern. They range from Portugal showing high CME type coordination and strong collectivist values and Spain being around the medium mark, to France and Italy being around the level of coordination found in the other CME's.

A potential explanation for the disparity in this dimension is that the indicators from Witt and Jackson focus on a stock market in which international interaction takes place. While the institutions would complement a certain type of strategic interaction, liberal or CME type, the

¹²⁵ From table 1 and table 3.

¹²⁶ Witt and Jackson, "*Varieties of Capitalism and institutional comparative advantage.*" 789.

playing field is an international one. It is arguably the case that specifically mergers and acquisitions don't present a solid indication for the role of individualism within a single nation because of international corporations.

What we can say based on this dimensions, is that the relative unsuccessfulness of international mergers and acquisition due to cultural differences indicate that there is in fact a difference between the value of individualism and collectivism in the LME's and CME's. Especially when considering that a large section of these takeovers is initiated by LME rooted firms.¹²⁷ Thus while this indicator did not match the expected results, individualism and collectivism could still play a complementary role in this dimension. Just not for mergers and acquisition, but in the type of relations that a firm enters.

Employees

to examine the type of coordination in countries for the sphere of the internal firm structure Witt and Jackson give the degree of employee participation at the level of corporate boards and the rights that work councils and similar consultation bodies have.¹²⁸ In general higher levels of individualism is linked more to equity or distributive justice norms and collectivism is associated with a higher adherence to equality norms. In general employees in collectivist societies are more likely to form a bond with a firm and share the same common goal.¹²⁹ From the collective values stem the idea that a larger part of the company work force will be committed to that organization.¹³⁰ They will invest more energy in the welfare of the group and have the tendency to work more as team. The company in this case benefits from having employees on the board because they share a common interest. The welfare of the firm and the employees are more intertwined.

On the other side of the spectrum individuals in a more individualistic society are more likely to focus on individual goals.¹³¹ A high level of individualism will negatively impact the willingness to work as a team and the motivation to work for the same firm. It is shown to have a positive relation with finding jobs outside the firm.

¹²⁷ Witt and Jackson, "*Varieties of Capitalism and institutional comparative advantage.*" 790.

¹²⁸ Ibid, 793.

¹²⁹ Hofstede, *Culture's consequences*, 244.

¹³⁰ Ramamoorthy, Nagarajan, and Patrick C. Flood. "Employee attitudes and behavioral intentions: A test of the main and moderating effects of individualism-collectivism orientations." *Human Relations* 55.9 (2002): 1071-1096. 1078.

¹³¹ Ramamoorthy and Flood. "*Employee attitudes and behavioral intentions,*" 1077.

From these traits we can conclude that in more collective societies the value of individualism complements work council participation and the influence of advisory councils. In collectivist countries these institutions will both be more present and have more influence on the decision-making process within a firm. For individualistic countries there will be less work councils and their relevance will be smaller. In table seven I present an overview on individualism and the type of coordination for this dimension.

Table 7 Individualism and Employees in VoC Countries¹³²

| Country | Individualism | Employees |
|----------------|---------------|-----------|
| Belgium | 75 | 0,4 |
| Denmark | 74 | 0,73 |
| Finland | 63 | 0,73 |
| France | 71 | 0,6 |
| Germany | 67 | 0,95 |
| Italy | 76 | 0,2 |
| Netherlands | 80 | 0,8 |
| Norway | 69 | 0,73 |
| Portugal | 27 | 0,05 |
| Spain | 51 | 0,2 |
| Sweden | 71 | 0,73 |
| United Kingdom | 89 | 0 |
| United States | 91 | 0 |

Regarding the VoC framework the expected relation with individualism matches the classification nearly perfectly, both the United States and Germany show to have extremely high levels of respectively LME and CME type coordination. The other CME's, except for Belgium show high levels of CME type coordination while the LMEs show full liberal coordination.

For this dimension the Mediterranean countries also show a similar pattern. Surprisingly this is not what would be expected looking solely at individualism. They can be categorized as showing LME type coordination. France in this group is the exception; it matches the CME's more closely than the other Mediterranean ones.

¹³² From table 1 and table 3.

Based on this information it is arguably the case that individualism does play a complementary role in VoC for the sphere of employees. Values surrounding employee participation in the heart of the firm is a dimension in which most of the research done by Hofstede take places. Because of this collectivist and individualistic values are more likely to become evident. Even though the Mediterranean nations show to have no link, the disparity between individualism and the type of coordination in these countries is a potential explanation why they are so hard to classify.

Industrial relations

The sphere of industrial relations encompasses the structure of the interactions between companies and employees on a national, regional or industrial level. For this the indicators by Witt and Jackson are wage bargaining, short term tenure and employment protection. Countries with high and lower levels of individualism approach the problems in this sphere in a different manner.

Within the sphere of the industrial relations employees are considered to be economic assets.¹³³ For highly individualistic countries general market interactions are present which means that labor mobility occurs towards organizations where the employee is needed at that time.¹³⁴ There is a flow of supply and demand of labor in which long term contracting is not needed. Because of this, short term tenure is more likely.

If we look at the indicators of high individualism we find that the employee being responsible for him- or herself lies with the individual.¹³⁵ Because these values are shared across society it is expected that individuals take care of themselves in the labor market as well. A lower amount of market regulation is needed as this is coordinated and driven by supply and demand of the market.

While employees in individualistic countries are generally committed to a firm,¹³⁶ they approach this purely as a business transaction. This means that they will work for a company that best suits their needs. Employees do not a high level of employment protection because of the type of relation between firms and employees. This goes hand in hand with a lower level of employment protection.

¹³³ Hofstede, *Culture's consequences*, 235.

¹³⁴ DiPrete, Thomas A., et al. "Collectivist versus individualist mobility regimes? Structural change and job mobility in four countries." *American Journal of Sociology* 103.2 (1997): 318-358. 319.

¹³⁵ Hofstede, *Culture's consequences*, 236.

¹³⁶ Hofstede, *Culture's consequences*, 244.

In more collectivist societies on the other hand the individual is more likely to be seen as a structural resource for a firm and employees act more in the interest of the firm than themselves.¹³⁷ As an explanation for these Hofstede found that people in more collectivist societies are more likely to be reluctant to leave social groups and emphasize belonging.¹³⁸ This is complemented by protecting the investment of the individual in the firm. Through guaranteeing legally that employees are more likely to stay with a firm for a longer amount of time, firms have a general degree of certainty that investments in employees don't go to waste. More collectivist ideals are thus complemented by higher employment protection.¹³⁹ The role that individualism plays on wage bargaining is that in collectivist societies employees are more likely to coordinate themselves as group to benefit the greater collective, as they have a stronger preference for in group equality.¹⁴⁰ The strength that comes from coordinating efforts as a group means that common denominator is more important than outcome for an individual.¹⁴¹

From this we can draw that in individualistic societies collective wage bargaining and employment protection are low, while short term tenure is expected to be high. The relationship between individualism and industrial relations above is shown in table six.

Table 6. Individualism and Industrial Relations in VoC Countries¹⁴²

| Country | Individualism | Industrial relations |
|-------------|---------------|----------------------|
| Belgium | 75 | 0,86 |
| Denmark | 74 | 0,3 |
| Finland | 63 | 0,36 |
| France | 71 | 0,38 |
| Germany | 67 | 0,74 |
| Italy | 76 | 0,86 |
| Netherlands | 80 | 0,7 |
| Norway | 69 | 0,59 |
| Portugal | 27 | 0,57 |
| Spain | 51 | 0,17 |

¹³⁷ Ibid.

¹³⁸ Ibid, 266.

¹³⁹ Alesina, et al. "Family values and the regulation of labor," 600

¹⁴⁰ Hofstede, *Culture's consequences*, 244.

¹⁴¹ Ibid.

¹⁴² From table 1 and table 3.

| | | |
|----------------|----|------|
| Sweden | 71 | 0,6 |
| United Kingdom | 89 | 0,22 |
| United States | 91 | 0,19 |

The countries where high levels of coordination are expected based on their relative individualism score generally do so. The United Kingdom and the United States, both being LME, have close to the highest level liberal coordination for industrial relations. This matches the expected result from the traits associated to high levels of individualism.

Most CME's show high levels of coordination for this dimension. The Netherlands, Germany, and Belgium are all above the 0,7 mark indicating strong levels of CME type coordination. It is surprising that especially Finland and Denmark show more liberal types of coordination. A potential explanation for this result is that for Finland and Denmark employee relations are considered highly coordinated. It is possible that because their employee participation is so highly coordinated and more in line with collectivist values that the need to coordinate labour markets institutionally becomes lower. While the type of coordination contradicts both the theory on individualism, the level of complementarity discussed in the VoC Framework could explain this.

The Mediterranean groups are becoming more and more difficult to be seen as a single comparable entity. While for France, Italy and Portugal the outcome is arguably expected, Spain on the other hand shows a truly surprising result, its type of coordination is actually found to be more liberal than the LME's..

The general outcome when comparing individualism with the types of coordination is that for slightly over half of the countries the expected link remains true. All of the CME's show less liberal coordination than the LME's and the CME type coordination in general is high.

Education and training

On the dimension of education and training Witt and Jackson narrowed themselves to two indicators to examine the characteristics of education and training institutions and the share of graduates and the number of graduates at the university level.¹⁴³ Taken together, these indicators present whether a nation has more occupationally based or university-based and thus general education.¹⁴⁴

¹⁴³ Witt and Jackson, "*Varieties of Capitalism and institutional comparative advantage.*" 789

¹⁴⁴ Ibid.

The relationship between the type of education and individualism is found in the goal that education in a country sets. In the individualistic societies the purpose is to know how to learn.¹⁴⁵ While in more collectivist societies the general aim is to provide knowledge on how to do something.¹⁴⁶ University level education is generally more focussed on the first, while secondary and tertiary learning is focussed more on the development of specific skills.¹⁴⁷ An explanation for this is that individualistic countries individuals make educational choices based on their future career perspectives.¹⁴⁸ By being educated on how to learn it becomes easier to switch between different firms. On the other hand individuals in more collective societies tend to educate themselves based on what is needed in society.¹⁴⁹ This more skill based type of education would arguably lead to closer relations with firms because the skills learned or not as easily transferred or replaced.

Based on this link, it makes sense that the type of nations with a more liberal type of coordination would foster generalized education. Complemented by the industrial relations employees would switch firms more often and a general skillset that applies to a broad range of industries would be more useful in career advancement. Being highly skilled in a single type of industry, but not being guaranteed work would lead to more uncertainty. This is problematic for the individualistic individual because it lessens their perceived value of self-worth.¹⁵⁰

On the other side of the spectrum I would argue that firms with more CME type coordination would benefit more from individuals with a more specialized type of education. More collectivist employees would be more likely to dedicate themselves to a firm, making it worthwhile for the employer to further foster the specialization. This in turn is realized by the link to industrial relations, but also to the dimensions of employees. High employment protection and more influence on company decisions make it possible for skilled individuals to work for a single firm longer.

In table 8 I present an overview of the link between the value of individualism by Hofstede and the type of coordination for the sphere of education and vocational training from Witt and Jackson.

¹⁴⁵ Hofstede, *Culture's consequences*, 235

¹⁴⁶ Ibid.

¹⁴⁷ Witt and Jackson, "*Varieties of Capitalism and institutional comparative advantage.*" 789

¹⁴⁸ Coffield, Frank. "A tale of three little pigs: building the learning society with straw." *Evaluation & Research in Education* 12.1 (1998): 44-58. 45.

¹⁴⁹ Hofstede, *Culture's consequences*, 235

¹⁵⁰ Ibid.

Table 8 Individualism and Education in VoC Countries¹⁵¹

| Country | Individualism | Education |
|----------------|---------------|-----------|
| Belgium | 75 | 0,7 |
| Denmark | 74 | 0,17 |
| Finland | 63 | 0,19 |
| France | 71 | 0,38 |
| Germany | 67 | 0,83 |
| Italy | 76 | 0,72 |
| Netherlands | 80 | 0,26 |
| Norway | 69 | 0,13 |
| Portugal | 27 | 0,02 |
| Spain | 51 | 0,13 |
| Sweden | 71 | 0,51 |
| United Kingdom | 89 | 0,05 |
| United States | 91 | 0,05 |

From this table it becomes instantly apparent that for the dimension of education the expected link between individualism and the type of coordination generally is weak. Only Belgium and Germany of the CME's show high levels of relational coordination. All the other countries such as the Netherlands and Denmark show high levels of liberal type of education. For the LME's on the other hand the type of education is very liberally coordinated. For the Mediterranean countries Spain and Portugal and France show similar weak relations, while Italy would follow the expect pattern for CME's

For the dimension of education I can conclude there is a weak link and the expected levels of complementary are only found in Italy, Belgium, the United States and the United Kingdom. A potential explanation for this is that in some of the more coordinated countries firms will generally invest in employees post-graduation.¹⁵² This makes it more attractive for individuals in some CME's to follow a more generalist education. However this would not explain the difference between the CME's or the values shown by the Mediterranean countries.

¹⁵¹ From table 1 and table 3.

¹⁵² Witt and Jackson, "*Varieties of Capitalism and institutional comparative advantage.*" 789

In this chapter I have presented the arguments for the relationship between individualism and the VoC framework. My findings are that while individualism seems to show a strong relationship with LME's for all dimensions, for CME's and the Mediterranean countries this is not the case. The relative height of individualism in the CME's only show to be linked in the industrial relations and the sphere of employees.

An explanation for these findings could be the basis of the research by Hofstede and Witt and Jackson. While Hofstede based the values on the assessment of individuals, Witt and Jackson for multiple dimensions use less specific indicators. The influence of individuals on firm behavior and the interaction between employees with firms is mainly found in the dimensions of industrial relation and employees. The mergers and acquisitions are coordinated between firms, corporate governance looks at the role of finance, and education is regulated at a national level, but influenced by globalization.¹⁵³

For the spheres of employees and industrial relations however Witt and Jackson look at how individuals group themselves and coordinate each other to work towards a common goal. This chapter shows that in the LME, they don't. In the CME's individuals in this dimension do appear to coordinate at a strategic and relational level to achieve common goals does seem to appear. Thus for these dimensions the value of individuality for CME's and LME's and the relevant institutions appear to be complementary. In the next chapter I will examine where individualism historically comes from and provide an explanation for its persistence and thus further relevance for the VoC.

¹⁵³ Hall and Soskice, *Varieties of Capitalism*, 54.

Chapter 4. Historical origins of individualism, its mechanics and the relevance for the VoC

In the previous chapter I have examined how individualism interacts with the different dimensions within the Varieties of Capitalism framework. In this section I will explore the Historical origins and persistence of individualism by looking at family systems. I do this because while there is no direct measurement of individualism historically, literature shows that individuals can be traced back to through historical family systems. This persistence of individualism over time can help understand why the VoC is arguably also persistent.

Family systems and individualism

One of the more influential authors on historical family systems and its persistence has been Emmanuel Todd. He classified families based on several indicators relating to family ties and legal interaction such as inheritance.¹⁵⁴ Rijpma and Carmichael expanded on this research by combining Todd's classification with ethnographic research by Murdoch.¹⁵⁵ The only country showing inconclusive results from the hybrid set was Portugal.¹⁵⁶ Because Murdoch lacks classifications, for Portugal I will look at the classification by Todd only.

The first historical family type is the absolute nuclear family.¹⁵⁷ Children do not live with their parents past adolescence and tend to form their own families. Furthermore this family system is associated with individualism and each individual is expected to take of themselves. This family type comes with relatively weak family ties and children are not expected to take care of their parents at old age. While the hybrid model shows that historically there are no countries in Europe where this family system is present,¹⁵⁸ Todd finds this systems to be present in the United States, the United Kingdom and the Netherlands.¹⁵⁹

¹⁵⁴ Todd, Emmanuel. *Explanation of Ideology: Family Structures and Social Systems (Family, sexuality, and social relations in past times)*. Oxford: Blackwell, 1985.

¹⁵⁵ Rijpma, Auke, and Sarah G. Carmichael. "Testing Todd". 10.

¹⁵⁶ Rijpma, Auke, and Sarah G. Carmichael. "Testing Todd". 23.

¹⁵⁷ Galasso, Vincenzo, and Paola Profeta. "When the state mirrors the family: the design of pension systems." (2011). 14 <https://www.econstor.eu/bitstream/10419/46373/1/639006310.pdf>, accessed June. 24, 2018.

¹⁵⁸ Rijpma, Auke, and Sarah G. Carmichael. "Testing Todd". 23.

¹⁵⁹ Duranton, and Sandall. "Family types and the persistence of regional disparities in Europe," 29.

The second historical family type found in Europe is the egalitarian nuclear family.¹⁶⁰ In this family type children also generally don't cohabit. Other characteristics are that Inheritance is equally shared among all children, and the family system stimulates collectivism.¹⁶¹ Finally there are generally strong family ties between children and parents. This type of family in the hybrid model is found in France, Italy, Spain and Portugal, the United Kingdom and the Netherlands.¹⁶²

The authoritarian or stem family is the third type found in Europe. This is the first system where cohabitation of parents and children beyond adolescence is found.¹⁶³ A single member, generally the son, becomes responsible for maintaining the family line and is the benefactor of the inheritance.¹⁶⁴ Other members of this family would move out to start their own stem families.¹⁶⁵ The family ties in these systems are relatively strong, but also leave room for more individualism.¹⁶⁶

The fourth family system found in Europe is the hybrid model is the communitarian family.¹⁶⁷ The most notably features of this type is that children live with their family, but the inheritance is divided equally among all siblings. This generally means that adults keep living with their family even when married.¹⁶⁸ This family typing generally fosters collectivism. In Todd these family systems are found in Finland.

The premise that both family systems are linked to individualism allows me to expand on the relationship of the historical family types with individualism. Hofstede provides traits associated with collectivism or individualism for these systems in present day.¹⁶⁹ These traits are not included in the chapter on the VoC because they are specifically relevant for families, which as a dimension is not part of the VoC framework. In table nine I present an overview of these traits.

Table 9 traits associated with low and high value of individualism¹⁷⁰

| Low value of individualism | High value of individualism |
|----------------------------|-----------------------------|
|----------------------------|-----------------------------|

¹⁶⁰ Galasso and Profeta. "When the state mirrors the family," 16

¹⁶¹ Ibid.

¹⁶² Rijpma, Auke, and Sarah G. Carmichael. "Testing Todd". 31

¹⁶³ Duranton, and Sandall. "Family types and the persistence of regional disparities in Europe," 29.

¹⁶⁴ Ibid.

¹⁶⁵ Hofstede, *Culture's consequences*, 227.

¹⁶⁶ Galasso and Profeta. "When the state mirrors the family," 15

¹⁶⁷ Rijpma, Auke, and Sarah G. Carmichael. "Testing Todd". 31

¹⁶⁸ Hofstede, *Culture's consequences*, 227

¹⁶⁹ Ibid, 236.

¹⁷⁰ Ibid, 236.

| | |
|--|---|
| Horizontal integration: People live with or close to relatives or clan members | People live in nuclear or one-parent families |
| Others classified as in-group or out-group | Others classified as individuals |
| Family provides protection in exchange for lifelong loyalty | Children are supposed to take care of themselves as soon as possible |
| Strong family ties, frequent contacts. | Weak family ties, rare contacts |
| Children learn to think in terms of “we” | Child learns to think in terms of “I” |
| Nonfamily, unrelated persons can be adopted into family | Family versus nonfamily distinction irrelevant |
| Vertical integration: care for aged relatives and worship of ancestors. | Aged relatives should care for themselves; ancestors unknown, irrelevant |
| A marriage without children is not complete. | Choosing to have no children in a marriage is a socially accepted option. |
| Mothers expect to live with children in their old age. | Mothers expect to live apart in their old age |
| Businesspersons live with parents | Businesspersons live separately |
| Nobody is ever alone | Privacy is normal |
| Harmony should always be maintained and direct confrontation avoided. | Speaking one’s mind is a characteristic of an honest person |
| Opinions predetermined by in-group | Personal opinions expressed |
| Financial and ritual obligations to relatives | Financial independence of relatives; few family rituals |
| Togetherness does not demand speaking. | Visits are filled with talking |
| Friendships predetermined by in-group | Need for specific friendships |
| Family relationships can be oppressive | Lasting relationships difficult to achieve |
| Trespassing leads to shame and loss of face for self and in-group | Trespassing leads to guilt and loss of self-respect |
| Criteria for marriage partner: right age, wealth, industriousness, and chastity of | Criteria for marriage partner not predetermined |

| | |
|---|---|
| bride. | |
| Marriages often arranged | Marriage supposed to be love based |
| Living with in-laws and shared income and religion normal | Living with in-laws undesirable; independence in income and religion. |

If we compare the historical family systems with the traits mentioned in table X we can categorize these family by their expected level of individualism. For the absolute nuclear family the traits on the right side seem to be the most present.¹⁷¹ Children are expected to take care of themselves, relatives live elsewhere, family ties are weak and the elderly are expected to take care of themselves.

For the egalitarian nuclear family a mix between the traits can be identified.¹⁷² For high individualism, families generally consist out of parents and their non-adult children living together, and children are expected to take care of themselves as soon as possible. On the collective side however family ties are strong, there is vertical integration between generations and there are obligations to relatives.¹⁷³

The stem family shows a similar pattern in the division between individualism and collectivism but for different traits. On the collective side children learn to think as we, there is horizontal integrations and a difference between the “in-group and the out-group.”¹⁷⁴ For individualism, once the children move out they are again expected to take care of themselves, can chose their own partners and others are classified as individuals.¹⁷⁵

The fourth family type, the communitarian family shows the most collectivist traits.¹⁷⁶ There is both horizontal and vertical integration, there is a shame culture, living with family and in-laws is generally accepted and while family ties are strong, there is even more of a “we” feeling outside of the family.

Persistence of individualism and family systems

Carmichael and Rijpma tested if these historical family systems are persistent and found that the results from Todd and Murdock are still relevant for today.¹⁷⁷ But other evidence for the

¹⁷¹ Ibid, 227.

¹⁷² Ibid, 228

¹⁷³ Galasso and Profeta. "When the state mirrors the family," 15.

¹⁷⁴ Hofstede, *Culture's consequences*, 229

¹⁷⁵ Ibid.

¹⁷⁶ Ibid, 228

¹⁷⁷ Rijpma and Carmichael. "Testing Todd and Matching Murdock," 10.

persistence of family systems is found throughout the literature. Duranton and co-authors found historical family to be both persistent and have an effect on economical outcomes.¹⁷⁸ They state that the type of family historically present influenced the way institutions developed and influenced the level of wealth and equality in countries.¹⁷⁹ Further evidence for the persistence and influence of family systems is presented by Alesina and co-authors finding that historical family ties influenced levels of employment protection today.¹⁸⁰ Adding to this is Greif, who tracked the historical influence of family on the creation of corporations and argues that family systems are co-responsible for the institutional framework we have today.¹⁸¹ Further corroboration of this tale is provided by Reher who traces present day family systems to the middle ages.¹⁸² Next to the persistence of family, some of these studies also show that there is a strong link between family systems and individualism which would support the findings that individualism is persistent as well. Galasso and Profeta show that the strength of family-ties is historically related to the level of individualism.¹⁸³ A high value of individualism is present in families with weak ties while a low value of individualism is present in families with strong ties. Further corroboration of this phenomenon is presented by Alesina and co-authors.¹⁸⁴ They also present evidence that weak family ties comes with higher levels of individualism. Greif also supports this by comparing the individualist Genoa society and their family system with that of the more collectivist Maghreb society in medieval Italy. But how exactly do family systems, and the values they come with, remain prevalent in a society over hundreds of years? Bisin and Verdier find the mechanic that explains the persistence of family and individualism at work to be cultural transmission.¹⁸⁵ Cultural transmission is the process where our beliefs, values and other ideas that govern our behavior are passed down through generations.¹⁸⁶ Through social interaction parents and social groups pass on their own preferences and norms. Bisin and Verdier identified two

¹⁷⁸ Duranton, and Sandall. "Family types and the persistence of regional disparities in Europe," 24.

¹⁷⁹ Ibid, 25.

¹⁸⁰ Alesina et al, "Family values and the regulation of labor," 627.

¹⁸¹ Greif, Avner. "Family structure, institutions, and growth: the origins and implications of western corporations." *American economic review* 96.2 (2006): 308-312. 308.

¹⁸² Reher, David S. "Family ties in western Europe." *Strong family and low fertility: A paradox?*. Springer, Dordrecht, 2004. 45-76.

¹⁸³ Galasso and Profeta. "When the state mirrors the family," 2.

¹⁸⁴ Alesina, Alberto, and Paola Giuliano. "Family ties." *Handbook of economic growth*. Vol. 2. Elsevier, 2014. 177-215. 17.

¹⁸⁵ Bisin, Alberto, and Thierry Verdier. "The economics of cultural transmission and socialization." *Handbook of social economics*. Vol. 1. North-Holland, 2011. 339-416.

<http://www.econ.nyu.edu/user/bisina/BV%20Survey8%20corrected.pdf>, accessed Jun 2. 24, 2018.

¹⁸⁶ Bisin, and Verdier. "The economics of cultural transmission and socialization," 24.

manners in which cultural transmission can take place. The first is direct or “vertical” socialization and the second being societal or “oblique” socialization.¹⁸⁷

Vertical socialization encompasses the cultural transmission of values and beliefs by direct family.¹⁸⁸ Parents want to pass on a moral compass that they find to be the most important. Through directly socialization with their children the child copies the preferred traits by the parents. This is more likely to happen than societal socialization when parents are part of a minority group. In this case the parents deem it essential to pass on their values themselves rather than allowing the cultural majority in a society to pass on their preferred traits.¹⁸⁹ Further evidence of this is provided by Scherger and Savage who researched cultural transmission and its effect on upward mobility.¹⁹⁰

The second manner in which a child learns cultural values and preferred beliefs is through society itself.¹⁹¹ As the child matures the influence of the parents generally becomes less and the influence of society becomes larger. In this case societal values on for example family can either be complimentary to the parental values, strengthening them, or conflicting. As mentioned, conflicting beliefs are more likely to occur in minority groups. In this case more direct socialization will take place.

One way this pattern can be broken is if societal socialization is stronger than the vertical one or through a third type of socialization. The marital one.¹⁹² Marriage is a relatively easy route through which individual can break with their own societal group and become part of a different socialization. However, imprinted values remain hard to break with.

Family systems and individualism in the VoC

Now that I have argued that family systems and individualism are both linked and persistent, I can find its relevance for the VoC framework. In table ten I present an overview on the type of economy as identified within the VoC, their levels of individualism and their historical family typing as classified by Carmichael and Rijpma.

¹⁸⁷ Bisin, Alberto, and Thierry Verdier. "The economics of cultural transmission and the dynamics of preferences." *Journal of Economic theory* 97.2 (2001): 298-319. 302.

¹⁸⁸ Ibidem

¹⁸⁹ Bisin and Verdier. "the dynamics of preferences," 302.

¹⁹⁰ Scherger, Simone, and Mike Savage. "Cultural transmission, educational attainment and social mobility." *The Sociological Review* 58.3 (2010): 406-428. 420.

¹⁹¹ Bisin, and Verdier. "The economics of cultural transmission and socialization," 24.

¹⁹² Bisin and Verdier. "the dynamics of preferences," 301

Table 10 Individualism and family systems in VoC countries ¹⁹³

| Country | Individualism | Family System | VoC Classification |
|----------------|---------------|---------------------|--------------------|
| Belgium | 75 | Stem | CME |
| Denmark | 74 | Stem | CME |
| Finland | 63 | Communitarian | CME |
| France | 71 | Egalitarian Nuclear | Mediterranean |
| Germany | 67 | Stem | CME |
| Italy | 76 | Egalitarian nuclear | Mediterranean |
| Netherlands | 80 | Stem family | CME |
| Norway | 69 | Stem family | CME |
| Portugal | 27 | Egalitarian nuclear | Mediterranean |
| Spain | 51 | Egalitarian nuclear | Mediterranean |
| Sweden | 71 | Stem | CME |
| United Kingdom | 89 | Egalitarian nuclear | LME |
| United States | 91 | Egalitarian nuclear | LME |

Table 10 presents us with an interesting picture. From it we can draw the conclusion that in the majority of the CME's we find the stem family to be present. The only exception to this being Finland. This makes sense from the characteristics of this family typing. In all of these countries there is a mix between values of individualism and collectivism. There is a focus on the welfare of the collective and coordinating efforts together, yet there is also room for development of individual fulfillment.

Not definitive for all countries, but family types do appear to be linked to the level of individualism found. Most countries with a level of individualism from 67 to 80 are shown to be stem families. To explain the countries that don't match the expected family system, France, Italy and to some degree the Netherlands, we can look at the regional differences found.

By taking the classifications of Todd on a regional basis we find that within these nations there are regional disparities.¹⁹⁴ The relatively higher level of individualism in the Netherlands would explain the mix between stem families and absolute nuclear. While for

¹⁹³ From table 1, 3 and hofstede.

¹⁹⁴ Duranton, and Sandall. "Family types and the persistence of regional disparities in Europe," 31

France and Italy the regional disparities show that there are regions with stem, absolute nuclear and egalitarian nuclear families.

The exception of family typing and VoC classification for CME's would be Finland. This can also be explained by the hybrid model used to classify historical families. Out of the ME's Finland shows the lowest level of individualism. While the hybrid model suggest differently, Todd would identify Finland as Communitarian.¹⁹⁵ This is more in line with the level of collectivist values.

The findings for the LME's, as opposed to the CME's, are surprising. From the hybrid model they appear to be clustered with countries such as Spain and Italy. While this would imply a higher level of collectivism my study has shown that these countries in general show more individualistic tendencies. This incongruence can also be explained by look at Todd rather than the hybrid model. From Todd we draw that these countries are for the majority of the regions absolute nuclear rather than egalitarian nuclear.¹⁹⁶ The LME's match the absolute nuclear would make more sense if we look at the value of individualism in present today. The Mediterranean countries do show a link between family types and VoC classification, but show no consistent pattern with the level of individualism. For France this can be explained by the large regional disparity found in Todd. Carmichael and Rijkma also acknowledge this.¹⁹⁷ In France Todd found all of the different family systems to be present.¹⁹⁸ While the level of individualism found in Spain would match the family typing, being somewhere between collective and individualistic, Portugal and Italy are harder to explain. The level of individualism found in Portugal would make more sense if it would show communitarian family systems while the level of individualism found in Italy would be more in line with the stem family.

The main question for this chapter was: to what extent do historical institutions help explain the persistence of the informal institutions and as such the institutional complementarities in the VoC? In this chapter I have argued three things. First, family types are linked to the value of individualism. Second, family types, and with it individualism, are persistent and relevant today. Finally, I have also shown that there is a link between historical family systems and the VoC framework by comparing the family system and the VoC classification.

¹⁹⁵ Ibid.

¹⁹⁶ Ibid.

¹⁹⁷ Rijkma and Carmichael. "Testing Todd and Matching Murdock." 32.

¹⁹⁸ Duranton, and Sandall. "Family types and the persistence of regional disparities in Europe," 31

Conclusion

In this thesis I wanted to research what the role of informal institutions in the institutional framework of the VOC framework is. By comparing the type of institutions found in market coordinated economies and strategic coordinated economies with individualism, I found that individualism through family systems can provide a persistent cultural complementarity to the institutional framework. However this answer requires some nuance.

My first finding was that the relationship between individualism and the type of economy differs between the three types of economies in the VoC. The high level of individualism is congruent with the institutions found in the LME's. This was supported by the traits associated to high individualism that were found. The persistence of the level of individualism in the LME's is further more corroborated by the type of historical family systems present.

An example of this is that In the United Kingdom individualism was high, employee participation in work councils was low, there was low employment protection and the type of education was generalized. Supported by the arguably absolute nuclear family type the values that come with individualism, such as them being supposed to act as economic assets, support the liberal institutions that are driven by market coordination.

For CME's the link between individualism and type of coordination was less conclusive. While generally groupable based on historical family system, the relationship between the institutions and individualism was a more problematic one. Only for two out of the five dimensions did there seem to be a consistency between the traits associated to a more coordinated society and the type of coordination found. The two dimensions that did show a link, employees and industrial relations, are the ones that actually represent the type coordination between individuals that Hofstede researched. So while not consistent, the disparity in the other three dimensions is explainable.

An example of this is that in Germany the traits of individualism, such as the preferred reward allocation based on equality, would explain why wage bargaining is so high. The type of relational or strategic coordination needed to group oneself for collective action is generally associated with more collectivist societies. Therefor the level of individualism, which relates to the historical family typing, would explain the type of coordination in Germany.

For the Mediterranean countries the only consistent pattern was found in the link between family systems and VoC typing. The levels of individualism in this group were too diverse to draw a sound conclusion. While Italy and France showed hints of CME type coordination

with more liberal tendencies, Spain and Portugal are not explainable. The only strong link with individualism in these countries is that for the dimension of employees. Spain, Portugal and Italy all show the same level of employee participation.

Limitations

The problems with especially the Mediterranean countries bring me to the limitations of my research. The first problem was that I ran into was the issue also address by Halls and Soskice the Mediterranean countries are hard to place along the scale of CME and LME. Throughout this thesis I had to conclude that points true for either LME's or CME's would should different results for this group. Even within the group the differences were so large that I would find it hard to cluster them.

The second issue I ran into was the data sets used by Witt and Jackson. While useful to examine the type of institutional coordination and compare it with individualism, the indicators used might not have always been the most relevant ones. Especially for inter-firm relations and education the indicators used were difficult to compare to individualism. Inter firm relations was about decision-making at the firm level which does not have the strongest link with coordination between individualism. Education being based on the type of degree obtained is problematic because just looking at the Netherlands there are many schools, even at the university level that provide skill based education over a generalized education.

The third problem was defining the historical family types. While Carmichael and Rijkman present a solid argument for their summary of the historical typing, their hybrid model was sometimes problematic for me. Some nations that were essential to my thesis showed differences between the two models that they used. In some cases the differences mattered. Most notably for the UK, but the differences also showed for Italy, the Netherlands and France.

Finally for the future it is important to realize that the data from Hofstede is drawn from 1984 and the research period by Witt and Jackson ranged from 1995 to 2003. While these time periods are relevant to the Varieties of Capitalism it is possible that the findings from this study will be inclusive with future findings. While values are slow to change, they can change.

Further Research

While not fully conclusive, this thesis did open the black box on informal institutions within the Varieties of Capitalism framework. The main informal institutions I used however a

singular one in a world where many exists was. From the Hofstede research alone three more values deserve to be examined. During my studies I found that individualism shows a high correlation with the power distance index. It would make an interesting case to repeat the same exercise and look at each of the values by Hofstede and find out what their role is within the VOC. This would add to the literature further by providing an even larger amount of perspectives, potentially filling the gaps in my own research.

In addition to expanding on my research it would also be important to address the limitations in my own research. If this is not done, other authors would run into the same issues that I did. The first thing necessary would be an expansion on the indicators used to compare to informal institutions. Especially for the dimensions of inter-firm relations, corporate governance and education there are other indicators that can be used.

To present a more concrete idea, I would suggest doing a case study in both Germany and the United Kingdom where one compares the amount of schools that provide skill based education, the amount of students graduating from these schools and comparing them with the number of schools and students that follow a more generalized education. With this information we can better compare the traits associated with high and low individualism and the type of economies in these nations. This would address the issues in one of my more problematic dimensions and provide a better understanding of both the type of coordination and the influence that individualism can have.

Finally I would make a request that the reader does not close this black box. Informal institutions, in being directly related to human nature, have been an underdeveloped topic in historical and economic research. The fact that no one has dared to examine the relationship between informal institutions and one of the most well-known theories regarding comparative advantage and economic performance is stunning. It is time that we start working more with, among others, sociologists and behavioral psychologist. Two completely different types of economies can both obtain a comparative advantage, then why are we not examining all facets of society in order to find something that is transferable for the betterment of the world?

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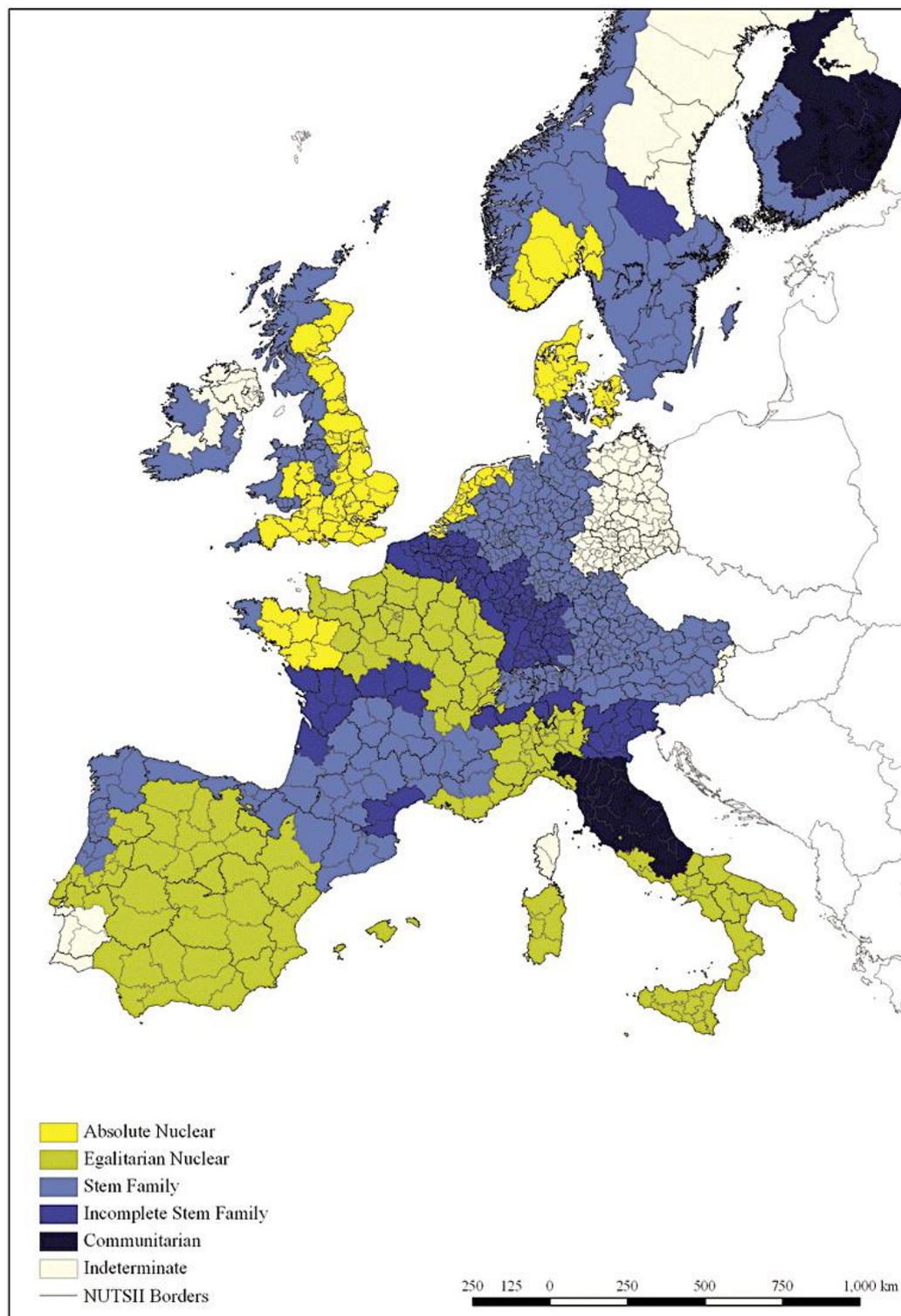
Appendix

Figure 1. Set memberships of countries in highly coordinated institutions, 1995–2003 average.¹⁹⁹

| | Corporate Governance | Inter-firm Relations | Firm Hierarchy | Employment Relations | Occupational Training |
|-------------|----------------------|----------------------|----------------|----------------------|-----------------------|
| Austria | 0.90 | 0.63 | 0.95 | 0.74 | 0.90 |
| Australia | 0.08 | 0.17 | 0.00 | 0.33 | 0.07 |
| Belgium | 0.83 | 0.45 | 0.40 | 0.86 | 0.70 |
| Canada | 0.10 | 0.19 | 0.00 | 0.22 | 0.05 |
| Denmark | 0.61 | 0.36 | 0.73 | 0.30 | 0.17 |
| Finland | 0.40 | 0.14 | 0.73 | 0.36 | 0.19 |
| France | 0.40 | 0.40 | 0.60 | 0.38 | 0.38 |
| Germany | 0.36 | 0.63 | 0.95 | 0.74 | 0.83 |
| Greece | 0.85 | 0.75 | 0.05 | 0.83 | 0.16 |
| Ireland | 0.29 | 0.06 | 0.05 | 0.41 | 0.04 |
| Italy | 0.79 | 0.49 | 0.20 | 0.86 | 0.72 |
| Japan | 0.11 | 0.61 | 0.00 | 0.70 | 0.11 |
| Netherlands | 0.40 | 0.28 | 0.80 | 0.70 | 0.26 |
| Norway | 0.79 | 0.44 | 0.73 | 0.59 | 0.13 |
| New Zealand | 0.61 | 0.35 | 0.00 | 0.22 | 0.04 |
| Portugal | 0.77 | 0.83 | 0.05 | 0.57 | 0.02 |
| South Korea | 0.40 | 0.71 | 0.00 | 0.22 | 0.28 |
| Spain | 0.45 | 0.63 | 0.20 | 0.17 | 0.13 |
| Sweden | 0.30 | 0.22 | 0.73 | 0.60 | 0.41 |
| Switzerland | 0.18 | 0.28 | 0.27 | 0.57 | 0.74 |
| UK | 0.01 | 0.07 | 0.00 | 0.22 | 0.05 |
| USA | 0.01 | 0.07 | 0.00 | 0.19 | 0.05 |

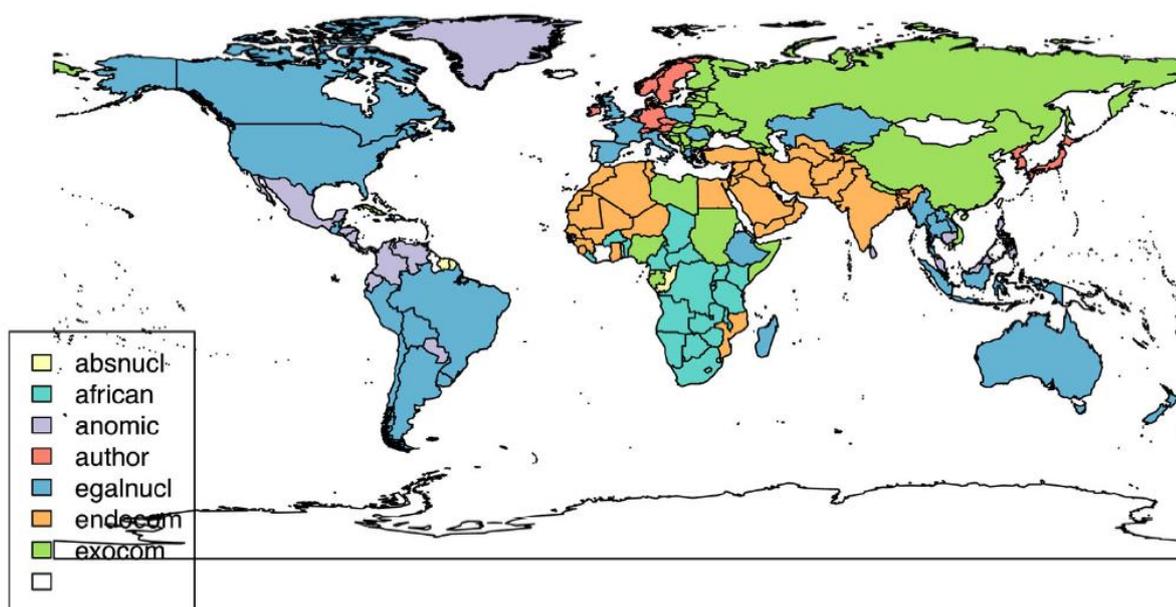
¹⁹⁹ Witt, Michael A., and Gregory Jackson. "Varieties of Capitalism and institutional comparative advantage: A test and reinterpretation." *Journal of International Business Studies* 47.7 (2016): 778-806.

Figure 2. Family types in Europe.²⁰⁰



²⁰⁰ Duranton, Gilles, Andrés Rodríguez-Pose, and Richard Sandall. "Family types and the persistence of regional disparities in Europe." *Economic geography* 85.1 (2009): 23-47. 31.

Figure 3. Map of countries in the hybrid system.²⁰¹



²⁰¹ Rijpma, Auke, and Sarah G. Carmichael. "Testing Todd and Matching Murdock: Global data on historical family characteristics." *Economic History of Developing Regions* 31.1 (2016): 10-46.