

Institute of Labour Law and Industrial Relations in the European Community

— IAAEG —

Foundation of the State Rhineland-Palatinate
Research Centre of the University of Trier, Germany

Economic Research Programme 2000

Director: Prof. Dr. Dieter Sadowski

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Foreword

We begin with a short description of the mission and the mode of functioning of the Institute.

New institutional business economics serves as a frame of reference for the research projects of the Institute of Labour Law and Industrial Relations in the European Community that are presented in this report.

Then we give an overview of the projects currently being pursued, mostly PhD, habilitation theses or projects financed by various third parties. An overview gives an idea of all the projects and how they are related to each other.

Finally we present the publication list of the group from the recent year 1999.

Most of the legal and institutional analysis of the research group challenges theoretical reasoning with empirical, often international and comparative research. Therefore international co-operation is highly welcome.

These projects are supported by a doctoral school (Graduiertenkolleg: "Organisational Economics of Human Services"), which is assisted by an International Advisory Board.

We participate in the European Programme "Master en Sciences du Travail", currently in conjunction with the Universities of Louvain-la-Neuve, the LSE, Toulouse, Florence, Lisbon, Granada and Warwick.

For August 1999 to June 2000, Prof. Dr. Sadowski, the Institute's Director for Economic Studies, received an invitation to do his research work at the Wissenschaftskolleg zu Berlin – Center for Advanced Study. The Wissenschaftskolleg provides an opportunity for high-ranking scientists and scholars from various countries and disciplines to work for one academic year on their favourite research topics without being obliged to carry out day-to-day duties at university.

Finally, the IAAEG provides one of the best libraries in the field; researchers are welcome to use our facilities. Using the Institute's homepage, every interested person can search for books, mainly in the areas of international labour law and industrial relations, via the IAAEG-library internet catalogue.

Trier, Schloss Quint, March 2000

Prof. Dr. Dieter Sadowski

The IAAEG

The Institute for Labour Law and Industrial Relations in the European Community was established in 1983 as an institution subject to public law. It receives financial support from the federal state government of the Rhineland-Palatinate. The IAAEG is a research centre of the University of Trier and its building is located in the renovated Late-Baroque Castle of Quint on the banks of the River Mosel a few kilometres from 2000-year-old Trier, West Germany's oldest city.

The Institute is governed by a directorate, a board of trustees and an advisory council. The director of legal studies, Professor Dr. Rolf Birk, holds the chair in civil, labour and international law at the University of Trier. The director of economic studies, Professor Dr. Dieter Sadowski, holds a chair in business studies. His specialist interests lie in the field of social policy and administration. Each director has a number of research fellows (some at senior level) and research assistants attached to his section. The activities and initiatives of the Institute are supervised by the board, while the council advises on the academic content of such activities and initiatives.

The Institute has an extensive library which at present contains approximately 45,000 books and 600 periodicals from the various member states of the European Community. The main holdings of the library are on the national labour law of the member states of the European Community, community law in general, international labour law, labour economics and personnel management. Authoritative works on industrial relations are also stocked. A particular speciality of the library is the output of international comparative research projects on the behavioural aspects on enterprise level and on the level of employers' associations and trade unions. In addition, there is access to the well-stocked legal and social science sections of the university library in Trier, which also contains a European Documentation Collection and is on the network of international databanks.

Members of the Institute carry out interdisciplinary research, principally into labour law and the economic and socio-political environment of industrial relations in the European Community. Comparative studies in labour law as well as comparative analyses focused on the enterprise level effects of regulating work and industrial relations remain under-researched areas. Recent developments in the economics of law have provided specific guidelines for co-operation between labour lawyers and economists interested in the labour market. Efficiency studies of regulatory intervention and cost-benefit analyses of legal regulation in the labour market offer new and important social science perspectives which are essential for providing social systems with a legal framework. The Institute's economic research is empirically oriented and is based on the new approaches of the economics of institutions and organisations.

Since 1987, the Institute has co-operated with the Max-Planck-Institut For Foreign and International Social Law (Munich), to produce ZIAS - the Zeitschrift für ausländisches und internationales Arbeits- und Sozialrecht (Review of Foreign and International Labour and Social Law). Since 1993, the German Journal of Industrial Relations "Industrielle Beziehungen" has been co-edited at the IAAEG. The series "Quint-Essenzen" provides preprints and discussion papers for a rapid yet rigorous exchange of ideas.

The IAAEG is engaged in fundamental research and its members view their current and proposed projects as long-term research programmes which are financially independent of the interested parties. Projects financed by external sponsors – e.g. the European Community, government ministries or others – complement the research programmes, details of which are given regularly in a research report in German and English.

The aims of providing an international forum for researchers and stimulating co-operation among research institutes are partially fulfilled by the organisation of symposia and workshops. Invitations for longer time periods are also issued to visiting academics from all over the world.

Study accommodation for visiting academics, seminar rooms equipped with simultaneous translation facilities, a language laboratory and modern data-processing equipment are all available. They are intended to engender an atmosphere conducive to advanced studies and postgraduate work of an internationally comparative nature. The participation of postgraduates from other countries in these projects is particularly encouraged.

The composition of the IAAEG makes it a unique type of research institute in the Federal Republic of Germany. It is intended to contribute to the resolution of the complex problems which have risen from the combination of diverse economic and social structures of the member states. A theoretical and empirical analysis of the development of industrial relations represents a particularly valuable, but as yet unexploited, opportunity to contribute to a more closely-integrated Europe.

Executive Board of the IAAEG and International Advisory Board of the Doctoral School

1. Curatorium (Kuratorium)

Members of the curatorium in 2000 are and the following persons. The new President of the University of Trier, Prof. Dr. Peter Schwenkmezger, is the chairman.

- Prof. Dr. Peter Schwenkmezger, President of the University of Trier
- Prof. Dr. Irene Asscher-Vonk, Katholieke Universiteit Nijmegen, Instituut voor Rechtsgeleerdheid, Netherlands
- Prof. Dr. Matthew Finkin, University of Illinois at Champaign, USA
- Prof. Dr. Knut Gerlach, University of Hanover, Germany
- Prof. Dr. Peter Hanau, Forschungsinstitut für Sozialrecht, University of Cologne, Germany
- Prof. Dr. Christian Kohler, Gerichtshof der Europäischen Gemeinschaft, Luxemburg
- Dr. Werner Langen, Member of the European Parliament, Germany
- Prof. Dr. David Marsden, London School of Economics and Political Science (LSE), Great Britain
- Prof. Dr. Bernd Baron von Maydell, Max-Planck-Institut für ausländisches und internationales Sozialrecht, Germany
- Prof. Dr. Rudolf Richter, University of the Saarland, Germany
- Dr. Hartmut Seifert, Wirtschafts- und Sozialwissenschaftliches Institut des Deutschen Gewerkschaftsbundes (WSI), Germany
- Dr. Lowell Turner, Cornell University New York, School of Industrial and Labour Relations, USA
- Ralf Walter, Member of the European Parliament, Germany

- Dr. Alfred Wisskirchen, Bundesvereinigung der Deutschen Arbeitgeberverbände, Cologne, Germany

The task of the curatorium is to make a statement on the annual economic research programme as well as on the annual report and the annual balance sheet. After approval, it releases the directory from responsibility during the preceding year, subject to the approval of the Minister for Education and Cultural Affairs and the Minister of Finance. Further, the curatorium is responsible for drawing up a budget, for the alteration of the charter and for the establishment of rules of procedure.

2. Advisory Council (Beirat)

The following professors of the University of Trier belong to the Advisory Council:

- Prof. Dr. Wolfgang Ockenfels OP, faculty of theology (chairman)
- Prof. Dr. Horst Ehmann, science of law
- Prof. Dr. Wolfgang Filc, economics and social sciences
- Prof. Dr. Peter Krause, science of law
- Prof. Dr. Paul Windolf, sociology

The advisory board discusses affairs of the foundation together with the directory, especially the planning of larger research projects and the general organisation of research activities. According to the charter of the foundation, the directory informs the advisory council about particular decisions. Furthermore, the advisory board gives advice in case of differences of opinion between the directors and is involved in the appointment of the directors.

3. International Advisory Board of the Doctoral School

The International Advisory Board of the Doctoral School consists of the following professors:

- Prof. Dr. Oliver Fabel, University of Konstanz
- Prof. Dr. Klaus Harney, University of Bochum
- Prof. Dr. Anthony I. Ogus, University of Manchester
- Prof. Dr. Ronald Schettkat, University of Utrecht

The International Advisory Board was constituted in November 1997. The members of the board are well-reputed researchers; they give academic advice to the doctoral students.

Research Projects

Finished Projects

Determinants of Environmental Protection at the Firm Level: Influence of Various Actors: Empirical Investigation in the Chemical and Textile Sector	
Dipl.-Kffr. Stefanie Decker	Start: 02/1993
	End: 10/1999

Objective: Expenditure by the state as well as by enterprises on behalf of environmental protection have shown a continuous rise during recent years. As a consequence of the high standards in environmental protection, German firms have to bear relatively high costs that are quite often interpreted as an important competitive disadvantage. Business associations increasingly complain about the cost burden resulting from legislation and the competitive disadvantage in international comparison incident to this situation. Nevertheless, empirical evidence shows that a considerable number of firms are voluntarily spending more money on environmental protection than legally required. This phenomenon leads to the question of the determinants of this “over-fulfilling” of legislative requirements. Can economic advantages be seen as the dominating motivational force or can self-regulation be traced back to initiatives or influence by employees or their representatives?

Approach: In the past, ecological discussion within business science has strongly been focused on the implementation of some kind of environmental protection management within companies. This approach is predominantly concerned with the development of instruments and organisation routines within the enterprises. However, the theoretical background of the relationship between the enterprise and its environment has been mostly neglected so far (FÖSTE 1994, STITZL 1994). This project draws on property rights theory to examine the relevant determinants for voluntary over-compliance with legal standards. In particular, those factors shall be revealed that promote environmental protection within the firm. The starting point is the hypothesis that all activity can be seen as a result of the allocation of property rights within a society. This analysis allows us to draw conclusions on the expected behaviour of individuals and, on the other hand, on the way property rights have to be structured to promote special activities.

Findings: The results of the empirical investigation conducted within 24 enterprises indicate that actors within the enterprises exert different influences on environmental protection. In addition, the empirical data reveal that, depending on different utility functions, influence varies with regard to different forms of self-regulation: relative to management, influence with respect to substantial self-regulation – measured as investments in environmental protection that exceed legal requirements – as well as on procedural aspects of self-regulation – measured by the existence of ecological guidelines on a voluntary basis. On the other hand, activities of commissioners are mainly concentrated on procedural aspects and commitment of workers representatives is almost completely restricted to this area. The exploratory character of this study, the c.-p. analysis and the limited number of data, do not allow us to draw quantitative conclusions on the special influence of the various actors on enterprise behaviour. Consequently, a more comprehensive data base enabling statistical analysis would be desirable for future research.

Publications: in preparation

Annual Report on the Social Dialogue in the European Union: German Report Concerning the Collective Bargaining Situation in 1998-1999	
Prof. Dr. Dieter Sadowski, Kerstin Reden and Economic Research Team	Start: 12/1998
	End: 12/1999

Objective: Whether measures to reduce unemployment can actually be implemented and used in practise in the member states of the European Union is dependent on the behaviour of the national social partners: employers associations and trade unions use collective bargaining to influence the functioning of labour market mechanisms. One of the objectives of this project is to give a general, up-to-date view of the institutional framework of industrial relations, to generate information on the representativity of the social partners in various industries, to evaluate employment-promoting co-ordinational efforts by the social partners and the state and to analyse the contents of current collective bargaining agreements, considering their effects on employment. Work on this project, which was initiated by the European Commission, is carried out simultaneously in all 15 EU Countries. The Economic Research Team of the IAAEG – directed by Prof. Dr. Dieter Sadowski – has provided the country report for Germany.

Approach: The project work consisted of three different but interrelated units, just as in last year's Economic Research Programme. The first part updated the institutional framework of German industrial relations. In the second part, we focus on the representativity of trade unions and employers associations in several industries, i.e. the building, trade, telecommunications, postal service and textile industries. It includes primarily their membership structure, ideological orientation, affiliation with international associations, organisational structure and bargaining power. The most important part, again, was the third one. The aim was to work out how the social partners were involved in elaborating the National Action Plans (NAP's), to illustrate the role of all relevant actors in territorial and national employment pacts and, in conclusion, to point out elements in current collective bargaining agreements which seem to be useful in fighting unemployment. The report period covered by the survey was from July 1998 to June 1999. To provide the needed information, we analysed current research publications, press reports and data banks, addressed numerous inquiries and conducted telephone interviews.

Findings: The work on the report for 1998/1999 is finished. Although there still is a dominance of traditional collective bargaining agreements at the industry/regional level (*Flächentarifverträge*), there indeed is a trend to collective bargaining on the level of single firms or to implement opening clauses in collective agreements. The question is to what extent increased flexibility can contribute to create jobs. The development of the discussions between social partners and the German government in the "Alliance for Employment" shows that the potential to promote employment has to be seen critically.

Publications:

Currently, the IST (Louvain-La Neuve) is working on an international report 1998/99 for the European Commission which will be published in the Internet.

IST (ed.): Trends in agreements relevant to employment and the labour market. Louvain-la-Neuve 1999 and IST (ed.): The institutional framework and the processes of collective bargaining. Louvain-la-Neuve 1999, (international research results for 1997/1998).

German Multinationals and the Cross-National Management of Human Resources	
Dr. Anthony Ferner, Prof. Dr. Dieter Sadowski, Matthias Varul M.A.	Start: 05/1997
	End: 01/1999

Objective: MNCs are key actors in the battle for success in world markets, and despite the advance of ‘globalisation’, much recent research shows that their strategies and behaviour are firmly rooted in the business system of their country of origin. Thus the way in which ‘country-of-origin factors’ influence MNCs’ operations has a central bearing on the issue of the competitiveness of national models. MNCs’ operations are also the principal mechanism whereby host societies assimilate internationally competitive practices from other national business systems. The study throws light on how elements of a home-country business system are ‘transmitted’ to a host business culture and on the conditions for their efficient operation outside their country of origin. The research investigates the management of human resources and employee relations in the British subsidiaries of German multinational companies (MNCs). It explores the degree to which MNCs are able to use distinctive elements of comparative advantage within the German business system in managing their foreign operations. The research aims to foster understanding of the wider processes whereby country-of-origin features are ‘exported’ through the operations of MNCs.

Approach: The work was done in co-operation of the Industrial Relations Research Unit (Warwick Business School) and the IAAEG. The empirical work in Germany was undertaken by Matthias Varul from August 1997 to June 1998. Semi-structured interviews were conducted in a variety of German multinationals operating in Great Britain and the Federal Republic of Germany. Most of the interview partners were human resources managers, but controllers and production managers were interviewed as well. The questions predominantly addressed topics like the management of international managers, work organisation, implementation of international best practices, employee involvement and strategic as well as administrative aspects of the personnel function. The investigated corporations varied in form of ownership, size and industry.

Findings: The case-study companies were adopting some of the salient international HRM practices of more mature international companies, particularly those from an Anglo-Saxon tradition. These include the development of international cadres of mobile senior managers, the implementation of a framework of international HRM policy directives and guidelines covering issues of strategic concern such as the identification of high potentials and the relationship between performance and reward. Although typical features of the “German” system of labour relations were still found, in the firms under consideration there obviously existed some kind of pressure to adopt Anglo-Saxon practices. Interestingly, the latter did not tend to replace the former systematically; rather both forms co-existed. Anglo-Saxonisation seems to take place in a German way, whereby the Anglo-Saxon personnel- and management practices are used in such a way that they tend to support the functioning of the German system. The project work’s main findings were presented at an international conference in Warwick in December 1998.

Publications:

Ferner, Anthony; Varul, Matthias: *The German Way: German Multinationals and Human Resource Management*. Anglo-German Foundation Report. London 1999.

The Company as a Political Arena: A Comparison of Working-Time Related Decision Processes in German, Luxemburgian and British Banks	
Dipl.-Pol. Susanne Wienecke	Start: 10/1991
	End: 12/1999

Objective: Since the early 1990s, there has been a pronounced decentralisation of collective bargaining issues from the sectoral/regional level to the plant level. Enterprises expect that this trend will enhance their position in global competition. While the political arena at the plant level becomes significantly more important, the national systems of labour relations do not exhibit major changes. Therefore the question emerges: What role do the national institutional differences play in regard to problem-solving on the individual plant level? This question will be examined in terms of the example of working time policies in banks: How do national systems of labour relations influence the behaviour of actors at the plant level in regard to decision processes concerning working-time policies and what working-time arrangements will result in the different enterprises?

Approach: From the viewpoint of political science, the plant is to be regarded as a structured political arena. Institutions of labour relations determine the possible actions and rules of the game for the actors within the plant. Using the self-developed concept of an actor-oriented institutionalism, the behaviour of the actors in the process of decision-making has been analysed and compared for enterprises from three countries. Enterprise data of 16 banks and information from 14 bodies for employee representation within the same firms concerning plant-level working-time arrangements as well as labour relations have been evaluated.

Findings: The results in regard to national patterns of decision-making processes and plant-level working-time arrangements confirm the “institutions matter” hypothesis. Nevertheless, German works councils do exert less influence than one would assume given the German system of co-determination. Recognised trade unions in British universal banks play a role in working-time policies functionally similar to the German works councils and to personnel delegations in Luxemburg. The employers have to conduct a policy of incremental increases in working-time flexibility to avoid conflicts with employee representative bodies and a loss of legitimacy in the eyes of their employees. One can detect a far-reaching change in the banking sector towards highly flexible time-account models. But as long as the actors at the plant level are forced to pay regard to the respective labour laws and collective agreements on the national level, specific national patterns of working-time arrangements will survive and changes in working-time will evolve along historical national paths of development.

Publications: in preparation

Current Projects

Recruitment Strategies in Professional Team Sport: An Analysis of Employment Policy in the German Professional Football League	
Dipl.-Wirtsch.-Ing. Rolf Dockter	Start: 07/1997
	End: 07/2000

Objective: The role of internal vs. external recruitment for firm success has been widely discussed in the literature on internal labour markets (SENGENBERGER 19987:150 ff.). Problematic, however, is the lack of empirical data in this field (SCHAUENBERG 1996: 358ff.). This project tries to overcome the data deficit by analysing the role of internal vs. external recruitment in professional team sport: What is the impact of recruitment strategy on the athletic and economic success of professional football clubs in Germany?

Approach: The data available on professional football teams in Germany is seen as “functionally equivalent” for the general questions on the effectiveness of recruitment strategies in personnel policy. “Sports provides another avenue for examining business and management practices.(...) The manager’s role is clearly defined and the principal agent relationship (...) obvious in most sports enterprises (BOYES 1994: 399; (FRICK/WAGNER 1998: 329ff.)”. The study uses a data file originally compiled for this purpose: a panel of yearly data from 1991/92 to 1996/97 for 13 clubs of the “Fußball-Bundesliga”, which were represented for at least four subsequent years. Technical efficiency, defined as the relation of input to output, will be used as the measure of success. The input category consists of transfer expenditure, wage payments and expenditure for the amateur and youth teams. Transfer income and league performance are the output factors. This data set will be used to run a Data Envelopment Analysis (DEA). This non-parametric multivariate technique for measuring success and efficiency has been developed to estimate input-output functions. As a result, we can identify both the relative efficiency of the recruitment strategies for every year and the development of efficiency over the whole period. So far, DEA has not been applied to questions of personnel policy. In a further step, the computed efficiency scores and the individual data on 500 players will be used to run correlation and regression analysis. These results will try to determine the influence of fluctuation rates, foreign player rates, experience, etc. on the athletic and economic success of professional football clubs. A further important question will also be tackled: What are the effects of the Bosman rule and following changes in institutional basic conditions on the job market of professional soccer players, with regard to the influence of the product “Fußball-Bundesliga”? To this purpose, the employment flows will be examined.

Present State of Research: The processing of the literature on the DEA and on the theoretical foundation as well as the data survey and analysis is finished. The theoretical framework of the completing methods of analysis has been created but the analysis is still to be performed.

Time Schedule:

01/2000-07/2000: Continuation and completion of the empirical analysis
Evaluation and completion of the project

The Impact of Networks in Health Care System on the Quality of Services	
Dipl.-Vw. Gabi Gotzen	Start: 05/1998
	End: 03/2001

Objective: The expenditures for health care in Germany constitute 15% of the GDP (OECD 1997) and are therefore the highest-level expenditures among OECD nations - followed by the USA. The latter are partially due to factors which lead to a significant increase of health care cost. However, a substantial part of this cost is due to distinctive institutional traits of the German health care system. One of the specific characteristics of the German health care system is the fragmentation of medical service structures, which finds its expression in the delimitation of individual service sectors. One assumes the interfaces within service structures cause inefficiencies, e.g. the repetition of services and deterioration of quality which appear in the form of procrastination or in the shift of cost-intensive patients to another sector. One approach to minimising these assumed inefficiencies in the provision of medical services would be an intensified network of medical service structures and the co-operation among sectors of service providers. According to WILLIAMSON (1985), networks – in contrast to markets and hierarchies – constitute intermediary forms of economic organisation. The latter require co-operation benefits on the one hand and a co-operative attitude among actors on the other hand to promote the emergence of network formation and network stability. Therefore the aim of this project is to analyse whether or not the incentives for a co-operative attitude or the institutional conditions required for the creation of networks exist in the German health care system. In addition, we want to evaluate the results of such networks, since it is known that mergers can lead to regional monopolies and cartel agreements. The latter would create additional inefficiencies and a deterioration of quality.

Approach: First, a theoretical analysis of the co-operation benefits that can be gained for the actors of out patient and stationary sectors will be provided. With the help of industrial and institutional economy, which offer approaches for explaining the occurrence of interorganisational co-operation, hypotheses of the probability of co-operation will be deduced. Subsequently, an optimal form of network for regional health care will be designed employing network theories.

Present State of Research: Case studies will be used to compare existing or planned co-operation between out patient and stationary sectors on the basis of the assumed hypothesis and the form of network which would be theoretically optimal. Finally, this comparison is meant to assess the advantages of networks within the German health care system.

Time Schedule:

01/2000 - 05/2000: The derivation of an appropriate theoretical framework and the derivation of the empirical hypotheses will be finished

06/2000 on: Choice of the relevant method and start of the empirical study

Employee Profit-Sharing	
Dipl.-Kfm. Joachim Junkes	Start: 01/1997
	End: 12/2000

Objective: Besides motivational aspects of employee participation – e.g., ESOP's and profit-sharing plans – this wage political tool is often regarded as a key instrument for increasing wage flexibility, and thereby improving the competitiveness of so-called partnership firms facing increasingly volatile product market demand. Thereby, it is assumed that the workforce not only participates in operating results but also in operating risk. Disregarding motivational aspects and focussing on profit-sharing plans, the conditions for efficient risk-sharing between firm owners and employees are investigated.

Approach: In a static setting, an optimisation of risk-sharing through profit-sharing plans is inefficient. The employees' higher risk aversion should be recognised, and hence they should be insured against income risk. Firms facing the need for external financing, e.g. for extraordinary investment opportunities, can change this result: ICHINO (1994) assumes that in the course of a credit-financed investment project, potential lenders anticipate the increased bankruptcy risk due to the change in capital structure. Even when risk-neutral, these lenders are unwilling to pay the face value of debt, but they expect a discount for the risk of bankruptcy, i.e. the risk of not getting fully repaid – they require a quasi-risk premium. The reallocation of risk through employee profit-sharing reduces the bankruptcy probability, and thereby reduces capital cost, which in turn gives a potential reason for the efficiency of profit-sharing plans. But Ichino's model relies on the rather unrealistic assumption that, under symmetric information, increased bankruptcy risk increases solely capital cost, but leaves wages unchanged. Meanwhile, MYERS/MAJLUF (1984) have demonstrated that outside financing under asymmetric information may lead to adverse selection and thereby increases the company's cost of capital. This model is used as a reference and extended to incorporate not only a fixed wage, but also the possibility for the management and employees to adopt profit-sharing, thereby turning wage claims into relevant investment costs. Given that employees – as opposed to outside financiers – have the same superior information as managers, the possibility arises of avoiding increased cost of outside financing by adopting profit-sharing. What are the empirical implications of this extended model? Using profit-sharing to increase the firm's flexibility does not seem to be universally efficient, but rather to depend on specific firm characteristics: Management and employees must share the same higher level of inside information and informational asymmetries between insiders and outsiders must be at least temporarily non-removable. Furthermore, such firms must have a financial deficit, i.e. either rely on outside financing or align wage claims to operating profits in order to meet the ex ante-planned investment demand. If these central model assumptions are used as exogenous variables to explain the existence of profit-sharing plans in a representative firm sample, a positive relation should be obvious.

Present State of Research: At present the model has been formalised and the central model assumptions operationalised. The Hanover Firm Panel has been chosen as an appropriate firm sample.

Time Schedule:

- 01/2000 - 03/2000: Formalisation of model, access to appropriate firm sample
- 04/2000 - 06/2000: Operationalisation of central model assumptions
- 07/2000 - 12/2000: Empirical analyses, first draft

Codetermination on the Supervisory Board: A Principal-Agent Approach	
Dipl.-Vw. Sabine Lindenthal	Start: 01/1997
	End: 11/2000

Objective: The impact of labour participation on the German supervisory board is discussed controversially. On the one hand, it is argued that an open discussion in the supervisory board is prevented by this type of codetermination, and that this negatively affects the supervisory board's efficiency. Others emphasise the more accurate internal information by the employee representatives, which may improve the quality of monitoring by the supervisory board. To examine the pros and cons of codetermination in the supervisory board in more detail, we will concentrate on the incentives of the different supervisory board members to perform their monitoring task. One thing to be shown is the influence of typical characteristics of the supervisory board members on their monitoring effort. Concerning these characteristics, we concentrate on different cost functions, monitoring abilities, and incentives.

Approach: This project studies the question of how codetermined supervisory boards perform from a contract theoretical perspective. A general problem of stock companies can be seen in the fact that owners cannot observe precisely whether management is acting in their best interest. They are therefore confronted with post-contractual asymmetric information– a hidden action problem. This problem can be reduced by monitoring the executive board in order to obtain information about the agent's efforts and to set better work incentives, which can lead to an improved alignment of interests between principal and agent. Since codetermination on the supervisory board can be interpreted in contract-theoretical terms as the assignment of a second type of supervisor, we consider a principal-agent model with two supervisors, one representing the employees in the supervisory board and the other as a stockholder representative. In the tradition of KOFMAN/LAWARRÉE (1993), existing models with two supervisors considered only supervisors who exogenously received information about the agent's effort. In this project it is assumed that the supervisors can influence the quality of the information concerning the agent's task by choosing a certain monitoring effort which induces some costs. This gives a second hidden action problem because the supervisor's monitoring effort cannot be observed. To model this problem, one has to analyse which incentives the supervisors might have and how the motives and abilities of both sides of the supervisory board might differ. The result of this monitoring activity influences the supervisor's reputation, providing his main incentive to exert effort.

Present State of Research: The main part of the model is completed and only some refinements have to be made. The results so far are that introducing a second supervisor increases the monitoring incentives of the old supervisor. Depending on the supervisor's characteristics, there exist situations in which two heterogeneous supervisors are more efficient than two homogenous, but there are also situation with the opposite result. Generally the assignment of supervisors reduces the inefficiency in the relationship between the principal and agent.

Time Schedule:

01/2000 - 02/2000: Extension of model
03/2000 - 11/2000: Completion of work

Systems of Corporate Policy	
Dipl.-Vw. Oliver Ludewig	Start: 12/1999
	End: 11/2001

Objective: It is characteristic of systems that their elements interact in certain and definable ways with each other. These patterns of interaction are central to the systematic character. Many different practices exist in the different areas of corporate policy. These practices can be interpreted as elements of a system of corporate policy. The question is: can these practices be combined in every possible way, or are there patterns of interaction which induce the formation of systems? The theoretical literature shows that complementarities between practices are possible sources of system formation (i.e. HOLMSTROM, MILGROM 1994; MILGROM, ROBERTS 1995). The objectives of this project are to show which practices are complements, to deduce the systems of corporate policy and then to test this empirically.

Approach: As a first step, the theoretical literature, which shows that complementarities between practices can cause system formation, will be reviewed. Second, there is also some literature that discusses the systematic relationship between some practices in few policy areas or many practices in one policy area (I.E. HUSELID 1995; ICHNIOWSKI ET AL. 1997), but there is no literature discussing the system formation of the whole firm. This project aims to fill this gap by scanning the literature for complementarities between as many practices as possible and by using this information to theoretically develop systems of corporate policy. In the next step, these systems will be modified according to the German circumstances. We found no literature which tries to apply the system approach to the German conditions. Finally, the existence and determinants of these systems will be empirically tested using the IAB-Establishment panel. The second main part of the project focuses on the behaviour of systems of corporate policy over time. The provisional and incomplete examination of the literature shows that almost no literature exists in this area and that further research is required (PURCELL 1999). The relationship between starting situation, change of the firm environment, change of systems and the cost of change will be studied theoretically as well as empirically. It is still necessary to search and prepare literature to find the appropriate theoretical and empirical approaches.

Present State of Research: The project is at the beginning and hence it is still in a phase of searching and preparing literature.

Time Schedule:

- 01/2000 - 04/2000: Literature-based research
- 05/2000 - 07/2000: Development of the theoretical framework (point of time)
- 08/2000 - 10/2000: Empirical analysis
- 11/2000 - 01/2001: Development of the theoretical framework (over time)
- 02/2001 - 06/2001: Empirical analysis
- 07/2001 - 11/2001: Writing of the thesis

The Impact of Labour Law on Firm Location Decisions	
Dr. Kerstin Pull	Start: 06/1997
	End: 06/2001

Objective: At a time of high unemployment in Germany, the so-called *Standort* debate has centred on the question whether high wages and high levels of labour market regulation keep foreign investors from investing in Germany and have “forced” German capital out of the country. Even though it is considered a stylised fact that foreign direct investment typically aims at opening new markets and is not the result of a flight from unfavourable conditions, it is nevertheless frequently argued that high net outflows of foreign direct investment hint at a lack of competitiveness of the national “labour market regime“ in question. For Germany, observers not only note much too high labour costs (wage and non-wage) and too high standards of protection, they also speak of an “over-regulation“ in labour law. The project will try to grasp the potential effect of labour market regulation on firm location decisions.

Approach: In times of increasing uncertainty (see SCHNEIDER 1998: 19f.), the reversibility of investment decisions becomes more and more important. Firms are increasingly interested in being able to withdraw from an investment if the returns do not meet the expectations. If investments are *irreversible*, however, it becomes less attractive for firms in an uncertain environment to invest, even if the net present value of the investment in question is positive. The reason is that the investment destroys an option: the option to wait and thereby isolate itself from a negative development of future returns. Therefore, each investment project has an *option value* which has to be weighted against its net present value (DIXIT/PINDYCK 1994). Labour market regulation, then, has not only an impact on the net present value of an investment but, by influencing the degree of irreversibility, also has an impact on the option value.

Present State of Research: As the industrial economical literature on the specificity of investments (e.g. GUISSO/PARIGI 1999) shows, the degree to which investments have to be regarded as irreversible is likely to vary systematically between industries. Industries characterised to a larger extent by comparatively specific investments (high irreversibility) are left with the sole possibility of closing down if the investment is no longer valuable in its current use: because of its specificity, alternative uses are unfeasible. Such industries are *cet. par.* likely to choose a labour market regime that supports this disinvestment by offering a relatively low level of employment protection and by facilitating the „hiving off“ process, as British labour law is regularly held to do. Industries characterised by a lower level of specificity in their investments (low irreversibility), however, are often able to put their investment to an alternative use. They will favour a labour market regime that allows for such restructuring by securing a high level of general human capital or by creating a co-operative environment with workers supporting the process of restructuring and innovation. These two characteristics are regularly attributed to German labour law. The derivation of hypotheses will be continued. In a next step the hypotheses derived will be tested with the help of secondary data.

Time Schedule:

01/2000 - 06/2000: Derivation of hypotheses
07/2000 - 10/2000: Test with secondary data
11/2000 - 06/2001: First written version

Personnel Policies in Joint Ventures and Subsidiaries in The People's Republic of China	
Kerstin Reden M.A.	Start: 01/1998
	End: 06/2000

Objective: Many foreign investors today look back with some disillusionment on their experiences in Chinese business. Among the many challenges, the one repeatedly named is the overcoming of problems in the area of personnel policy. Up to now, very little is known about human resource policies in Sino-foreign joint ventures and foreign subsidiaries in China. It is therefore the aim of this project to study variations in personnel strategies in order to find an economically reasonable explanation for the differing personnel policy structures in place.

Approach: Since the very few studies of personnel practice in companies with foreign equity participation in China are mainly of a descriptive and exploratory nature, the necessity to collect our own data soon became evident. Since not only quantitative, but also qualitative data is required, the case study approach suggests itself as an appropriate starting point. We prepared the survey by determining potential influence factors on personnel policies: We hypothesised that personnel policy is dependent (a) on the budget constraints of the Chinese partner, (b) on the distribution of bargaining power between partners, (c) on the product market strategy of the company and (d) on the local enforcement of labour and social regulations. To evaluate our hypotheses, we conducted interviews in the four "regions" Beijing, Shanghai, Qingdao and Guangzhou/Shenzhen with more than thirty representatives of foreign-invested companies as well as with external experts in the respective localities.

Present State of Research: Up to now, the case studies provide evidence for the hypothesised dependence of the implementation of iron rice bowl practices on the Chinese's partners budget constraints. In joint ventures where the Chinese side still receives subsidies and where the Chinese side is responsible for the personnel function, we found a policy which does not support the profit maximisation of the company, because the Chinese partner frequently implements equality wage systems, promotes according to personal relations rather than performance, etc. It seems to depend on the foreign investor's market experience and especially on his bargaining power whether he is successful in counteracting the ineffective personnel practices still practised by Chinese partners under soft budget constraints. The case studies also revealed some evidence for the hypothesised dependence of the personnel policy on the product market strategy: use of the redundant "cheap" labour force in China can only be achieved by employing relatively labour-intensive production lines. Prices for these products, however, are often undercut by local competitors who realise substantial cost advantages. Cost pressures and the low qualification of the labour force, therefore, lead to a market- and cost-oriented personnel policy. In contrast to this price-based competition, other firms compete by being different in some dimension valued by the market. To realise such a differentiation or niche strategy, companies often have to spend a lot of money in training employees or finding qualified staff. To keep qualified and trained employees, the company implements a policy of an internal labour market. (For the discussion of the dependence of personnel practices on the local enforcement of labour and social regulations see Hans Böckler Project, p. 18).

Time Schedule:

01/2000 - 12/2000: Evaluation of results and writing of final report

Hans Böckler Project: Legislation of Labour Relations in Companies with Foreign Equity Participation in The People's Republic of China	
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Prof. Dr. Dieter Sadowski, Kerstin Reden M.A.	Start: 01/1998
	End: 03/2000

Objective: Since introducing the reform policy, the Chinese government has been endeavouring to gradually establish a legal system. Whether legal regulations, however, are in fact relevant for the actions of economic subjects is still an open question. It is the aim of this project, therefore, to examine the practical relevance of legal norms in China by taking as an example the enforcement of labour and social regulations in companies with foreign equity participation.

Approach: Since 1978, the main objective of the Chinese central government has been to stimulate economic growth. The cornerstone of China's economic reform programme is the delegation of economic control to the localities. As a consequence, regions with different scopes and sizes of industrial bases and qualifications of labour force have begun to compete for foreign direct investment in order to develop the local economies. We suppose that local governments tend to enforce labour and social regulations in their respective areas to a higher degree once these regulations yield economic benefits for the development of the local industries. For example, social regulations can support the restructuring of state-owned enterprises by reducing their social burdens and forcing non-state-owned enterprises to contribute to public social funds. Urban regions with a high state sector, therefore, can benefit from a strong enforcement of social regulations, whereas rural regions with a low state sector may do better by condoning a relatively weak enforcement. The population of the latter regions mainly consists of farmers, who have never been integrated in the social benefit system provided by state-owned companies and whose situation is not worsened by ignoring social regulations; therefore, rural regions can become an attractive location for investors in labour-intensive industries. We evaluated our hypotheses by conducting case studies in the four "regions" Beijing, Shanghai, Qingdao and Guangzhou/Shenzhen. To get the necessary data, we interviewed more than thirty representatives of foreign-invested companies as well as several external experts.

Findings: Especially in the establishment of a public social security system, we find an atmosphere of uncertain and haphazard implementation of regulations. The total amount of locally prescribed social insurance contributions not only differs between regions but also within regions. Concerning our theoretical considerations, we observe: Legally compelled payments to public funds are in general much higher in urban regions with a relatively important state sector than in rural regions with fewer and smaller state-owned companies. Besides, representatives in the former regions evaluated the probability of being punished as much higher than did their counterparts in rural regions. The case studies also reveal that investors from Western countries generally comply voluntarily with national laws, and many multinational investors even pay additional social benefits. In contrast to Western investors, the bulk of Asian investors try to profit from a weak local enforcement of rules, whereby they seem not to be threatened by reputation costs in their home countries. We observe that employees in urban areas are more aware of their legal rights than are employees in rural regions, where legal violations are still rather common, e.g. in the compensation of overtime working.

Time Schedule:

01/2000 - 03/2000: Preparation of the final report

The Impact of Different Remuneration Systems on Motivation and Self-Selection in the Public Sector	
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Dipl.-Vw. Karin Richertz	Start: 02/1993
	End: 06/2000

Objective: Government budget deficits and increasing international competition put strong pressures on the public sector. As a consequence, many reforms or discussions about potential reforms focus on remuneration systems and work organisation in the public sector to make public services more productive. Changes in the pecuniary and the non-pecuniary aspects of the employment relationship both lead to a change in the reward system. This project tries to answer the question of how different types of compensation systems affect motivation and self-selection behaviour of actual and potential public sector employees.

Approach: As yet no integrated theory of public sector labour markets and personnel policies exists. There are only rudimentary studies about the incentives that arise from different compensation systems in the public sector. There is no theoretical foundation on self-selection and related changes in motivation induced by different reward systems. Based on the supposition that with imperfect information, compensation systems can serve as signals which communicate much about an organisation and therefore induce self-selection behaviour in the labour market, a model is being developed to build on existing work on hedonic wage theory (LUCAS 1977). That model tries to explain how different reward systems attract various types of employees and how they can affect the motivation of employees. To test the hypothesis, empirical field work was done by conducting case studies using Conjoint-Analysis as the main instrument. The field of application will be nurses and teachers, which represent the specificity and variety of public sector services and the different legal status of public sector employees. Based on theory and empirical evidence, the effectiveness of different reform policies can be analysed.

Present State of Research: At present, a first version of the dissertation is being written. The empirical and theoretical findings provide the basis for an evaluation of success or failure of public sector reforms. The data support the hypothesis of systematic self-selection processes both between the public and private sectors and within the public sector. Case studies in two German hospitals and two schools have been conducted. Particularly for teachers, there is strong evidence of sorting. Public sector school teachers value job security highly, whereas for private school teachers the teaching methods are the most important element of working conditions. For nurses, different groups of employees were found. As the most striking result, the “typical” female, full-time nurse opposes performance-related pay (PRP) strongly. Moreover, participation of employees in the implementation process seems to be of critical importance for the success of PRP schemes. Finally, it was found that working-time options for employees are a powerful instrument for solving recruitment and retainment problems in hospitals and for promoting motivation. Giving the employees the opportunity to choose between a menu of contracts could therefore be an important instrument of a successful reform policy.

Time Schedule:

01/1999 - 06/2000: Writing of a first version of the thesis

Publications:

Sadowski, Dieter; Richertz, Karin: German part of the project report: Reformen der Einkommen im öffentlichen Sektor in Großbritannien und Deutschland, Trier.

Contracting for Change: Can There be a Role for Selective Contracts in German Health Care?	
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Petra Riemer-Hommel, Ph.D.	Start: 05/1997
	End: 12/2001

Objective: Increasing costs and unrelenting progress in medicine underline the necessity of reforming Germany's health care system. A closer look at the varying proposals that are currently debated, makes it apparent that the expert committees (OECD, MONOPOLKOMMISSION, SACHVERSTÄNDIGENRAT) believe that we especially need a reform of the contracting relationships among the participants in the health care markets and, here, particularly the end of the so-called duty to contract and as a consequence an increased influence for the sickness funds. The objective of this project is to analyse the advantages and disadvantages associated with introducing selective contracts to German health care markets.

Approach: The current research in industrial economics serves as a theoretical foundation. The literature there has focussed especially on the contracts chosen for the distribution of consumer goods (BESANKO/PERRY 1994). In the context of the so-called "strategic commitment" models (AGION/BOLTON 1987), the impact of selective contracts on market structure has been analysed more generally. A recent example of the application of industrial organisation approaches to health care constitutes the model by GAL-OR (1997). The analysis in this project takes on the perspective of the actors. A model contrasting two contract alternatives (*universal* vs. *exclusive*) is formulated. In contrast to existing models, quality-enhancing investments by the suppliers of medical care are chosen as the decision parameter. The focus on quality investments seems justifiable, given the ever increasing competition among sickness funds for "good risks" and the fact that a lasting decrease in cost or increase in quality requires the acceptance of the principles of evidence-based medicine and a stronger pursuit of quality management. The results of the model should help us in determining the relative attractiveness of the different contract types and should further facilitate our prediction of the actions taken by the different groups once selective contracts become available.

Present State of Research: The description of the institutional framework and the analysis of the various reform proposals has been concluded. The analysis of the relevant contracting literature has also been accomplished. The previously constructed model has been completely reworked and simplified over the course of the last year.

Time Schedule:

- 01/2000 - 06/2000: Conclusion of model development
- 07/2000 - 12/2000: Test of plausibility, first draft
- 01/2001 - 12/2001: Completion of project.

The Corporations' Panel Rhineland-Palatinate: Research Project for Consulting and Support of Labour Market Policy in the State of Rhineland-Palatinate	
Prof. Dr. Dieter Sadowski, Dipl.-Kfm. Joachim Junkes; Petra Riemer-Hommel, Ph.D., Dipl.-Vw. Florian Turk	Start: 01/1997
	End: 12/2001

Objective: International comparison indicates that empirical research in personnel economics and labour market policy in Germany is fairly represented, as opposed to theoretical analysis. One main reason is the lack of appropriate data bases. The objective of this project is to generate such a data base by using raw data material from the so-called *industrial and craft report system* conducted by the Federal Statistical Bureau of Rhineland-Palatinate and to apply the data for scientific purposes. The leading idea is to analyse high-quality data through the method of panel data analysis. The project's archetype is a long-lasting co-operation between the Federal Statistical Bureau of Lower-Saxony and the Universities of Lüneburg and Hanover, which has led to important empirical results concerning labour market theory and policy. Similar co-operations are accordingly initiated in another 14 federal states in Germany.

Present State of Research: In the course of the present data processing, the wave of 1998 has been completed, and thus – within the transformation of the classification of economic branches (01.01.1995) into the WZ93-systematic for manufacturing industries derived from the EU-standard NACE-classification – the waves from 1995 to 1998 are available. Furthermore, after extensive research at the Federal Statistical Bureau of Rhineland-Palatinate in Bad Ems, the existing data of the manufacturing industries from the WZ79-derived SYPRO-classification has been processed: these are the waves of the years 1983 to 1994. In the industrial sector, a complete coverage has been accomplished for all companies due to fulfill their publication obligation with five or more employees for the years 1983 to 1998. During econometric analyses, a practice-related course was started asking questions about firm and employment development in the industry of Rhineland-Palatinate. Referring to the preliminary results from 1998, we have identified four fields of interest which should illuminate the relation between firm type and the development of employment. On the one hand, we test the *Mittelstand-hypothesis*, i.e. the question whether and to what extent SMEs contribute disproportionately to job generation. Similarly, the problem whether start-up firms contribute extra ordinarily to employment dynamics is addressed. Besides, it is important – especially for the State of Rhineland-Palatinate – to determine the export-dependence of firm success and employment, as well as to raise the question of the influence of technological change on labour demand. Since internal and external labour markets are rigid, the problem of lagged effects has to be tackled. Hence, the only appropriate tool to use is panel data analysis. The practical seminar will work upon the SYPRO-panel, using the waves from 1983 to 1994.

Further Steps: The practical seminar's final report will be completed in the second half of 2000. Referring to these expected results, the investigation will be extended to the waves from 1995 et seq. – with the option to analyse further questions.

The Internationalisation and Diversification of German Companies	
Dipl.-Soz. Sebastian Schief	Start: 06/1997
	End: 12/2000

Objective: According to the general discussion about globalisation and mass unemployment, German companies are no longer concentrating on the export of goods and services but rather on the export of jobs. Political parties, trade unions and employer associations are exceptionally united in their portrayal of multinational companies as being completely free to locate their production in those countries which offer the lowest labour costs, the longest working hours and the most advantageous investment conditions. This project aims to analyse empirically the internationalisation of German companies through foreign direct investment and therefore focuses on the central players in globalisation, the multinational companies. The extent, forms, reasons and implications of German foreign direct investment will be investigated. The research intends to shed light on the effect of the internationalisation of German companies on the German economy and, in particular, on employment.

Approach: Both quantitative and qualitative research methods have been employed since the structure of internationalisation of German companies and the reasons for their location of production operations in foreign countries have been the subject of investigation. Thus, a quantitative analysis of German foreign direct investment and a qualitative analysis of German company reports have been carried out. The quantitative research involved the collection of data concerning approximately 2000 foreign investments of 100 German companies. A longitudinal design was chosen and investments were measured in 1985, 1990 and 1995. For the qualitative analysis, we investigated company reports from 30 firms between 1984 and 1995.

Present State of Research: The data concerning significant foreign investments of German firms and performance data for these companies have been collected and prepared for analysis. The qualitative research of the company reports has also been carried out. Literature and empirical research concerning globalisation, internationalisation and multinational companies has been collected, analysed and used to construct the theoretical concept of the work. First results of the qualitative analysis regarding the reasons for investing in foreign countries have been published. Furthermore, the geographical distribution and the amount of foreign direct investments of German companies have been analysed. Particular emphasis has been put on the relation between national and international investment of the examined companies.

Time schedule:

01/2000 - 03/2000: Interpretation of results
 04/2000 - 07/2000: Analysis of policy implications
 08/2000 - 12/2000: Completion of the report

The International Transfer of Human Resource Management Practices within Multinational Enterprises	
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Dipl.-Vw. Matthias Schmitt	Start: 12/1996
	End: 11/2000

Objective: Work-related attitudes of employees as well as the concrete patterns of labour relations vary among different national business systems. Multinational enterprises (MNE), operating in various national settings, have to handle this heterogeneity of labour relations systems when implementing international human resource policies. Basically, two alternatives of action exist: decentralisation of personnel policies, in the sense of an adaptation to the rules and customs popular in the host country (host-country effects) versus transferring home-based practices from the MNE's headquarter into foreign subsidiaries (country-of-origin effects). Economic rationales for country-of-origin as well as host country effects are being developed and empirically examined.

Approach: The appearance of host country and country-of-origin effects are analysed by using "Fiscal Federalism" as a theoretical analogy. Multinationals try to minimise costs of (de-)centralisation associated with cross-national personnel policy. In "Fiscal Federalism" the efficient level of public goods provision varies depending on the costs of (de-)centralisation that affect the respective collective goods. A quite similar pattern is observed in the area of international human resource management: costs of (de-)centralisation vary among different HR-practices and they are influenced by organisational features and national characteristics. The higher the costs of decentralisation are (ceteris paribus), the more likely is the appearance of country-of-origin effects. The opposite holds for increasing costs of centralisation. This hypothesis has been tested empirically by comparing HRM/IR-practices of Anglo-Saxon subsidiaries operating in Germany and native German firms conducting a mailed questionnaire survey.

Present State of Research: The relevant research literature has been studied. In addition, the theoretical analogy between "Fiscal Federalism" and HR-policies within multinationals has been worked out and research hypotheses have been elaborated. In accordance with these hypotheses, relevant variables to investigate in the area of IR/HRM have been identified and survey questionnaires have been designed. At the same time, two random samples were drawn from enterprise data bases: German subsidiaries of Anglo-Saxon multinationals and 'native' German firms. In sum, 1160 questionnaires were mailed to the most senior personnel managers in these firms. A response rate of approximately 25% was obtained, which can be regarded as really satisfactory in surveys of this kind. First statistical results tend to confirm the theoretical research hypotheses: In multiple cases, personnel practices differ significantly between Anglo-Saxon subsidiaries and 'native' German firms. Additionally, the extent of home- and host-country effects change according to the costs of centralisation and decentralisation associated with the different practices.

Time Schedule:

01/2000 - 05/2000: Statistical analysis of the empirical data

06/2000 - 11/2000: Writing a draft version of the thesis

An Economic Analysis of German Labour Courts	
Dr. Martin Schneider	Start: 07/1998
	End: 07/2002

Objective: Since the 1990s, critics complain about the high workload of German labour courts and consider certain rulings of the federal labour court (*Bundesarbeitsgericht*) as too worker-friendly (GROTMANN-HÖFLING 1995; RÜTHERS 1996). As a result, a reform of the labour court system is being discussed, although the working of the labour court system has not been studied thoroughly (WETH 1998). What do labour courts do, economically? How do courts pursue their alleged tasks? For instance, when are judges more inclined to produce new rulings by deviating from precedents?

Approach: Following the institute's research programme, the questions mentioned above will be approached from both a legal and an economic perspective. First, I characterize the economic functions of the labour court system: labour courts settle individual conflicts arising in the employment relationship (dispute resolution). Apart from this obvious function, judges contribute to case law by producing new rulings which act as precedents for similar future conflicts (judicial law-making). The stock of valuable precedents accumulated by judicial decision-making can be interpreted as a "capital good" (LANDES/POSNER 1976): precedents facilitate adjudication in future disputes, and they provide a high degree of legal certainty and calculability for the parties to the labour contract. In a next step, I intend to evaluate empirically how the various labour courts perform the two functions mentioned. Seen from production theory, judicial working time and the existing law (including precedents) are inputs to the production process of the courts. Output can be measured in two dimensions: the number of cases settled (dispute resolution) and the number of decisions which are published in journals and databanks and which are therefore accessible to judicial decision-making in the future (judicial law-making). Drawing on these data, the technical or X-efficiency of labour courts can be compared empirically by employing the method of data envelopment analysis (DEA). The study will focus on the higher labour courts (*Landesarbeitsgerichte*) in the period 1961-1998. In a final step, I intend to explain the empirical results, obtained by DEA, with judicial behaviour: compared with the rapid resolution of individual disputes, for instance via settlement, the production of new rulings with a wider scope consumes more time input. Nevertheless, it is rational for judges to produce precedents, since this is likely to enhance their career prospects. This, along with a number of other hypotheses, will be tested with a help of data set which is compiled for this purpose and which combines information on court performance and on judges' characteristics.

Present State of Research: The data set is currently being compiled. A number of expert interviews on the "organisational policy" of labour courts have been conducted already; these will be continued. After completing data collection, a formal model will be formulated to capture judicial behaviour.

Time Schedule:

- 01/2000 - 06/2000: Completion of data collection
- 07/2000 - 06/2001: Formulation of theory and data analysis
- 07/2001 - 06/2002: Completion of the final report

The Employer's Contribution to the GKV as Proportionate Investment in the Employee's Human Capital –Trustee Function of Institutions in Health-capital Formation	
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Dipl.-Vw. Florian Turk	Start: 11/1999
	End: 12/2001

Objective: A conspicuous and crucial feature of the obligatory public health insurance (GKV) in Germany is the co-financing of the insurance premiums by employer and employee. However, the apparent proportionate co-financing overlooks the fact that employer contributions to the GKV are, at the same time, labour costs. How much health insurance increases labour costs depends on the employer's contribution rate, on the insurance insert income, and on the contribution design limit. To stabilise overall labour costs to employers is an important objective of reform attempts both in health service and labour market policies. Reform approaches aim at fixing either the overall contribution payments or the accumulation of upper limits. It is also suggested to convert employer contributions into explicit wage payments. All these cost-orientated approaches ignore the fact that health care expenses must be regarded as an investment: The contribution payments of the employers are to be seen as an investment in the employees' health capital. In this project, the role of the employer in health insurance is characterised as a supplementary trustee of the employees. Investment activity is to be analysed, the decision for investment is to be modelled, and recommendations for the organisation of health care are to be derived.

Approach: Point of reference for the investigation approach is the human capital theory. So far, approaches dealing with the formation of health capital are limited to a dynamic model by GROSSMANN (1972) and some extensions. Within the reform attempts concerning the financing of the health service, discussions do not deal with the investment property of health expenditures. At present, the author examines how the employer's health-investment activity and capital expenditure decision can be modelled.

Present State of Research: The project is in the initial phase of theory and literature processing. Based on this, the initial hypotheses must be formulated and the theory must be advanced.

Time Schedule:

01/2000 - 06/2000: Reviewing of the investigation reading and theory elements
 07/2000 - 12/2001: Theory formulation and empirical operationalisation

Hospitals in a Turbulent Environment: How to Cope with Legal Uncertainty in Budget Negotiations?	
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Dipl.-Kffr. Susanne Vaudt	Start: 07/1996
	End: 06/2001

Objective: Germany's hospital sector is faced with an increased number of legal statutes as a consequence of the health sector reforms of 1993. Legal uncertainty is not only the result of the increase in the number of statutes but also due to the persistence of legal "gaps". Legal uncertainty translates itself into increased bureaucratisation for the hospitals, since complex and frequently undetermined government regulation has to be accounted for in the calculation of the (prospective) budget. In this atmosphere of legal uncertainty, budget negotiations between hospitals and insurance funds tend to fail more often. In 1995 and the following years, a growing number of budget negotiations ended before a "Schiedsstelle nach dem KHG", a special institution of 3rd party intervention present in each of the German states. The legally prescribed prospective determination of hospital budgets frequently seems to be impossible to achieve. Given the scope for interpretation inherent in the legal statutes, it shall be analysed whether the whole institutional arrangement for determining new hospital budgets is efficient or not.

Approach: The framework for the theoretical analysis is drawn from procedural justice approaches worked out by empirical social psychologists (i.e. THIBAUT/WALKER 1975; LIND/TYLER 1988). Since there are different forms of 3rd party intervention, namely with vs. without binding decision competence of the 3rd party, and two different types of conflicts (interest vs. legal), four research hypotheses have been developed. These hypotheses concern (1) the disputants perception of legal uncertainty, (2) its impacts on the type of conflict, (3) the institutional assessment of the "Schiedsstelle" as a type of 3rd party intervention and (4) the institutional change preferences of the different parties involved in the negotiation process. They are to be empirically tested using qualitative methods. Interviews with all subgroups (hospitals, health insurers, the board director of the "Schiedsstelle" and the Federal Ministry of Health) will be realised in the two federal states Rhineland-Palatinate and the Saarland.

Present State of Research: At present, the theory is being developed. The above hypotheses as well as the different questionnaires have been elaborated. Experts belonging to the above mentioned interest groups have already be interviewed. The first impression is that legal uncertainty is clearly recognised by the relevant actors. Nevertheless, most actors seem to be satisfied with the current institutional design of the "Schiedsstelle" and the negotiation processes. A reason for this might be that some kind of an hidden arbitration component was already incorporated in the negotiation processes. This component is still to be examined in more detail.

Time Schedule:

- 01/2000 - 06/2000: Development and realisation of the empirical interviews
- 07/2000 - 06/2001: Evaluation of the empirical data and writing of a preliminary report

Wage Compensation Mechanisms for Occupational Health and Safety: A New Approach	
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Sergi Vilà, MSc.	Start: 10/1996
	End: 09/2000

Objective: According to the predominant literature, in a perfect labour market the job hazard is fully compensated through a positive wage differential (ex-ante compensation) or through benefits after the occurrence of the hazard (ex-post compensation). The incomplete and asymmetric information on the hazard risk in favour of the employer can lead to a distortion of the compensatory mechanisms and influence the employer's decision on which level of investment in safety to provide.

Approach: My dissertation is structured in the following parts: a presentation and further discussion of the state of research, a theoretical model and conclusions. The project draws attention to some features observed in the individual decision-making under uncertainty and consider them as important elements to shed some light on how the market provides job safety and hazard compensation. Special stress is placed on the systematic optimistic bias of the belief of the risk, status quo bias and the human factor of the hazard risk. The analysis of such features in the economic as well as in the psychological literature will be discussed. Our modelling intends to conceive such features of the decision process under uncertainty and of the learning process in mathematical language and to adapt them within a Bayesian context. Mathematical results on the effects of such phenomena related to incomplete information will contribute to the analysis in our area of research. The basic model assumes a very simplified labour market with two agents, hazardous firm and worker. The information on the level of hazard risk is incomplete and the firm has a more precise perception of the hazard risk, which will be partly or fully determined through the level of investment in safety. The interaction between firm and worker runs three periods. At $t=0$ the firm offers a contract package, a wage level and a certain level of safety. The worker decides at $t=1$ whether to accept or reject the workplace. At $t=2$ the worker makes a further decision: whether quit or stay. At $t=2$ the contract comes to an end. The worker accepts the workplace only if the compensation suffices given some initial beliefs of risk. After the hazard has or has not occurred at $t=2$, the worker will accordingly revise his initials beliefs of risk in a Bayesian fashion. In the light of this updating of beliefs, the worker decides again whether to remain or not. Taking the results of this basic model as a starting point, new assumptions about the above-mentioned features of the decision and learning processes will be introduced.

Present State of Research: The relevant literature has already been analysed, and a first version of the basic model is in part completed.

Time Schedule:

- 01/2000 - 03/2000: Submission of the model
- 04/2000 - 09/2000: Submission of a first draft of the dissertation

List of Publications in 1999

Joachim Junkes

Labour Co-Determination and Corporate Governance in Germany: The Economic Impact of Marginal and Symbolic Rights. Institut für Arbeitsrecht und Arbeitsbeziehungen in der Europäischen Gemeinschaft 1999: Quint-Essenzen No. 60 (in collaboration with Sadowski and Lindenthal).

Mitbestimmung im Aufsichtsrat: Steigerung der Effizienz oder Ausdünnung von Verfügungsrechten? In: Frick, Bernd; Norbert Kluge; Wolfgang Streeck (eds.): Die wirtschaftlichen Folgen der Mitbestimmung: Expertenberichte für die Kommission Mitbestimmung der Bertelsmann-Stiftung und Hans-Böckler-Stiftung. Frankfurt/Main, New York: Campus 1999: 53-88 (in collaboration with Sadowski).

Technischer Fortschritt und Beschäftigungsentwicklung – Eine Möglichkeit der Nutzung von Mikrodaten aus der Industriebereichterstattung Rheinland-Pfalz unter Berücksichtigung der Geheimhaltungspflicht. In: Statistisches Bundesamt (ed.): Möglichkeiten einer wissenschaftlichen Nutzung von Unternehmensdaten aus der amtlichen Statistik. Series "Spektrum der Bundesstatistik", Volume 14. Wiesbaden: Metzler-Poeschel 1999: 45-54 (in collaboration with Sadowski).

Sabine Lindenthal

Labour Co-Determination and Corporate Governance in Germany: The Economic Impact of Marginal and Symbolic Rights. Institut für Arbeitsrecht und Arbeitsbeziehungen in der Europäischen Gemeinschaft 1999: Quint-Essenzen No. 60 (in collaboration with Sadowski and Junkes).

Kerstin Pull

Betriebliche Sozialpolitik und Maximierung des Shareholder Value: ein Widerspruch? – Eine empirische Analyse alternativer Erklärungsansätze. In: Zeitschrift für Betriebswirtschaft 69(1999): 51-70 (in collaboration with Backes-Gellner).

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56. Bernd Frick, Martin Schneider: Zunehmende Konfliktregulierung durch Arbeitsgerichte? Eine ökonomische Analyse der Häufigkeit von Kündigungsschutzprozessen, April 1999.
57. Kerstin Reden, Dieter Sadowski: Die Verrechtlichung von Arbeitsbeziehungen in Joint Ventures und ausländischen Tochterunternehmen in der Volksrepublik China – Ein Zwischenbericht, May 1999.
58. Kerstin Pull: What is the fair wage? – a model of As-if-co-operation, June 1999.

59. Kerstin Pull: Führt der internationale Standortwettbewerb zu einer Erosion sozialer Standards? – Einsichten aus der neuen Investitionstheorie, June 1999.
60. Dieter Sadowski, Joachim Junkes, Sabine Lindenthal: Labour Co-determination and Corporate Governance in Germany: The Economic Impact of Marginal and Symbolic Rights, November 1999.

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