

# The national business systems of germany and the uk



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## **Introduction**

Both Germany and the UK are members of the European Union (EU) and participate in harmonised European legislation, including employment law, as well as a common capitalist market economy. However, despite these commonalities, there remain significant differences in the national business systems of the two countries, particularly with reference to the employment relationship and industrial relations (Brewster and Mayrhofer, 2012). This can be appreciated by looking at the two countries, first Germany, and then at the UK, in order to compare and contrast the two systems.

## **Germany**

The German model of capitalism is different from that in the UK, it is referred to as a social form of capitalism, or 'sessile marthektwirtschaft' (Edey and Lintner, 1996). The history and corporate culture within Germany, and the development of the industrial structure, has been highly diverging, which has converged to create an industrial framework which is relatively tight, with close ties between the different stakeholders (Silvia, 2013). The relationship between the state, companies, and their various stakeholders, reflects the German approach towards capitalism, in which the systems should be regulated in a manner to produce socially acceptable outcomes (Edey and Lintner, 1996). The result has been a system where there is a high level of value placed on consensus, with the institutions that were created to embody the social values becoming self-reinforcing mechanisms that have continued to propagate the same social values (Silvia, 2013; Edey and Lintner, 1996). This system can be seen in the way that the relationship

between the firm and its various internal and external stakeholders has been manage.

The country has historically had consensus built into the way in which governance takes place, with two tier board systems utilised by large organisation (Dimsdale, 1994). The two tier system consists first of a supervisory board, referred to as an *aufsichtsrat* and then a management board, referred to as a *vorstand* (Dimsdale, 1994). Although practices have been in place since 1884, the current co-determination is the system now in place was originally determined at the end of the Second World War, and initially found in the West German coal and steel industries (Silvia, 2013). The Cooperative Management Law which was introduced in 1951, along with the workers committee law of 1952, was amended in 1976 and 1972 respectively, when the framework was extended, and applied to all firms in Germany that had more than 2000 employees (Silvia, 2013). The regulations require that just below half of the supervisory board members for each company worker representatives (Silvia, 2013). The members of the supervisory board are elected by the trade unions and the shareholders, and the chairman always has a casting vote, and is always a representative of the shareholders (Silvia, 2013).

The management board is elected by the supervisory board, with the management board given the responsibility for the day-to-day running of the firm (Silvia, 2013). It is a requirement that there is at least one representative of the employees on the management board (Silvia, 2013).

Employees on the boards, and a significant level in the supervisory board, results in a strong voice for the employees, and supports the German view of capitalism. In research by Dickmann (2003), a comparison as it was found that the different structure, impacted heavily on employee and management attitudes, and resulted in some significant differences when compared to the rest of Europe, and other international markets. Germany, it was found had a high level of bias towards long-term outcomes (Silvia, 2013). This is supported with Hofstede's cultural dimensions, where there is a high level of long-term orientation, given a score of 83, which is seen as indicating that it is a very pragmatic company, with a strong view of working for future benefits, rather than the adoption of short termism, that is present within many European, including UK, cultures (The Hofstede centre, 2015). This is seen in the planning horizon used by the supervisory boards, which is approximately twice as long as the planning horizon used by compatible companies in the UK (Silvia, 2013). This long-term approach is also seen in other areas of the employment relationship, such as the way in which employees tend to stay with employers for longer periods of time, and companies seek to provide more long-term benefits in order to retain employees (Silvia, 2013). It is also shared by stakeholders, where shareholders may be more willing to wait for long-term results to pay dividends in terms of the investment value, and creditors may also take a long-term approach in aiding businesses that face difficulties (Silvia, 2013).

In addition, the social concerns and voice also facilitate a higher level of cooperation. Therefore, the relationship between the unions and the employers tends to have a high level of cooperation when compared to other

countries (Silvia, 2013). A good example of this may be seen when BMW, a German company, acquired Rover, a UK company. The company BMW made many long-term promises regarding the security of jobs in the UK, but failed to understand the differences in the culture, and suffered as a result of the lower level of cooperation, and higher level of conflict that was present in the relationship between unions and management in the UK operations (IPA, 2003). The problems resulted in the failure of Rover, with the company only BMW only retaining the mini Cooper group. This demonstrates not only the differences between the two systems, but the way in which they may clash.

For this reason, a number of German companies have found it difficult to operate internationally without adapting their systems to facilitate a more liberal Anglo-Saxon model of operation (Brewster and Mayrhofer, 2012; Schmitt, 2003). Interestingly, it has been found that despite the high level of inward foreign direct investment into Germany by companies that have a less rigid approach to business, that the strong institutional culture in Germany appears to be remaining intact (McDonald, Tuselman, and Heise, 2003), rather than moving to a point of convergence where there is a hybrid result. Notably, even when German multinationals move outside of their own country, although they adapt to the more liberal approaches, the aspects of the perspective of the social relationship of remains in place, with employees frequently having a greater voice than is legally mandated (Gumbrell-McCormick, and Hyman, 2006). In addition, it has not been unusual historically for bankers whole places on the boards, to promote a long-term relationship between the lenders and the businesses, as well as have an influence on the way business is undertaken. However, this has been one

area that has changed in recent years, due to the aspect of conflicts of interest associated with lenders dealing with many firms (Silvia, 2013). This created the potential for accusations of insider dealing, and concerns of conflicting interests, especially during times of credit crisis.

## **The UK**

The UK operates under the Anglo-American model of capitalism, where external influences are generally resisted, whether they are from union influences, or from other stakeholders such as lenders or creditors (Hutton, 1996). The priorities within the UK system differ greatly, with a high level of individualism, and a lower level of institutional involvement in the day-to-day running of organisations.

An examination of the Anglo-American model demonstrates that the view of collectivism and employers is very different. For example, in the UK, the basis of employment law is founded on the assumption of the master and servant relationship (Lockton, 2008). The foundation of the relationship is based on compliance, and while there is employment law to ensure fair treatment of employees, the approach tends to be one that is reactive rather than proactive.

The Hofstede centre, which gives indications of the cultural dimensions for different countries, demonstrates a significant difference in the UK compared to Germany. For example, while long-term orientation in Germany gains a score of 83, in the UK it only gains a score of 51 (The Hofstede centre, 2015). This is also supported by the dimension of indulgence, which tends to be low in countries where there is a willingness to say for the future, and consider

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others, with a score of 44 Germany, but 69 for the UK is (The Hofstede Centre, 2015).

The approach towards the employment relationship and industrial relations in Germany was often characterised by the use of collective agreements, as seen with the proactive role of unions, and a high level of employee representation on boards (Hutton, 1996). This is not seen in the UK.

Individualism is much higher, with far fewer collective agreements in place compared to Germany, and more contracts negotiated on an individual basis (Buchanan and Huczynski, 2010). This is also seen in the cultural dimensions school for individualism, which is 67 is seen as relatively high for Germany, but is even higher in the UK, with a score of 89 (The Hofstede Centre, 2015).

The approach is reflective of a greater level of short-term thinking, with a greater emphasis placed by management on short-term results of the firms, and needs to meet stakeholder needs. As seen above with Silvia (2013), the planning horizon of Germans firm supervisory boards have been found to be approximately twice as long as UK boards. A short termist approach is likely to be influential not only of employment relations, but overall strategic approaches, and the way in which investments, including in employees, are perceived by management. This also impact on the way in which collectivism is perceived within UK businesses.

Different models of collectivism have been proposed by Edye and Lintner, (1996) where it was recognised that relationships between unions and types of cooperation or cooperative practices could manifest in different ways.

Whereas the German model appears to have a high level of alignment, the

relationship between the unions and employers in the UK has a higher level of conflict (Buchanan and Huczynski, 2010). The conflict in nature of this relationship may be seen in the 1970s, when there were many strikes under the Conservative government led by Margaret Thatcher, with Margaret Thatcher seeking to break the power of the unions. There was a general perception by many employers that unions had too much power, and were exercising it at the cost of business, economic progress, and profits (Edge and Lintner, 1996). Since the 1970s there has been a significant move away from any form of collectivism in the UK, with union membership continually dwindling, and while unions still have a role to play, their ability to exercise influence has declined significantly (Buchanan and Huczynski, 2010). Notably, unlike Germany, it is very unusual to find any union members on boards of British firms. The only exceptions are organisations such as Nissan, who have bought Japanese practices into the UK workplace, and have included employees on their board as a way of seeking to improve employment relations, and develop a higher level of cooperation in the workplace. However, overall, the model of cooperation tends to be viewed with a degree of suspicion, due to the long-term history of conflict and perception of non-aligned interests between employers and employees, and the fermentation of cooperative practices is only emerged in terms of requirement as a result of the implementation of EU law and the requirement for workers councils for certain employees.

## **Conclusion**

There are significant differences between the German and the Anglo-American business systems, the former embodying long-term approaches



with a high level of social concern, resulting in significant institutionalism that become self reinforcing in Germany. By comparison, the UK has a more liberal economy, with a greater emphasis on short-term results, and a higher level of importance placed on individualism. Importantly, UK companies have fewer compliance requirements in the context of employee voices in the workplace environment, and notably many of the existing legislative practices which are required to comply with EU law, have resulted from a requirement for harmonisation and implemented through the concept of subsidiarity. Both systems reflect the historical background of employment relationships within the country, and the way in which employees, have, or have not, be able to influence the employment relationship, and workplace practices.

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