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WORKING PAPER SERIES

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WP1 Management Consultancy in Europe (Out of Print)

Feb 95 *David Keeble and Joachim Schwalbach*

Reviews the growth, size distribution and market structure of management consultancy businesses in Europe, with a detailed case study of small management consultancy creation and dynamics in the UK.

WP2 Seedcorn or Chaff? Unemployment and Small Firm Performance

Feb 95 *Michael Kitson*

Analyses the impact of unemployment on the creation and growth of small and medium sized firms in Britain, and concludes that there is no difference in growth performance between firms established by unemployed and employed founders.

WP3 Employment in the United Kingdom: Trends and Prospects

Feb 95 *Ken Coutts and Bob Rowthorn*

An examination of recent trends in the UK labour market with particular reference to diversity and inequality resulting from unemployment and low-quality jobs. The paper also considers likely future trends and policy measures to improve job creation.

WP4 Enterprising Behaviour and the Urban-Rural Shift (limited availability)

Feb 95 *David Keeble and Peter Tyler*

Presents new survey evidence on the nature and causes of urban-rural differences in business creation and growth in Britain, and develops a theory of enterprising behaviour to explain the urban-rural shift of business activity.

WP5 Risk, Trust and Power: The Social Constitution of Supplier Relations in Britain and Germany (limited availability)

Feb 95 *Christel Lane and Reinhard Bachmann*

Analyses the concepts of trust, risk and power in inter-firm relationships, and reports empirical research in Britain and Germany on trust-based relations between buyer and supplier firms in selected manufacturing industries.

WP6 Growth-oriented SMEs in Unfavourable Regional Environments

Feb 95 *Peter Vaessen and David Keeble*

An investigation of business performance, innovation, competition, R&D, and labour force characteristics in small and medium sized enterprises in "unfavourable" regional environments of northern Britain, relative to firms in south-east England, based on analysis of the Cambridge SBRC national SME survey.

WP7 Capital Formation and Unemployment

May 95 *Robert Rowthorn*

Examines the relationship between capital stock and investment, on the one hand, and employment and unemployment, on the other, both theoretically and using empirical evidence for OECD countries. It argues that low capital investment, especially in manufacturing, has been a significant factor in the rise of unemployment in Europe.

WP8 On the Size Distribution of Establishments of Large Enterprises: An Analysis for UK Manufacturing

95 *Paul Kattuman*

Uses a maximum entropy method to derive a null hypothesis on the nature of the intra-enterprise, establishment size distribution for large UK manufacturing enterprises, in aggregate and by two-digit sector, and shows that the degree of concentration of this size distribution determines the variance of the distribution of growth rates of the enterprise.

WP9 A Simulation Model of North-South Trade

May 95 *Robert Rowthorn*

Uses a three-sector, two-labour-category general equilibrium simulation model of North-South trade to explore relationships between production, trade and employment in more developed and less developed economies. Results have significant implications for understanding North-South trends in skilled and unskilled employment and wages.

WP10 Contracts, Cooperation and Trust: The Role of the Institutional Framework (Out of Print)

Sep 95 *Simon Deakin and Frank Wilkinson*

Examines the nature of contractual cooperation between firms in vertical supply chains, and argues that institutional mechanisms which foster 'trust' between firms, including arrangements commonly condemned as collusive or restrictive, may in fact have important efficiency enhancing effects.

WP11 Korea at the Cross-Roads

Sep 95 *Robert Rowthorn*

Reviews key processes of Korean economic change such as agricultural employment decline, rising wage costs, and growth of overseas investment by major firms, and examines the industrial policy options confronting the Korean economy in the 1990s.

WP12 Manufacturing, the Balance of Payments and Capacity

Sep 95 *Andy Cosh, Ken Coutts and Alan Hughes*

Argues that the restoration of full employment in Britain requires a sustained improvement in manufacturing capacity and output, and quantifies the levels of manufacturing investment, output growth and net exports needed if unemployment is to be reduced without persistent external deficits.

WP13 The Role of Manufacturing in the National Economy

Sep 95 *Robert Rowthorn*

A major review of global manufacturing and structural economic change, focusing on changing trade relations between advanced and developing countries. Argues that a new international division of labour is emerging between 'knowledge-intensive' and 'labour-intensive' production of goods and services, and examines the problems, causes and policy implications of poor manufacturing performance and rising unemployment in advanced countries.

WP14 Britain's Industrial Performance since 1960: Underinvestment and Relative Decline

Sep 95 *Michael Kitson and Jonathan Michie*

Argues that Britain's poor industrial performance, deindustrialisation and relative economic decline has continued since 1980 notwithstanding government policies, and that the key problem is underinvestment by manufacturing industry.

WP15 The Competitive Selection of Democratic Firms in a World of Self-Sustaining Institutions

Sep 95 *Ugo Pagano and Robert Rowthorn*

Uses a simple mathematical model to explore the relationship between property rights and technology. The paper argues that causation flows in both directions, showing how this could explain the persistence of inefficient productive arrangements. Parallels are drawn with the biological theory of speciation.

WP16 Tacit Knowledge and Technology Transfer

Sep 95 *Jeremy Howells*

Outlines the key parameters and traits of knowledge and analyses the way tacit know-how is acquired and transferred within and between firms, before concluding with an investigation of the policy implications of tacit knowledge for technology transfer programmes.

WP17 Economic Growth as an Evolutionary Process

Sep 95 *Matthias Kelm*

This paper derives a coherent evolutionary theory of economic growth from the basic assumptions of genuine uncertainty and bounded rationality. The theory developed here attempts to improve on previous theories of economic evolution by distinguishing more precisely between the various evolutionary forces driving the growth process.

WP18 Failures, Acquisitions and Post Merger Success: The Comparative Financial Characteristics of Large and Small Companies

Sep 95 *Andy Cosh and Alan Hughes*

This paper analyses the financial characteristics of acquired, failed and surviving firms in the whole UK company sector and draws conclusions about the nature of the 'natural' selection process in that sector.

WP19 Executive Remuneration, Executive Dismissal and Institutional Shareholdings

Sep 95 *Andy Cosh and Alan Hughes*

This paper shows that in the UK electrical engineering industry the likelihood of executive dismissal declines with company size and rises with poor performance. Pay is positively related to both size and shareholder returns with the former more significant. The presence or absence of institutions as major shareholders makes little difference to the direction or strength of these links.

WP20 Communities of Competitors: Open Price Associations and the American State, 1911-1929

Nov 95 *Gerald Berk*

Examines successful US efforts to 'regulate competition' in the 1920s, via open price associations and Federal Trade Commission experiments in trade practice conferences. Business associations helped generate cooperation and were more successful than is commonly thought.

WP21 Vertical Inter-Firm Relations in Britain and Germany: The Role of Trade Associations and Legal Regulation

Dec 95 *Christel Lane and Reinhard Bachmann*

Assesses how industry associations and legal regulations affect inter-firm trust and power relations in Britain and Germany, and shows that the radically different institutional environments in these countries lead to significant differences in the nature and quality of inter-firm coordination.

WP22 Economics, Ethics and Unfair Competition

Dec 95 *Ian Jones and Michael Pollitt*

Considers the nature of unfair competition between firms in terms of vertical and horizontal relationships, and relations with customers. The paper develops concepts of fairness based on biblical principles, and discusses case studies of Hewlett Packard, the UK clothing industry, ServiceMaster, UK mortgages, United Biscuits and the BA 'Dirty Tricks' campaign.

WP23 Business Services, the Management of Change and Regional Development in the UK: A Corporate Client Perspective

Dec 95 *Peter Wood*

Reviews the recent rapid growth in use of strategic management consultancies by large UK corporations, in relation to clients' inhouse management capabilities, the reasons for employment of different types of consultancy such as small and large firms, and the focusing of consultancy functions in southern England.

WP24 Joint Ventures and Economic Reform in China: A Case Study of the Coca-Cola Business System, with Particular Reference to the Tianjin Coca-Cola Plant

Dec 95 *Peter Nolan*

This first in-depth case study of a single Coca-Cola plant analyses the impact of the growth of the Tianjin bottling plant, China, on capital markets, including profits, plant size distribution and firm structure, on supplier networks, and on direct and indirect labour market employment effects.

WP25 Financing the Industrial Cooperatives of the Mondragon Group (limited availability)

Mar 96 *Melissa Moya*

Analyses the effects of and recent changes in, the system of cooperative credit and financing developed by the Mondragon industrial cooperatives of the Basque region of Spain. Cooperative credit provided by the Caja Laboral has reduced risk and facilitated external management intervention, but external pressures are now reducing its effectiveness.

WP26 Why do Firms Grow?

Mar 96 *Fabrizio Traù*

Reviews the wide range of non-neoclassical theoretical approaches which have been developed to understand the growth of firms. It stresses the need for theory to analyse the internal functioning of complex organisations, deals with both supply and demand issues, and reviews the role played by technological, financial and organisational determinants of growth, as well as entrepreneurial motivation.

WP27 The European Dynamics of Computer Services

Mar 96 *Jeremy Howells*

This paper examines the dynamics of the rapidly growing European computer services industry, focusing especially on key technological and industrial changes affecting its recent development, organisation and locational evolution. It also considers the changing policy context for computer services within the European Union.

WP28 The Remarkable Resilience of the Industrial Districts of Tuscany (limited availability)

96 *Gabbi Dei Ottati*

Analyses the different ways - product diversification and innovation, quality upgrading, commercial specialisation - in which small firms in the industrial districts of Tuscany, Italy, have been successfully restructuring their activities in the face of intensified competition, with consequent changes in internal and external divisions of labour. The growth of 'enterprise groups' and collective action has been essential to this successful adaptation.

WP29 Insurance Markets and Long-Run Equilibrium with Systemic Risks: The Case of the US Federal Crop Insurance Programme

Mar 96 *John Duncan*

This study considers the effects of systemic risks on the current US federal programme to deliver crop insurance through reinsurance, on the basis of a definition of competitive equilibrium as a function of reservation preference levels for firm entry and exit. High systemic risks may render reinsurance schemes unrealistic.

WP30 Takeovers, Institutional Investment and the Persistence of Profits

Mar 96 *Andy Cosh, Alan Hughes, Kevin Lee and Ajit Singh*

Examines via econometric analysis of UK company data the inter-relationship between the shareownership characteristics of companies, their takeover activity and the impact upon them of competitive forces affecting the persistence of profits, paying particular attention to the role of institutions as shareholders and their impact upon the outcome of the merger/takeover process.

WP31 Common Supply, Collusion and Entry Deterrence

Mar 96 *Robert Evans*

This paper analyses a model in which two upstream firms compete to offer price contracts to two downstream firms, demonstrating that different equilibrium outcomes may be achieved depending on the presence or absence of first-mover advantages.

WP32 Semi-Parametric Estimation of the Company Growth-Size Relation

Mar 96 *Andy Cosh, Alan Hughes, Hyeheon Lee and Stephen Pudney*

Illustrates the potential of semi-parametric estimators for analysing the relationship between firm growth, mortality and size, with the analysis conditioned by age and industry dummies. These estimators suggest a quite serious misspecification of conventional firm mortality probit models, and yield a significantly different estimate of the joint mortality/growth distribution conditional on initial size, age and industry.

WP33 An Economic System of Technology-Related Acquisitions and Spin-Offs Aug 96 *Åsa Lindholm* Proposes an 'extended systems approach' based on Swedish empirical research and Williamson's 'systems solution by classical specialisation' for understanding how small technology-based firm spin-offs from an acquisitions by larger firms can be conducive to overall national innovativeness and growth.

WP34 Schumpeter's Theory of Economic Evolution: A Darwinian Interpretation Aug

96 *Matthias Kelm*

Argues that Schumpeter's theory of economic evolution is still highly relevant to evolutionary economics, because it sheds light on the usefulness of Darwinian theory for economics, on the precise nature of evolutionary forces at work in economic systems, and on the relationship between evolutionary theory and equilibrium analysis.

WP35 Trust, Business Relationships and The Contractual Environment

Aug 96 *Frank Wilkinson and Brendan Burchell*

Examines the nature of trust between businesses in relation to social norms and legal systems, and analyses and compares business managers' perceptions of the role of trust in their trading environments, their strategies to foster trust, and their reactions to the breakdown of trust, in samples of firms in Britain, Germany and Italy.

WP36 Contract Law, Social Norms and Inter-Firm Cooperation

Aug 96 *Alessandro Arrighetti, Reinhard Bachmann and Simon Deakin*

Analyses the influence of the institutional framework, in terms of contract law and less formal social norms, on inter-firm relationships and cooperation, using evidence from a two-sector, three-country (Britain, Germany, Italy) survey of contracting practice by businesses.

WP37 The Fiscal and Distributional Implications of Job Generation

Sep 96 *Jonathan Michie, Michael Kitson and Holly Sutherland*

Estimates the costs of a public investment-led job creation programme for the UK, and concludes that the net cost to the Treasury of creating an additional one million jobs would be far less (£7 billion) than the gross cost (£17 billion). Partial restoration of progressive taxation, to help pay for this, would thus enable improved living standards for many households.

WP38 Unemployment, Wage Bargaining and Capital-Labour Substitution

Sep 96 *Robert Rowthorn*

The widely-held view that capital accumulation, technical progress and labour force expansion have no long-run effect on unemployment rests on the empirically doubtful assumption that the elasticity of substitution between labour and capital is equal to unity. The paper uses a simple mathematical model based on the work of Layard, Nickell and Jackman to show that the equilibrium unemployment rate may in fact be affected by all these factors, with consequent major implications for understanding recent economic history and for current employment and investment policy.

WP39 The Role of Technical Standards in the Social Regulation of Supplier Relations in Britain and Germany Sep

96 *Christel Lane*

Analyses differences in institutionalised rule systems, particularly of technical standards, in Britain and Germany and their impact on business supplier relations. It shows that a higher degree of stability and consistency in the social regulatory framework in Germany than in Britain leads to more consensual and predictable relations between firms, encouraging more long-term and closer technical collaboration.

WP40 The Economic Consequences of Innovations in Italian Manufacturing Firms: Theory and Results from the Community Innovation Survey

Sep 96 *Sergio Cesaratto and Antonella Stirati*

Reviews different approaches to analysing the macro-economic impact of innovations introduced at the individual firm level, and investigates the economic performance during the early 1990s of six thousand Italian innovating manufacturing firms participating in the ECs Innovation Survey. The results underline the promising performance of small firms, and the importance of innovation for firm exports.

WP41 Competition and Competitive Advantage

Sep 96 *Jonathan Michie and Renee Prendergast*

Reviews and criticises on theoretical grounds the view that government intervention and industrial policy to overcome market failure is rarely justified, with particular reference to issues of competition, industrial change, technology and innovation, and competitive advantage in production.

WP42 Small Firms, Innovation and Regional Development in Britain in the 1990s (Out of Print) Sep

96 *David Keeble*

Analyses regional variations in Britain in growth, innovativeness, competitive environments and collaborative activity of small and medium-sized manufacturing and business service enterprises during the 1990s. South East firms generated more original innovations and grew faster than peripheral region firms, as well as experiencing greater competition and reporting more frequent collaboration.

WP43 Economic Functioning, Self Sufficiency and Full Employment

Sep 96 *Roger Tarling and Frank Wilkinson*

Sustainable full employment requires individual self-sufficiency which depends on social and economic equality. Keynesian and welfare state policies promoted equality, but monetarist economic policy and labour market deregulation reversed this tendency. The paper argues that this has resulted in major labour market and social problems in Britain, and that economic re-education is necessary for economic and social regeneration.

WP44 Slow Convergence? Post-Neoclassical Endogenous Growth Theory and Regional Development Dec

96 *Ron Martin and Peter Sunley*

Reviews recent research on long-run regional convergence in per capita incomes and output in advanced countries, and the extent to which this may be explained by endogenous growth theory, with its focus on key industrial inputs such as technological change and human capital. Advocates an exchange of ideas between endogenous growth theorists and economic geographers concerned with 'indigenous' regional development processes.

WP45 Inflation, Economic Performance and Employment Rights

Dec 96 *Simon Deakin and Keith Ewing*

Considers recent trends in collective bargaining in Britain and other European Union countries, and argues that multi-employer bargaining can play an important role in reducing inflationary pressures, encouraging labour-management cooperation, and promoting social cohesion. Reconstruction of collective bargaining in Britain would require restoration of dialogue and negotiation at sector level.

WP46 Evolutionary and 'New' Institutional Economics: Some Implications for Industrial Policy

Dec 96 *Matthias Kelm*

Explores the potential of evolutionary and new institutional economics for an enhanced understanding of how industrial policy may promote economic growth, and discusses constraints of bounded rationality and uncertainty, the evolutionary forces driving economic growth, the inherent inefficiencies of economic evolution, the role of institutions and organisations as co-ordination mechanisms, and the problem of selective intervention.

WP47 Acquisition and Growth of Technology-Based Firms

Dec 96 *Asa Lindholm*

Reports empirical findings on the acquisition and growth of small technology-based firms in Sweden, with particular reference to the role of large Swedish companies, growth patterns of acquired and non-acquired STBFs, and factors explaining STBF growth. STBFs are increasingly important for the sourcing of technology among large firms, while acquired STBFs recorded higher growth both before and after acquisition. Acquisition also positively influenced growth, with technological synergies being important.

WP48 Innovation in UK SMEs: Causes and the Consequences for Firm Failure and Acquisition

Dec 96 *Andy Cosh, Alan Hughes and Eric Wood*

Using a specially-constructed panel database of UK firms, the paper analyses the links between business innovation, survival and selected aspects of business performance in terms of a Downie-type model. The latter postulates that innovativeness is a key determinant of subsequent performance, but also that performance may influence subsequent innovativeness. Innovation is shown significantly to reduce the probability of firm failure, and to increase the probability of firm acquisition.

WP49 The Changing Anatomy of Corporate Control and the Market for Executives in the UK Dec 96 *Andy Cosh and Alan Hughes*

Examines changes in the pattern of CEO and Executive Directors' pay and the extent of non-executives' and financial institution involvement in the governance structure of giant UK companies over the period 1980-1996. It demonstrates that corporate boards, especially at CEO level, remain dominated by 'insider' directors who have spent most of their careers with the same firm. Yet there has also been a marked widening of the pay differential between CEOs and other directors.

WP50 Downsizing Company Strategies and Executive Pay in Germany

Mar 97 *Joachim Schwalbach and Ulrike Grasshoff*

Based on multi-task theoretical considerations, the paper shows that for German industrial firms, pay-for-firm-size elasticities decrease only for large firms as they change their strategy from growth to downsizing. Pay-for-performance elasticities are also contrary to agency theory predictions. Compensation contracts in large corporations do not therefore appear to be incentive compatible.

WP51 Industrial Structure and Training Needs in the Knitwear and Clothing Sectors in Italy (limited availability)

Mar 97 *Sebastiano Brusco and Daniela Bigarelli*

Reports survey results from a sample of 6,000 knitwear and clothing firms in nine Italian regions which reveal the existence of two distinctive principal models of regional productive systems. These are the 'Tuscany' model, of non-integrated small 'final' firms, and the 'Veneto' model of integrated medium-sized and larger 'final' firms which outsource to subcontractors. Elsewhere there are a great variety of intermediate regional systems, with differing training needs.

WP52 Technological Competitiveness in an International Arena

Mar 97 *Jeremy Howells and Jonathan Michie*

Discusses the nature, extent and significance for national government policy of the globalisation of technology via multinational firms, with particular examples from UK experience. The paper documents the need for technological competitiveness and assesses the key ingredients of national government policy to promote such competitiveness.

WP53 Internationalisation Processes, Networking and Local Embeddedness in Technology-Intensive Small Firms

Mar 97 *David Keeble, Clive Lawson, Helen Lawton Smith, Barry Moore and Frank Wilkinson*

Demonstrates from an interview survey of 100 technology-intensive SMEs in the Cambridge and Oxford regions that such firms are characterised by exceptionally high levels of international sales, research collaboration, labour recruitment, and ownership and facilities location. Identifies significant differences between more 'internationalist' and more 'nationalist' SMEs, and shows that far from reducing local linkages, internationalisation appears to be embedded in successful local research and technology collaboration.

WP54 Territorial Clustering and High Technology Innovation: From Industrial Districts to Innovative Milieux

Mar 97 *Clive Lawson*

Reviews recent attempts to conceptualise and investigate the relationship between geographical proximity and innovative firm behaviour. Special attention is given to the 'industrial district' and 'innovative milieu' literatures, which are used to illustrate areas of consensus, underlying trends in thought and issues in need of investigation.

WP55 Retail Distribution Channel Barriers to International Trade

Jun 97 *F.M. Scherer*

Recent international trade disputes highlight the frequent existence of retail trade barriers, such as those allegedly restricting US automobile and colour film manufacturers' attempts to sell to the Japanese market. This paper examines how manufacturers' distribution channels evolve over time, how international trade may be inhibited by retail-level barriers in the early stages of evolution, and how such vertical barriers to trade can be overcome.

WP56 Hostile Takeovers, Corporate Law and the Theory of the Firm

Jun 97 *Simon Deakin and Giles Slinger*

Assesses the impact of the regulatory system governing takeovers in the UK and considers the relevance of economic theory for the design of corporate law and governance systems. The paper argues that the UK institutional framework discourages defences against takeover bids and protects the interests of target shareholders above those of other stakeholders. In the absence of compelling evidence that hostile takeovers improve long-run performance, it questions whether maximising shareholder value in this way is compatible with maintaining an efficient corporate sector.

WP57 Replicating the Experience of the New Industrialising Economies on a Large Scale

Jun 97 *Robert Rowthorn*

Examines whether developing countries can follow the same pattern of labour-intensive export-led manufacturing growth as the first tier of Newly-Industrializing Economies (NIEs), such as Hong Kong, Korea or Taiwan. It demonstrates that despite potential for clothing exports, neither this approach, nor that of transnational direct investment as followed by Malaysia, is a viable path for most developing countries. It concludes by considering the policy implications for these countries in terms of trade and foreign direct investment.

WP58 Divisions of Labour, Power Asymmetries and Place Dependence: The Restructuring of Industrial Mittelstand Firms in the Ruhr Area

Jun 97 *Christian Berndt*

In recent years, German business representatives have begun to question the sustainability of the 'German model' of business organisation and competitiveness in the light of increasing international integration. This paper questions the validity of such 'globalisation rhetoric' by analysing recent restructuring strategies of small and medium-sized manufacturing (Mittelstand) firms in the Ruhr region. It argues that the adjustment strategies revealed by these SMEs are far too complex to be encompassed by this rhetoric, and that embeddedness in different institutional contexts and asymmetric power relations with large firms play a more major role.

WP59 Entrepreneurship, Geographic Spillovers and University Research: A Spatial Econometric Approach (limited availability)

Jun 97 *Zoltan Acs, Luc Anselin and Attila Varga*

The paper investigates the extent of local geographic spillovers from university research in influencing innovative activity by small high technology enterprises in the USA, using Small Business Administration innovation data for 125 metropolitan regions and four high technology sectors (drugs and chemicals, machinery, electronics and instruments). Using multivariate spatial econometric models to implement the Griliches-Jaffe knowledge production framework, it demonstrates positive and significant relationships, extending over a range of 75 miles, with particularly strong impacts for small firm innovation in electronics and instruments.

WP60 Innovation and Performance of SMEs in Italy: The Relevance of Spatial Aspects

Jun 97 *Roberto Camagni and Roberta Cappello*

Critically reviews the role of small and medium-sized manufacturing enterprises in recent regional innovation, employment and industrial productivity trends in Italy, against a background of earlier 1970s patterns focused on the success of small firms in the 'Third Italy' of the north-east and centre (NEC). Its analysis reveals significant changes, with recent small firm innovation and productivity growth being spatially variable, with a divergence between the North West/North East and Centre/South NEC regions and four demonstrably different regional innovative profiles. The paper concludes that territorial specificities and spatial milieux play a key role in these new regional SME innovation differences.

WP61 The Impact of European Economic Integration on Business Associations: The UK Case Jun

97 *Robert Bennett*

Reports new and comprehensive survey research which assesses the routes and activities used by UK business, trade and professional associations in gathering and exchanging information with, and seeking to influence, European Union institutions. It demonstrates that the most important routes are national, using UK ministers, officials and agencies, through membership of European-wide associations, and through a "Brussels Strategy" of direct lobbying. Association size, resources and sectoral circumstances are important influences on individual European strategies.

WP62 Business Service Firms, Service Space and the Management of Change

Jun 97 *John Bryson*

Reviews the growth of business service firms and their relationships with clients in the UK, with particular reference to small and medium sized firms and the marked spatial concentration of business services in the 'service space' of London and South East England. It presents a detailed case study of the way in which large client firms use small business service companies, and argues that a dual information economy may be developing in which large firms can access specialised business service advice irrespective of their location, whereas SMEs are tied to local providers of more generalist expertise.

WP63 The Wage Costs of a National Statutory Minimum Wage in Britain

Sep 97 *Paul Robson, Shirley Dex and Frank Wilkinson*

The paper uses quarterly Labour Force Survey data to estimate the number of workers likely to be affected by introducing a Statutory Minimum Wage (SMW) in Britain, and the first round increase in direct labour costs which would result. It indicates that there would be large variations in the impact on different sectors and occupations, as well by level of SMW, of which policy needs to be aware.

WP64 Needs and Wants: The Case of Broadcasting Policy

Sep 97 *Stephen Pratten*

This paper identifies two broad perspectives on broadcasting policy. It is argued that an increasingly influential wants-based position ultimately draws upon an impoverished social ontology which is unable to sustain the distinction between wants and underlying needs. It is further argued that the previously dominant beyond-wants perspective on broadcasting policy failed to elaborate its contrasting presuppositions sufficiently. It is suggested that by drawing upon a perspective developed within economics under the heading of *critical realism* which explicitly theorises the distinction between expressed wants and underlying needs, it is possible to provide a more adequate outline of the presuppositions of a beyond-wants perspective.

WP65 Inter-Firm Links Between Regionally Clustered High-Technology SMEs: A Comparison of Cambridge and Oxford Innovation Networks

Sep 97 *Clive Lawson, Barry Moore, David Keeble, Helen Lawton Smith and Frank Wilkinson*

Focuses upon the nature and extent of inter-firm linkages in two prominent high-technology regions in the UK, namely Cambridge and Oxford, utilising both direct measures of the importance of various types of linkages to the firms involved as well as less direct 'indicators' of the existence of local networking, such as the nature of informal interaction and of local labour market mobility.

WP66 Expenditure, Outcome and Nature of Innovation in Italy

Sep 97 *Daniele Archibugi, Rinaldo Evangelista, Giulio Perani and Fabio Rapiti*

The paper analyses responses to the second Italian Innovation Survey by 22,000 manufacturing firms, in terms of the number and frequency of innovating firms by sector and size, expenditures on innovation, and the quantity and quality of innovation outputs. It reveals that the most important innovation expenditures are on new machinery and R&D, that there are major sectoral variations, and that small firms innovate much less frequently than large firms: unchanged products account for 62% of sales, only 1.2% being of entirely new products.

WP67 Technological Convergence, Globalisation and Ownership in the UK Computer Industry

Sep 97 *Suma Athreye and David Keeble*

Using an original database of UK computer firm ownership patterns by sector and nationality, the paper finds weak support for the role of technological convergence between the computing, media and telecommunications industries in influencing corporate ownership, but marked differences in foreign ownership and nationality patterns between computer manufacturing and software/services. A particular feature of UK computer subsidiary parents is the importance of (financial) holding companies.

WP68 Unemployment Flow Regimes and Regional Unemployment Disparities

Sep 97 *Ron Martin and Peter Sunley*

Unlike most previous research which examines unemployment stocks, this paper analyses regional unemployment flow regimes in the 1980s and 1990s in Britain, and identifies markedly different inflow and outflow patterns for different regions, especially in the 1980s. In the 1990s, however, differences have narrowed, while there have been distinct 'switches' in regional regimes. These findings are related to debates over the north-south divide, development of a US-style labour market, and the impact of the changing benefit system.

WP69 'Barriers' to Technology Transfer: Local Impediments in Oxfordshire

Sep 97 *Helen Lawton Smith*

Analyses linkage patterns in Oxfordshire between a sample of high-technology firms and local universities and national research laboratories with a view to identifying local impediments to technology transfer. Two kinds of impediments are identified, namely 'obstructions' arising from the failure of mechanisms designed to create networks within the national and local innovation systems, and 'barriers' which are the weak links within the innovation process in general.

WP70 Leveraging Resources Under Threat of Opportunism: Predicting Networking in International Growth

Sep 97 *Erkko Autio, Helena Yli-Renko and Harry Sapienza*

A study of the intensity of networking in the international growth of new technology-based firms in Finland. Drawing on both the resource-based (or knowledge-based) and contractual views of the firm, the paper tests a set of hypotheses about the determinants of international networking with data from 86 companies. Mixed support for the model is found. Pointers for future research are discussed.

WP71 Small Firms and Employment

Sep 97 *Alan Hughes*

A review of recent research on job generation and growth by UK SMEs. Only a handful of SMEs expand employment consistently or rapidly, and only 55% of new VAT registered firms survive more than three years. Growth of micro firms is generally associated with unstable and poorly paid jobs, offering little training. Growing SMEs are more likely to be those introducing product or process innovations, and have developed collaborative networks. Policy needs to encourage middle range SMEs with the capacity for management development, innovation and higher quality employment.

WP72 SME Innovator Types and their Determinants (limited availability)

Sep 97 *Eric Wood*

The distinction between innovating and non-innovating firms masks important differences within the group of innovating firms. Different types of SME innovator are identified on the basis of indicators of their innovation "outputs". These groups are then compared in terms of their use of a variety of "inputs" to innovation. Differences between novel and non-novel innovators are highlighted, though these are dwarfed by differences between innovators and non-innovators. An earlier version of this paper was presented at the conference on "Innovation, Cooperation and Growth" on 4 June 1997 at Robinson College, Cambridge. **WP73**

Innovation in the Service Sector: Results from the Italian Statistical Survey

Dec 97 *Rinaldo Evangelista and Giorgio Sirilli*

Analyses new empirical survey evidence on the nature, determinants and economic impact of technological innovation in service firms in Italy. Over one-third of service firms surveyed introduced innovations 1993-95, but with wide sectoral differences. Software acquisition and development and investment in machinery were the most frequent innovation sources. The importance of technology for firm performance is expected to increase in all service sectors. The paper also highlights major similarities and differences in service firm innovation behaviour compared with manufacturing firms

WP74 Parenting and Labour Force Participation: The Case for a Ministry of the Family

Dec 97 Shirley Dex and Robert Rowthorn

Examines the economic issues implicit in current debates over the way families balance their labour force participation and family and caring responsibilities. It criticises partial views which have tended to focus on women's employment without considering wider impacts on children and the role of men. Public interests are involved in the rearing and welfare of children, and business interests in the renewal and quality of the labour force. The paper argues that from a wider perspective, many claims about economic benefits and subsidised pre-school day care and education lack economic foundation, and that government policy needs to adopt a more integrated approach to these issues.

WP75 The Policy Implications of the Globalisation of Innovation

Dec 97 Daniele Archibugi and Simona Iammarino

The paper develops a taxonomy of the globalisation of innovation based on three categories. These are the international exploitation of technology produced on a national basis, the global generation of innovations, and global technological collaboration. The paper analyses the different impact each of the three categories might have on the innovative performance of countries and regions, with the aim of defining the implications for national policies. Such policies play a different role in each of the three processes of the globalisation of innovation, and are more rather than less necessary as globalisation intensifies.

WP76 Industrial Concentration Under Shock Therapy: Poland in Early Transition Years

Dec 97 Paul Kattuman and Ryszard Domański

Economic reforms in Poland have attempted to engender a competitive market economy. These reforms envisaged deconcentration, restructuring and privatisation of state enterprises. Together with private firm entry and growth, a competitive market structure was expected to evolve. However, empirical analysis of Polish data on firm size structures during the early 1990s reveals that concentration increased, not decreased, in several sectors and markets. A recurrent feature appears to be 'premature' exits and severe contraction of some large state enterprises before new private firms had grown large enough to challenge remaining incumbents.

WP77 Foreign Direct Investment in the UK 1985-1994: The Impact on Domestic Management Practice

Dec 97 John Child, David Faulkner and Robert Pitkethly

Reports original survey results on management structures and changes following acquisition in four groups of foreign-owned - French, German, Japanese and US - subsidiaries operating in the UK, compared with a control group of acquired UK-owned subsidiaries. Acquisition generally led to significant changes in management practice, such as performance related rewards and stronger quality emphasis, in all groups. But in addition, there was significant evidence of distinct nationality effects, which generally conformed to accepted characterizations of national management practice in the case of Japanese and US parents, but less so for French and German acquisitions.

WP78 The Theory and Practice of Contracting

Dec 97 Simon Deakin and Jonathan Michie

Explores possibilities for theoretical synthesis in the study of contracts and reviews recent empirical research on contract process in both the public and private sectors. It argues for an interdisciplinary approach in which insights from organisation theory and social systems theory are integrated with those of transaction cost economics. Such an approach might prove particularly valuable for the study of inter-organisational relations and trust. From this perspective, case-studies, institutional histories and legalconceptual analyses may all be used to advance the understanding of current changes in economic organisation.

WP79 Cooperation and Trust in Inter-Firm Relations: Beyond Competition Policy?

Dec 97 Simon Deakin, Tom Goodwin and Alan Hughes

Considers the implications for competition law and policy of evidence that cooperation between firms is an important element in product innovation and firm competitive success. It analyses the treatment of vertical inter-firm relations in US, British and European Community competition law. Notwithstanding growing flexibility in the treatment of vertical contracts, competition authorities continue to treat arms-length relations as a first-best option. The paper argues that without abandoning mechanisms for tackling abuse of economic power, competition policy should more clearly recognise the importance of firm cooperation for both static and dynamic efficiency.

WP80 Inter-Firm Cooperation, Competition Law and Patent Licensing: A US-EC Comparison

Dec 97 Alan Gutterman

This paper compares US and European Community approaches to resolving the potential tension between competition law, which seeks to promote competition, and patent law, which protects patent holders from competition in order to foster innovation. It shows that in the area of patent licensing agreements, there is growing recognition by competition authorities in both systems that inter-firm cooperation is important for innovation. However, EC practice in this respect has not been liberalised to the extent envisaged for the US by the Department of Justice's 1995 Intellectual Property Guidelines.

WP81 Towards a Competence Theory of the Region

Dec 97 *Clive Lawson*

This paper argues that there are good grounds for extending the competence theory of the firm, or more generally the competence perspective, to analysis of the region - where the region is understood as a geographically defined productive system. The relevance of the perspective to regional study follows from the characterisation of both regions and firms as ensembles of competences, where these competences are best understood as emergent features of social interaction.

WP82 Opportunism and the Advantage of Organisations

Mar 98 *Matthias Kelm*

Analyses and attempts to refute Williamson's argument that any theory of economic organisation necessarily has to rely on the behavioural assumption of opportunism, because bounded rationality alone allegedly does not imply any advantage of authority compared to market contracting. It shows that the behavioural implications of bounded rationality are sufficient to derive an inherent advantage of authority, and therefore internal organisation, as a co-ordination mechanism, and argues that Williamson's argument to the contrary is logically flawed.

WP83 On Markets in Knowledge

Mar 98 *Suma Athreya*

Examines the conditions necessary for the emergence of specialised markets in technological knowledge, namely alienation of knowledge from its context allowing it to become a commoditisable product, and establishment of a reasonable volume of exchange transactions in that knowledge, in turn requiring cross sectoral application and horizontal integration. The paper also assesses the roles of technological convergences and institutional structure in this process.

WP84 Markets, Competition and Innovation

Mar 98 *Michael Kitson and Jonathan Michie*

Considers the role of innovation and collaboration in firm competitiveness, using empirical evidence from CBR surveys of small and medium-sized enterprises in Britain. The paper demonstrates that most SMEs report relatively few customers and competitors and complete primarily on non-price criteria. It argues that collaboration is of great importance in fostering innovation and effective competition in international markets.

WP85 Co-operation, the Organisation of Work and Competitiveness

Mar 98 *Frank Wilkinson*

The paper argues that firm operational and dynamic efficiency depends on co-operative production relationships. The incentives structure required to overcome rivalry in distribution and encourage firm co-operation is illustrated by a simple model. The competitive weakness of low-trust Anglo-American production systems is contrasted with the strength of high-trust, co-operative productive systems in Germany and elsewhere. These demonstrate the importance of representative institutions for generating trust, countering uncertainty and encouraging cooperation. The undermining of these institutions by neo-liberal policies threatens co-operation and long term operational and dynamic efficiency.

WP86 Collective Learning Processes and Inter-Firm Networking in Innovative High-Technology Regions

Mar 98 *David Keeble, Clive Lawson, Helen Lawton Smith, Barry Moore and Frank Wilkinson*

Investigates the nature and extent of regional collective learning processes and networking between local technology-based firms and other organisations, in the development and functioning of the Cambridge and Oxford regional clusters of high-technology firms. Processes such as local entrepreneur spin-off activity and professional and scientific labour recruitment, with resultant transfer of embodied expertise and continuing inter-firm links, are of particular importance, especially in the Cambridge case. Such processes however operate in parallel with active global networking and research collaboration. Local 'institutional thickness' is also assessed.

WP87 Low Pay in Europe and the USA

Jun 98 *Paul Robson, Shirley Dex and Frank Wilkinson*

Calculates the extent of low pay in Britain, Germany, Luxembourg, Spain and the USA using harmonised data based on nationally representative household panel studies. Countries' systems of collective bargaining and minimum wage regimes are related to distributions of low pay by industry, firm size, occupation, type of contract, public-private sector and gender. Strong collective bargaining regimes and minimum wages appear to help reduce the percentage of low paid workers, but women, and especially part time women employees, benefit much less than male employees.

WP88 The Unequal Distribution of Job Insecurity, 1966-1986

Jun 98 *Brendan Burchell*

The paper presents research evidence on the costs of job insecurity in terms of workers' psychological health, marriages and motivation, and contribution to "cycles of disadvantage". It also analyses flows out of secure and insecure jobs within British labour markets using a work-histories data set. Flows from secure to insecure jobs were more common in the 1980s than previously, while the risk of transition to an insecure job is much greater for those in less advantaged jobs. The negative consequences of this for further polarisation of the UK labour market are discussed.

WP89 Innovation Surveys and Very Small Enterprises

Jun 98 *Andy Cosh, Alan Hughes and Eric Wood*

Reports results of a Eurostat-sponsored study into the desirability and feasibility of including "very small enterprises" (VSEs) in future European innovation surveys. The study assesses the extent of VSE economic and innovation activity in seven EU countries, and presents questionnaire-based evidence on current methods employed in these countries to survey VSE innovative activity. Finally, it examines the case for a European VSE innovation survey and provides an operational outline for a possible pilot project.

WP90 Longitudinal Aspects of Innovation Surveys: The CBR Experience

Jun 98 *Andy Cosh, Alan Hughes and Eric Wood*

Reviews the experience of the Cambridge University Centre for Business Research in conducting three successive surveys of a panel of SMEs resulting in the construction of a longitudinal company dataset, with a particular emphasis on innovation behaviour. It evaluates in detail the evolution of the panel over time in terms of the effects of attrition and non-response bias on firm size, sector, age, profits, exporting and innovation. Finally, it summarises the problems associated with the creation and maintenance of such a longitudinal company panel.

WP91 Low Pay and Social Exclusion: A Cross-National Comparison

Jun 98 *Paul Robson, Shirley Dex and Frank Wilkinson*

Using harmonised household panel data, cross-tabulations and multivariate analysis, the paper examines whether being low paid is associated with the same set of supply-side and household characteristics in five countries, Britain, Luxembourg, Germany, Spain and the USA. Characteristics investigated include age, education, marital status, children, lone parent status, household type, employment status of spouse, and housing tenure. Similarities and differences across countries and gender groups are identified.

WP92 Labour Law and Economic Theory: A Reappraisal

Jun 98 *Simon Deakin and Frank Wilkinson*

Reassesses economic arguments for and against labour law regulation in the light of recent developments in contract theory, institutional economics, and the theory of the firm. Early analyses in the 'law and economics' tradition were largely hostile to labour market regulation, but more sophisticated recent work suggests that in unregulated markets, there are significant barriers to both static and dynamic efficiency. In particular, where workers invest in firm-specific skills, incentive structures should incorporate some protection against arbitrary treatment or redundancy. This new labour market theory has potential implications for public policy.

WP93 Juridification and Labour Law: A Legal Response to the Flexibility Debate in Australia

Jun 98 *Richard Mitchell*

The paper examines the proposition that the introduction of the new Workplace Relations Act 1996 has brought about a "dejuridification" of Australian labour law. Notwithstanding the rigidities and inefficiencies of the traditional award-based Australian system of compulsory arbitration, the new Act has arguably introduced greater complexity, not simplicity, to the regulatory framework. This is illustrated by detailed reference to the process of individualisation of employment under the Act, through (individual) Australian Workplace Agreements. The Act is unlikely to cause noticeable change in bargaining processes.

WP94 De-Industrialization: The Case of Iceland

Jun 98 *Ingolfur Bender and Robert Rowthorn*

In Iceland, recent de-industrialization, defined as a declining share of manufacturing in national employment, is associated with poor productivity growth and output performance, and reflects the harmful impact of a one-off boom in marine exports. Through misguided policies, Iceland has consumed the windfall gains and allowed production to shift from exposed to sheltered sectors. This has led to unemployment and retarded long term economic growth. In conclusion, the future role of Icelandic manufacturing and associated policy issues are considered.

WP95 Industrial Change and Regional Development: The Case of the US Biotechnology and Pharmaceutical Industries

Jun 98 *Mia Gray and Eric Parker*

The paper contributes to the debate over the location and organisation of innovative firms, industry renewal and regional rejuvenation, by examining the effect of technological breakthroughs in the US biotechnology industry on mature and emergent regions such as the North-East and California. Despite losing much of their preeminence in R&D, traditional pharmaceutical firms in the USA's mature regions have managed to "capture" much later-stage manufacturing and marketing. This reflects their competitive advantages over small new biotechnology firms in drug development experience, manufacturing capabilities, and marketing.

WP96 Local Industrial Development and Dynamics: The East Anglian Case (Out of Print)

Jun 98 *David Keeble*

Since the 1960s, East Anglia's economy has grown faster than that of most other British regions, reflecting a transformation from an historic dependence on agriculture to one focussed on manufacturing and services. The paper analyses the nature of and driving forces underpinning this recent industrial growth. It identifies growing and declining sectors, evaluates the role of local entrepreneurs, small firms and inward investment, assesses the reasons for the rapid expansion of high-technology industry around Cambridge, and examines institutional and policy impacts on development.

WP97 Employment Growth, Structural Change and Capital Accumulation

Jun 98 *Andrew Glyn*

Examines long run trends in agricultural and industrial employment, the growth in population of working age, migration and changes in male and female participation rates, for a sample of OECD countries. The paper focusses particularly on how capital accumulation has shaped these processes, and analyses how employment in industry and services, and for men and women, has reacted differently to capital accumulation and labour supply expansion. This enables assessment of how structural change has affected the relative employment performance of Europe and the USA.

WP98 Corporate Germany at the Crossroads? Americanisation, Competitiveness and Place Dependence

Jun 98 *Christian Berndt*

Recent years have witnessed growing internationalisation and increasing dependence on global financial capital by German multinationals. This paper critically evaluates claims of a resultant cultural sea-change in German corporate governance behaviour, towards an Anglo-Saxon paradigm, using detailed evidence from three Ruhr-based transnationals. This reveals evidence of an Americanization process, most clearly in power relations between capital owners, management and labour. However, it also identifies strong forces of institutional persistence, rooted in territorial networks and regional and national regulatory structures.

WP99 The National Origin of the Ownership Advantages of Firms

Sep 98 *Lilach Nachum and Jean Rolle*

This study examines the extent to which home country ownership advantages of selected larger US, UK and French advertising firms appear to influence their competitive position in international markets. Empirical analysis of original data from these companies suggests that the impact of home country advantages is critical, but provides only part of the explanation for the nature of the ownership advantages which advertising agencies develop. Some of these advantages are related to the attributes of individual advertising agencies and they vary in line with their unique characteristics as well as in response to the characteristics of their home countries.

WP100 Performance Standards in Supplier Relations: Relational Contracts, Organisational Processes and the Institutional Environment

Sep 98 *Simon Deakin, Christel Lane and Frank Wilkinson*

The paper investigates the link between national institutional structures and business performance as indicated by the findings of a comparative study of supplier relations in two traditional industries – mining machinery and kitchen furniture - in Germany, Britain and Italy. It shows that both supposedly rigid performance standards based on long-term contracts and quality thresholds, and less formal social norms which operate at a conventional or customary level, can help raise industrial performance. In contrast, the absence of norms or conventions governing inter-firm cooperation may adversely affect the degree to which an industry generates high-quality and technologically sophisticated products.

WP101 Quasi-Markets, Transaction Costs and Trust: Institutional Change in Broadcasting

Sep 98 *Simon Deakin and Stephen Pratten*

Explores tensions arising from the introduction of quasi-market relations in British broadcasting, with particular reference to relations between the independent production sector and terrestrial broadcasters and the effects of internal reorganisations within the BBC and ITV. Case studies and interviews with broadcast media representatives suggest that despite changes, decision making remains largely hierarchical, and the responsiveness of broadcasters to viewer priorities remains problematic. However, the paper argues that the most important question is whether the reforms provide a framework for effective contractual cooperation. If broadcasting quasimarkets are to be sustainable, the institutional framework must be sufficiently flexible to allow

close contractual relations to develop. Under the present framework, the tensions between competition and cooperation will not be easily resolved.

WP102 University-Industry Relations, Innovation and Power: A Theoretical Framework for the Study of Technology Transfer from the Science Base

Sep 98 *Stephanie Blankenburg*

Critically reviews a range of existing theoretical approaches, and particularly the information economics and evolutionary/knowledgebased approaches, to studying the organisation of innovation, with the goal of assessing their contribution to a better understanding of the rationale underlying co-operation between universities and industry. Having criticised these approaches, an alternative framework is developed which regards innovation as an inherently social and political process, and conceptualises university-industry relations (UIRs) as a strategic relation of power governed by a particular "regime of production".

WP103 UK FDI and the Comparative Advantage of the UK

Sep 98 *Lilach Nachum, John Dunning, and Geferri Jones*

Investigates the link between the industrial structure of UK outward foreign direct investment (FDI) and sectoral variations in the comparative advantage of the UK, by comparing their dynamic evolution over the last four decades. The research reveals that the largest shares of UK outward FDI are concentrated in sectors in which the UK possesses a comparative disadvantage. Furthermore, the sectors in which the UK possesses comparative advantages have characteristics different from those in which UK outward FDI is concentrated. This suggests that the differences between the industrial structure of UK outward FDI and UK comparative advantages are a matter of kind rather than of a degree. Over time, UK outward FDI appears to have become more sectorally similar to UK comparative advantage indicators, a change which seems to be related to changing motivations by UK MNEs in relation to overseas investment.

WP104 Individualisation and Union Recognition in Britain in the 1990s

Sep 98 *William Brown*

Examines the way in which the employment relationship has been "individualised" in Britain during the 1990s. In practice, individualisation has been almost exclusively concerned with procedural issues rather than with the substantive content of employment contracts. The research was based on a study of 32 firms, structured so that some which had derecognised trade unions were matched with others, in similar product niches' which had retained recognition. There were many similarities in the economic efficiency of the matched pairs, partly because, where recognition had been retained, its scope had been substantially reduced. The contrasts thrown up by the matched comparisons were to do with the mechanisms for employee involvement and the consequential legitimisation of management action. The paper discusses the implications for the future of collective bargaining at a time when the new Labour Government is proposing limited statutory recognition rights for trade unions.

WP105 Organisational Change, Labour Flexibility and the Contract of Employment

Sep 97 *Simon Deakin*

This paper reports the findings of an empirical study of the effects upon contracts of employment of organisational change at enterprise level, including the impact of trade union derecognition. A survey of over 30 British companies reveals that the pursuit of flexibility, in the sense of escaping from rigid job and grading structures, was widely reported as a reason for withdrawal from collective bargaining. However, the "individualised" employment contracts which replaced collective agreements were not arrived at through individual bargaining, but upon the basis of employers standardised contract terms. The paper examines the nature of these contracts, and concludes that paradoxically, the removal of collective influence can lead to decontractualisation, in the sense that many of these employment relationships bore little resemblance to a relational contract based on long-term cooperation. It is thus an open question, at this point, whether the removal of collective and public regulation from the employment relationship will bring about enhanced contractual efficiency.

WP106 Would more Family-Friendly Working Arrangements Benefit Business and Families?

Sep 97 *Fiona Scheibl and Shirley Dex*

This paper considers the extent of flexible, so-called family-friendly, working practices and evidence from published literature to address the question of whether Britain needs more of these arrangements. A review is carried out to see whether problems exist for the workforce which such policies could help to resolve, whether employers perceive problems in offering such arrangements, and whether such problems could be overcome. It concludes that more family-friendly arrangements would be welcomed by employees, that employers do perceive problems in designing flexible working arrangements, but that there are also ways of overcoming many of these problems to work towards new relationships of trust and commitment between workers and employers.

WP107 Growth Constraints on Small and Medium Sized Firms

Sep 97 *Alan Hughes*

The study investigates the nature of barriers to growth experienced by a sample of manufacturing and business service SMEs in Britain during the 1990s. Using a 'real-time' survey methodology, it reveals a virtuous growth cycle in sustained growth firms, which reflects their adoption of a management and organisation structure involving a disciplined and transparent framework of

information, reward, and marketing systems. The study suggests that policy should focus on enhancing internal human capital resources, and raising the general level and depth of SME management capability.

WP108 Rates of Return on Investment: A Cross National Comparison

Dec 98 *Dennis Mueller and B. Burcin Yurtoglu*

This study presents estimates of the ratios of returns on investment to costs of capital over the period 1985-1996 for companies from around the world, using Mueller and Reardon's technique. It confirms the existence of significant differences between betterperforming 'Anglo-Saxon' and poorer-performing 'Germanic' companies, while US companies performed much better than in earlier decades. Not surprisingly, perhaps, Asian companies performed best of all.

WP109 The Causes of Mergers: Tests Based on the Gains to Acquiring Firms' Shareholders and the Size of Premia Dec 98 *Dennis Mueller and Mark Sirower*

Investigates the issue of whether mergers increase the value of merging firms, by testing four hypotheses about why mergers occur in terms of the distribution of gains and losses from 168 mergers between large companies between 1978 and 1990. Considerable support is found for the managerial discretion and hubris hypotheses, but little or no support for the hypothesis that mergers create synergies that benefit shareholders of both the firms involved.

WP110 The Labour Market, the Minimum Wage and the Low Pay Commission Report

Dec 98 *Sanjiv Sachdev and Frank Wilkinson*

This paper reviews the arguments surrounding the proposed adoption in the UK of a minimum wage, and assesses the 1998 Low Pay Commission's Report on this, and its potential impact in terms of business response. It argues that the growth of low pay since the 1970s has involved significant costs through labour market instability, challenges the orthodox labour market view that low pay reflects low skill, and argues that the Commission's Report is unduly cautious and omits consideration of the vital question of how a minimum wage might be updated.

WP111 Spanning the Gap: The Theoretical Principles that Connect Stakeholder Policies to Business Performance Dec 98 *Giles Slinger*

In examining the relevance of the stakeholder concept to business performance, this paper sets out the three principles of commitment, cooperation and rich information on which the concept is based, and discusses the development over the past 50 years of organisational psychology methods, such as those developed at the UK Tavistock Institute and US National Training Laboratories, for improving workplace relations.

WP112 Modelling the Innovation Implementation Process in the Context of High-Technology Manufacturing: An Innovation Diffusion Perspective

Dec 98 *Shekhar Jayanthi*

High-technology manufacturing operations are characterised by rapid and ongoing innovation implementation and knowledge transfer. This study identifies a model-based approach to capture successive innovation implementations, and tests this with detailed empirical data for a wafer fabrication plant of a semiconductor manufacturer. The model's excellent fit is evaluated, and implications for theory, practice, public policy and future research are discussed.

WP113 Marriage and Trust: Some Lessons From Business Organisation

Dec 98 *Robert Rowthorn*

Using ideas from studies of business relationships, this paper examines the role of marriage as an institution for providing couples with the confidence to make long-term investments in their relationship. No-fault divorce has weakened the notion of marriage as a contract, thereby reducing the security offered by marriage and promoting opportunism by men. Current legal reforms will improve the economic position of divorced wives, inter alia encouraging opportunism by women. The paper argues that a return to fault-based divorce represents the only way to achieve parity between men and women and deter opportunism by either sex.

WP114 Economic Geography and Patterns of International Business Activity

Dec 98 *Lilach Nachum*

This paper examines the relevance of concepts drawn from economic geography to understanding the location decisions of financial and professional service transnational corporations. After identifying important differences between international business and economic geography theories in the explanations they propose for patterns of economic activity, it develops and tests a simple model of the spatial distribution of financial and professional service transnationals in the USA. The findings suggest that ideas from economic geography, notably agglomeration economies, possess powerful explanatory power for patterns of inward FDI in these sectors.

WP115 Institutional Restructuring in the Japanese Economy 1985-1996

Mar 99 *Kazuyoshi Matsuura, Michael Pollitt, Ryoji Takada and Satoru Tanaka*

Examines the effect of economic turbulence since 1985 on three of the institutional foundations of post-war Japanese industrial success. These are the Japanese 'main bank' system, whereby a main bank is involved in a special type of long-term relationship

with client firms, the tradition of close inter-corporate relationships between main manufacturing firms and their suppliers, and the nature of Japanese industrial policy and the roles of the Ministry of International Trade and Industry (MITI) and the Japan Fair Trade Commission (JFTC). In each case, evidence suggests that these institutional foundations of the post-war Japanese economy have been fundamentally weakened over the period.

WP116 Can Domestic Liabilities Explain the Home Bias in UK Investment Portfolios?

Mar 99 *David Chaundy*

It has been suggested that domestic liabilities may be an important factor in explaining the existence of a home bias in international investment portfolios. This paper provides a theoretical justification for this claim in a mean-variance framework. However, an empirical analysis for the UK does not find this effect to be large. Mean-variance efficient portfolios already exhibit significant home bias relative to the world market portfolio. Further, the predicted portfolios differ considerably from the actual portfolios of UK life assurance companies and pension funds. Possible reasons for this include weaknesses in the mean-variance approach and the role of peer pressure.

WP117 Post-War Institutional Shocks: The Divergence of Italian and Japanese Corporate Governance Models

Mar 99 *Fabrizio Barca, Katsuhito Iwai, Ugo Pagano and Sandro Trento*

Family capitalism in Italy and Japan has faced major problems since 1945. This paper examines some of these problems, contrasts corporate governance patterns in these countries and stresses the different role of the American occupation in influencing them. In Italy it involved the reinforcement of both the State-owned corporations and family controlled pyramidal groups that had emerged during the fascist period, whereas in Japan it caused the end of the power of the great zaibatsu families. We also consider how interfirm share holding can promote (Japan) or inhibit (Italy) the expansion of large corporations and the mechanisms that have made each model self-sustaining after initial institutional shocks.

WP118 The Origin of Organizational Species

Mar 99 *Ugo Pagano*

The paper argues that some of the issues examined by Darwin and modern biologists concerning natural selection in the case of speciation may be of relevance to the competitive selection of organisational species in capitalist economic development. In biology the laws of structure and change that characterise the selection among species are very different from those that characterise the selection of the member of the same species. These ideas are applied to understanding the "Second Industrial Revolution" and the development of the new species of "managerial capitalism" in the United States and Germany, in contrast to Britain, whose firms and entrepreneurs failed to keep pace with organisational change.

WP119 A Marshallian Approach to the Eclectic Paradigm of Foreign Investment: The Clustering of Film TNCs in Central London

Mar 99 *Lilach Nachum and David Keeble*

Using the eclectic paradigm as a theoretical framework, this study explores how geographically-localised agglomeration economies may affect the ownership advantages of transnational corporations, influence their choice of modality to serve foreign markets and form part of the location advantages of a given locality. It shows how the clustering of film, TV and video production and postproduction firms in the Soho area of central London has afforded considerable benefits to foreign TNCs locating here. However, these benefits vary considerably by the type of investment involved (distribution, financing or production), and influence the ownership advantages of the TNCs to varying degrees.

WP120 Measuring the Productivity of Professional Services: A Case Study of Swedish Management Consulting Firms

Mar 99 *Lilach Nachum*

Existing productivity measures are inadequate for measuring the productivity of professional services, which employ intangible and specialised factors of production. This paper develops a more adequate measure of productivity in these industries, which is tested against different performance indicators of a sample of Swedish management consulting firms. The findings illustrate the inadequacy of manufacturing-based measurement procedures and suggest that a measure which acknowledges the unique characteristics of professional services correlates better with firm performance. The study concludes that much more research is needed on this important issue.

WP121 Putting Values into Action in Business: A Study of the Development of an 'Integrity' Value at SmithKline Beecham

Mar 99 *Ian Jones and Michael Pollitt*

This paper is a case study of the implementation of an 'integrity' value at the Anglo-American healthcare firm, SmithKline Beecham (SB). SB was established as a result of a merger in 1989 following which the new company deliberately sought to design a new corporate culture based on a set of values which included 'integrity'. The case study charts the development of the integrity value as part of the new culture and how this particular value has been put into action. We show that the new value was accompanied by detailed codification and inclusion in employee evaluation and training programmes. The case highlights the difficulties in implementing high level values at the grass roots of a large corporation. An appendix demonstrates how the lessons from the case have parallels in biblical teaching.

WP122 What is the Accommodating Item in the Balance of Payments?

Mar 99 *David Chaundy*

Balance of payments accounts are constructed using a double-entry accounting principle such that total credits equal total debits. Modelling each entry independently will not guarantee this equality. It is therefore important to identify the counterpart entries or "accommodating" items that ensure that total credits equal total debits. This paper identifies the accommodating item for the UK by presenting institutional evidence on the means of payment for international transactions. Its conclusions are likely to apply to any developed country with a well-developed banking system.

WP123 The Market for External Business Advice Services in Britain

Mar 99 *Robert Bennett and Paul Robson*

Analyses the extent of use of external business advice by SMEs in Britain using new survey evidence from the Cambridge ESRC Centre for Business Research SME Survey of 1997. The most important fields of advice sought are taxation and financial management, computer services, advertising, staff training and development, new technology, staff recruitment and marketing. The main differences between firms in choice of advice source relate to their size and growth history. Impacts of advice received are generally only "moderate", but highest in computer services, product and service design, taxation and financial management and staff training and development. Impacts are most strongly related to SME growth and size.

WP124 Evaluating the Impact of Business Service Expertise and Business Links on the Performance of SMEs in England

Mar 99 *John Bryson, David Ingram and Peter Daniels*

This paper explores the impact on the performance, profitability and competitiveness of SMEs of business service expertise provided via government-sponsored local Business Link organisations. It uses data from a unique survey of SMEs in England as well as case studies of individual firms. It is possible to identify a positive impact of business service expertise on client performance, but isolating such impacts from other variables is very difficult, while use of both employment and profitability indicators is problematic. There is a danger that DTI evaluation of Business Link companies may determine the way in which Business Links identify and deal with clients.

WP125 Entrepreneurs as Co-Operative Capitalists: High Tech CEOs in the UK

Mar 99 *Hugh Whittaker*

This paper presents the findings of a survey of CEOs in the UK high tech SME sector. Based on 510 responses, it builds up a picture of personal backgrounds, careers, reasons for starting or acquiring the business(es) and business objectives. A typology is developed, based on business objectives, of 'co-operative capitalists', 'capitalists', 'co-operatists' and 'coasters'. Participants' own comments show the importance of lessons learned in past employment, a cautious approach to business development, and an orientation to satisfying customer needs through employee involvement, often as part of a 'stakeholder' and/or ethical orientation.

WP126 Earnings Distribution, Corporate Governance and CEO Pay

Jun 99 *Frederick Guy*

Using econometric modelling techniques, this paper investigates the relationship between earnings differentials and the pay of Chief Executive Officers (CEOs) of 186 British companies between 1970 and 1990. It finds that prior to 1984, top executive pay was a stable function of both firm size and earnings differentials lower on the administrative ladder, consistent with a hypothesis advanced by Herbert Simon in 1957; but that the use of share options from 1984 onward represents not simply a change in the mode of top executive compensation, but a structural break in the relationship between the pay of top executives and that of their subordinates.

WP127 Competitiveness Policy and Economic Organisation: The Case of the British Film Industry

Jun 99 *Stephen Pratten and Simon Deakin*

Traditional government policy support for the British film industry was reversed in the 1980s through deregulation and the exposure of the industry to market forces. More recently, a new policy preoccupation with the film industry has emerged, with the industry characterised as possessing inherent but unrealised potential which it is the role of government, operating in tandem with the market, to unlock. This paper examines the nature of this emerging "competitiveness policy" towards the British film industry, and argues that policy should operate through identifying the distinctive capabilities of British film producers and by promoting "structural" change involving forms of contractual cooperation which can allow for the effective management of risk and uncertainty.

WP128 FDI, the Location Advantages of Countries and the Competitiveness of TNCs: US FDI in Professional Service Industries

Jun 99 *Lilach Nachum*

This paper examines the impact of the foreign activities of firms on their international competitiveness, with particular reference to selected US professional service industries. It investigates to what extent and under what conditions firms may compensate for deteriorating home country location advantages through investment in foreign countries, and under what conditions firms may reap the benefits of a locationally advantageous foreign country. The findings suggest that FDI weakens the link between the

location advantages of home countries and firm ownership advantages, but that this impact is very moderate and indirect. The ownership advantages which firms develop in their home countries are the most critical determinants of their competitiveness.

WP129 Trust, Power and Control in Trans-Organizational Relations

Jun 99 *Reinhard Bachmann*

Using ideas from Structuration Theory and System Theory, the paper analyses trust and power as means of co-ordinating transorganizational (inter-firm) relationships. It argues that, depending on the institutional environment, there are two distinct patterns of controlling relationships, where trust and power are interrelated in quite different ways. First, both mechanisms are generated at the inter-personal level and either trust or power dominates the relationship. Second, power occurs at the level of the structural framework of relationships and is highly conducive to developing trust between individual organizations. Specific forms of trust and power are identified and the institutional environment is viewed as playing a crucial role in shaping the quality of trans-organizational relations.

WP130 Why are UK Banks' Overseas Assets and Liabilities So Large?

Jun 99 *David Chaundy*

Overseas assets and liabilities of UK banks account for high proportions of overseas assets and liabilities of all UK residents and of UK banks total assets and liabilities. This paper adopts an institutional, theoretical and empirical approach to explain this phenomenon. We find that over 80% of these assets and liabilities are accounted for by foreign-owned UK banks and their large size may be traced to the development of the Euro-currency markets in London in the late 1950s and 1960s. In an attempt to explain gross overseas bank assets simple empirical hypotheses are tested but rejected. We conclude that while an institutional and theoretical approach reveals the nature of UK banks overseas assets and liabilities and suggests some of their determinants, developing a satisfactory empirical model is difficult.

WP131 The Determinants of Firm Innovative Behaviour: The Roles of Rivalry and Persistence Jun

99 *Suma Athreya*

This study investigates the determinants of firm innovative activity using an analytical framework that synthesises different theoretical approaches, and empirical tests based upon a detailed firm-level dataset of UK computer businesses. It suggests that competition or rivalry can be defined both in terms of market power and of the distribution of competencies, and relates this to innovation incidence and persistence. The empirical analysis finds that determinants and dynamics of innovation and market structure differ between software and hardware firms, as does the role of persistence. However, persistence is important when it is the resources and costs of innovation that explain innovative behaviour. Rivalry as a determinant of innovation does not favour persistence.

WP132 Transcending the Flexibility Debate? Deregulation and Employment in Britain 1979-1997

Jun 99 *Simon Deakin and Hannah Reed*

The debate on labour market flexibility has become polarised between two distinctive and potentially irreconcilable viewpoints. One sees the "European social model" based on social protection and collective employee representation as obstructing the operation of efficient labour markets, while the other criticises deregulation because of its social risks and questions whether it does bring increased flexibility. This paper assesses the case for and against labour market deregulation by evaluating recent British experience with specific reference to the economic impact of changes in employment law and social security. This suggests that the link between flexibility and efficiency is itself open to doubt, and that under-regulation may involve under-investment in vital "capabilities" associated with training, labour mobility and job security.

WP133 Economic Efficiency and the Proceduralisation of Company Law

Jun 99 *Simon Deakin and Alan Hughes*

This paper extends the analysis carried out by the authors for the UK Law Commissions (published as Part 3 of the Consultation Paper on Directors, Duties, September 1998). After considering some of the potential uses of economics in company law, it develops a theoretical framework which relates company law to wider corporate governance mechanisms which operate to mitigate risk and uncertainty in contractual relations. This framework is then applied to provisions relating to self-dealing and conflicts of interests under Part X of the Companies Act 1985. It is argued that in this context, the economic role of company law should be promote cooperation and the sharing of information and risk between corporate actors, a function described in terms of the "proceduralisation" of company law.

WP134 Reinventing the Market? Competition and Regulatory Change in Broadcasting

Jun 99 *Simon Deakin and Stephen Pratten*

The Broadcasting Act 1990 led to a period of turbulence and upheaval within British broadcasting with results that were at best unintended and, at worst, seriously undermined the ideal of public service broadcasting. A Hayekian economic perspective would suggest that the reforms failed because they did not go far enough in the direction of full "marketisation". This paper develops an alternative perspective, based on an adaptation of systems theory within the context of law and economics, which offers a broader methodological foundation for the understanding of "economic law" and a different normative perspective on the broadcasting

reforms. It argues that the difficulty with these reforms was not their failure to go further in marketisation, but rather their lack of clarity in articulating a clear alternative to the market as the basis for the organisation of television production.

WP135 Can We Measure and Communicate the Benefits of Work-Life Policies More Effectively?

Sep 99 *Fiona Scheibl*

The paper reviews the methodologies adopted by a range of recent academic and business studies of work-life policies in investigating whether the use of control groups or other rigorous measurement techniques have become more widespread. It finds that studies have used five different research designs - multivariate modelling; control groups; action research; business case calculations; and social surveys - to measure and evaluate the impact of work-life practices. Control group methods have not been more widely used, but the "action research" approach is encouraging better inter-disciplinary understanding of work-life conflict.

WP136 Changing Midwifery: Working Conditions and the Quality of Care

Sep 99 *David Ladipo, Hannah Reed and Frank Wilkinson*

This paper examines the links between the employment conditions of midwives and the ability of maternity units to improve quality and continuity of care for women, in line with government policy. The study found that advances in quality of care have been made within existing resource constraints. This progress has mainly been achieved by drawing on the professionalism and vocational commitment of midwives, and at the expense of their working conditions and sense of well being. Increasing problems of recruitment, retention and falling morale among midwives suggest that improvements in quality are not sustainable without additional resources, improved working conditions and more effective systems of communication in NHS trusts.

WP137 The Fragility of Functional Work Systems in American Steel

Sep 99 *Suzanne Konzelmann and William Barnes*

This detailed case study of the development and crises experienced by an American steel company (I/N) in implementing functional work systems demonstrates that a high road approach provides positive benefits for stakeholders' workers, production efficiency, and local and macro-level economies and societies. However, broader external forces can conspire to make it very difficult for firms to sustain such systems despite initial successes: high road systems are fragile in national frameworks that subject them to low road pressures without a forum for resolving the difficulties that arise from opposing market pressures and responses.

WP138 Neo-Marshallian Nodes, Global Networks and Firm Competitiveness: The Media Cluster of Central London (Out of Print)

Sep 99 *Lilach Nachum and David Keeble*

Based on an original interview survey of indigenous and foreign-owned companies, this paper investigates the interplay between global and local influences on the competitiveness of the cluster of film production and media firms in the Soho area of Central London. While local processes are vitally important in influencing the capabilities of these firms, the cluster is also bound tightly into world-wide webs of interdependence, with TNCs playing a major role in mediating between local and global linkages. The latter are essential for the ability of the firms studied to compete successfully in international markets.

WP139 Automatic Certification or Mandatory Representation Votes? How the Choice of Union Recognition Procedure Affects Union Certification Success

Sep 99 *Susan Johnson*

Union recognition procedures are about to be reformed in the UK. Current legislative reform proposes automatic certification. Business prefers mandatory representation votes. Will the choice of union recognition procedure affect certification success? This paper provides empirical evidence on this issue, using cross-section time-series analysis of nine Canadian jurisdictions over nineteen years. The results indicate that mandatory votes reduce certification success rates by 6 to 9 percentage points below what they would have been under automatic certification. This result is robust and significant at the 99 per cent level.

WP140 Rethinking Innovation Comparisons Between Manufacturing and Services: The Experience of the CBR SME Surveys in the UK

Sep 99 *Alan Hughes and Eric Wood*

Previous research comparing innovation in manufacturing and services has taken insufficient account of variations in the intensity and nature of innovation activity within these sectors. Analysis of the CBR's SME surveys reveal that in some respects there is greater variation in innovation within manufacturing and business services than between them. There is also strong similarity between corresponding groupings in each sector, with a considerable depth of technological innovation capability within each. These results imply that differences in innovation between manufacturing and services may have been exaggerated in earlier research.

WP141 Learning New Productivity Criteria in Transition Economies: Evidence from 450 CIS Companies

Sep 99 *Kari Liuhto*

This analysis suggests that the ownership structure of the CIS firms studied did not determine productivity improvements during the years 1995-97. Rather, these reflected the transition path, with privatised companies undergoing organisational revolution, whereas new private start-ups have experienced organisational evolution in a revolutionary business environment. The empirical data also reveals a significant relationship between top manager age (youthfulness) and productivity improvement. This suggests that adapting Soviet management culture to the post-Soviet environment is a more complex task than merely learning new organisational practices.

WP142 Intensity of Interaction in Supply of Business Advice and Client Impact: A Comparison of Consultancy, Business Associations and Government Support Initiatives for SMEs

Sep 99 *Robert Bennett and Paul Robson*

This paper assesses the supply of business advice to British SMEs using new empirical evidence from the 1997 CBR national SME survey. It compares interaction intensity with suppliers operating in different environments of regulation, contract and reputation, using site visits and/or a written brief/contract as interaction intensity indicators. Although these measures have limitations, the paper demonstrates clear and significant differences between suppliers in interaction intensity, use of contracts and impact in three broad categories: private sector consultancy (low trust, high intensity, high impact), business associations (high trust, low intensity, moderate impact) and government support agencies (moderate trust, moderate to high intensity, moderate or low impact).

WP143 The Use and Impact of Business Advice by SMEs in Britain: An Empirical Assessment Using Logit and Ordered Logit Models

Sep 99 *Paul Robson and Robert Bennett*

This paper assesses the effect of differences in types of client on the use and impact of business advice by SMEs in Britain using data from the 1997 CBR national SME survey. It uses multivariate logit models to show that size of firm, rate of growth and innovation appear to be the main variables influencing the likelihood of firms seeking external advice, both from different sources and from different fields. Ordered logit models of the impact of the advice demonstrate that there are significant differences between clients' perceived impact of advice and the sources of advice they use, chiefly as a result of firm size, and to a lesser extent for growth, innovation and export levels.

WP144 Foreign Direct Investment and Enterprise Performance in Transition Countries: Evidence from Russia and Ukraine

Sep 99 *Valentijn Bilsen and Peter Van Maldegem*

This study compares the performance of foreign and domestic firms in Russia and Ukraine, using recent survey data of 450 enterprises. We find that foreign owned firms are less prone to inter-enterprise and wage arrears, have a better export performance, and use more sophisticated competition strategies. Foreign investment appears to enhance entrepreneurial knowhow. In the case of de novo firms foreign investment has often led to a "jump start" of the enterprise, rather than a gradual adjustment over time. Foreign firms have a positive spill-over effect. They introduce healthy financial management methods, and proliferate badly needed market oriented entrepreneurial know-how through the managerial market.

WP145 Company Law as an Instrument of Inclusion: Re-Regulating Stakeholder Relations in the Context of Takeovers

Sep 99 *Giles Slinger and Simon Deakin*

This paper considers a number of potential justifications for regulatory intervention aimed at overcoming "contractual failure" in stakeholder relations. Two distinct functions of stakeholding are identified, in terms of "contract" and "innovation" respectively. These conceptions are linked to two distinct approaches to the regulation of stakeholder relations, one based on "rights" and the other on "cooperation". The implications of an innovation-based approach for reform of the law relating to hostile takeovers in the UK are considered. The paper concludes by suggesting that the effectiveness of regulation will depend on the capacity of legal rules and procedures to promote cooperation within stakeholder relations, in particular by generating markets for information.

WP146 The Transformation of the Soviet Enterprise and its Management: A Literature Review Sep

99 *Kari Liuhio*

This article reviews literature on the transformation of the Soviet enterprise and its management. It shows that Soviet management was much more multidimensional than previously assumed on the basis of official management descriptions, and that some previous empirical studies suffer from an inadequate methodology, studying enterprises and their management only at one point in time. Such studies tend to be based on a certain 'commonly accepted' view of Soviet management, instead of truly analysing the transformation taking place in post-Soviet companies. As previous studies have not reached an unambiguous conclusion on how successful transformation might be achieved, the article proposes some essential themes which could increase understanding of the organisational and managerial transformation, and hence support the overall economic transformation process in the former USSR.

WP147 Innovation, Investment and International Trade Performance of Russian Enterprises: A Study of St. Petersburg-Based Companies

Dec 99 *Vadim Kapustkin*

Investigates and compares the innovation, investment and international trade performance of Russian firms using questionnaire survey data of 150 enterprises in the St.-Petersburg area, half newly set-up private firms and half state-owned and privatised enterprises. Shows that the former performed better in terms of introducing new products, investment growth, international trade, etc.

WP148 Share Capital and Creditor Protection: Efficient Rules for a Modern Company Law?

Dec 99 *John Armour*

Examines the economic case for rules of company law which regulate the raising and maintenance of share capital by companies. Argues that the current rules are unlikely to enhance the efficiency of the markets which they regulate, and makes a tentative conclusion.

WP149 The Impact of Home Countries on the Competitiveness of Advertising TNCs Dec

99 *Lilach Nachum*

The findings of this study suggest that the competitive advantages of US, UK and French advertising TNCs are only partly shaped by the conditions in their country of origin, and that the impact of home countries weakens as agencies expand their international activity.

WP150 Financing Firm Start-up and Restructuring in Transition Countries: Evidence from Belarus, the Ukraine and Russia

Dec 99 *Valentijn Bilsen and Elena Mitina*

Investigates how entrepreneurs in Belarus, Russia and Ukraine finance start-up and restructuring. Data from 600 de novo, privatised or state-owned firms shows the critical importance of the personal funds of the main owner(s), with a limited level of support being given by the state.

WP151 The Development of Ethical Issues Facing Boards of Directors: A Model with Implications Dec

99 *Ian Jones and Michael Pollitt*

Outlines a model of how ethical issues develop over time using an ethical issue life cycle with three phases. Illustrates the model with reference to ethical issues currently facing UK boards of directors, and uses the Bible to further develop the model to suggest how company boards might respond to ethical issues as they progress.

WP152 Systemic Risk in International Settlements

Dec 99 *Rahul Dhumale*

Examines the extent to which different settlement systems affect the nature and potential vulnerability of the financial system to systemic risks, and considers whether externalities can be reduced if individual institutions fully internalise the costs of their actions.

WP153 The Role of the Basle Standards in International Banking Supervision

Mar 00 *Kern Alexander*

This paper argues that the Basle Committee on banking supervision has played a significant role in developing principles of sound regulatory practice for national supervisors to adopt in their jurisdictions, and that the increasing complexity of international financial markets and the need to reduce systemic risk require a global supervisor to coordinate the regulatory activities of national authorities.

WP154 Foreign and Indigenous Firms in the Media Cluster of Central London

Mar 00 *Lilach Nachum and David Keeble*

An in-depth study of 49 foreign and indigenous media firms in the Soho district of Central London highlights differences and similarities in terms of their cluster behaviour and benefits from cluster participation. These differences and similarities are related to the extent to which internal linkages within TNCs substitute for cluster linkages.

WP155 CEO Pay, Shareholder Returns and Accounting Profitability

Mar 00 *Fred Guy*

We assess the impact on CEO pay of changes in both accounting and shareholder returns in 99 British companies in the years 1972-89, and find a strong positive relationship between CEO pay and within-company changes in shareholder returns, but no statistically significant relationship between CEO pay and within-company changes in accounting returns.

WP156 The Rise and Fall of the Size of Firms

Mar 00 *Fabrizio Traù*

This paper casts a theoretical bridge between the shift from the so-called Golden Age to the 'unstable' macroeconomic environment of the '70s and the '80s on the one hand, and the reversal of the long run pattern of development of the size distribution of industrial firms, also from the mid '70s, on the other.

WP157 Regulation, Power and Scale: 'Reworking' Capital-Labour Relations in German SMEs Mar

00 *Christian Berndt*

An investigation of 28 SMEs in the Ruhr Area shows that capital-labour relations in Germany are being downscaled and decentralised, that the regulatory landscape is being 'reworked' in terms favourable to capital, and that there is a peculiar spatial dimension to the rearticulation of power relations and core institutions of the German Model.

WP158 Sources of Increasing Returns and Regional Innovation in the UK

Mar 00 *Suma Athreya and David Keeble*

This paper investigates the impact of different sources of increasing returns on firm innovative behaviour in different regions of the UK. The emergence of specialised markets and the impact of intermediation are particularly relevant, and regional public R&D and dynamic economies to scale due to learning within a firm are also considered.

WP159 Rethinking Receivership

Mar 00 *John Armour and Sandra Frisby*

We argue that although insolvency law's *formal* structure is imbalanced, this can generate savings for parties by allowing a concentrated creditor who has invested in information-gathering about the debtor to conduct a private insolvency procedure. Further, this procedure is likely to be more efficient than one conducted by a state official.

WP160 Trade Union Organising Among Low-Wage Service Workers: Lessons from America and New Zealand Mar

00 *Sarah Oxenbridge*

This paper examines how American and New Zealand unions have responded to the challenges of organising workers in low-wage service sectors. Different approaches to organising are examined, with a particular focus on the 'organising' model of unionism. Relevance of organising model methods for British unions is considered.

WP161 Citizenship, Public Service, and the Employment Relationship

Mar 00 *Simon Deakin and Mark Freedland*

This paper reports on the effects on employment relations and conceptions of citizenship of the shift from bureaucratic to marketised forms of public service provision in Britain. Two contrasting case studies are reported, 'imposed contractualism' in the public education service, and (precarious) partnership arrangements in the utilities.

WP162 The Contested Meaning of Labour Market Flexibility: Economic Theory and the Discourse of European Integration

Mar 00 *Simon Deakin and Hannah Reed*

This paper warns that the institutional arrangements for the conduct of social and economic policy (broadly conceived) within the European community are making it impossible to forge the linkages between labour standards, active labour market policy and the macroeconomic framework of the kind which are needed to renew the 'European social model'.

WP163 Regulatory Competition Versus Harmonisation in European Company Law

Mar 00 *Simon Deakin*

Co-evolution based on diversity at the level of national legal systems, coupled with encouragement from transnational norms for devolved solutions, is a more likely path for European company law than the type of convergence around a single, dominant regime which appears to characterise the Delaware effect in the US context.

WP164 The Political Economy of Full Employment in Modern Britain

Mar 00 *Robert Rowthorn*

This paper examines the regional aspects of structural change and unemployment in the UK. Using a simple export base model, it quantifies the underlying decline of the northern economy, which in relative terms has been almost as fast in the 1990s as in the previous decade of industrial crisis.

WP165 Capital Adequacy Standards: Are They Sufficient?

Jun 00 *Rahul Dhumale*

This paper examines and models the link between the relative level of an individual bank's capital adequacy and its effects on the fragility of the banking system

WP166 Public Markets, Private Orderings and Corporate Governance

Jun 00 *Ugo Pagano*

Critiquing the New Property Rights approach, this paper argues that managers and public authorities build respectively private and public "legal equilibria" that set the working rules within which transactions can take place.

WP167 Business Advice: The Influence of Distance

Jun 00 *Robert Bennett, William Bratton and Paul Robson*

This paper examines the external advisors used by small businesses to help them solve their problems in five representative locations in Britain, focusing on distance between client and advisor.

WP168 The Role of Soft Law in the Legalization of International Banking Supervision: A Conceptual Approach Jun 00 *Kern Alexander*

This paper analyses the concept of legalization at the international level its application to the development of international 'soft law' principles in international banking supervision.

WP169 World Market Shares of Advertising TNCs: Intangible Comparative Advantage? Jun 00 *Lilach Nachum*

This study explores the link between home country location advantages and the competitive position of national firms in world markets in the advertising industry.

WP170 An Incentive Based Regulatory System: A Bridge Too Far

Jun 00 *Rahul Dhumale*

This paper considers the "incentive problem" in regulation using a principal-agent framework and the design of an incentive compatible regulatory system which encourages prudent behaviour and efficient financial intermediation.

WP171 The Employment Contract: From Collective Procedures To Individual Rights

Sep 00 *William Brown, Simon Deakin, David Nash and Sarah Oxenbridge*

Based on the 1998 Workplace Employee Relations Survey, this paper shows that collective procedures have declined in importance, but there has been an increase in legal governance of the employment relationship.

WP172 Does Law Matter?: The Separation of Ownership and Control in the United Kingdom Sep 00 *Brian Cheffins*

This paper provides evidence on the extent to which legal regulation does "matter" in the corporate governance context, focusing on the separation of ownership and control in the UK.

WP173 Norms in private insolvency procedures: the 'London Approach' to the resolution of financial distress Sep 00 *John Armour and Simon Deakin*

This paper examines how norms, known collectively as the 'London Approach', guide the resolution of financial distress by creditors of large UK firms and act as a substitute for legal insolvency proceedings.

WP174 Capabilities, Spontaneous Order, And Social Rights

Sep 00 *Simon Deakin and Frank Wilkinson*

This paper explores the idea that the labour market is a self-organising system which rests on set of mutually-reinforcing conventions which are themselves the outcome of an evolutionary process.

WP175 Exit, Voice, And Loyalty In The Industrial District: The Case Of Prato Sep 00 *Gabi Dei Ottati*

The "exit, voice and loyalty" approach by Hirschman is applied to the case of the rise and evolution of the Prato industrial district, from post-war days until now.

WP176 The Challenges For The Next Decade: Notes On The Debate On The Development Of The Emilia-Romagna Region

Sep 00 *Margherita Russo, Giorgio Allari, Silvano Bertini, Paolo Bonaretti, Elio De Leo, Giuseppe Fiorani and Gianni Rinaldini* This paper examines the transformation of Emilia-Romagna, one of the richest regions in Europe, as a result of exogenous changes and endogenous impasses.

WP177 The Legalization Of The International Anti-Money Laundering Regime: The Role of the Financial Action Task Force

Sep 00 *Kern Alexander*

This paper analyses international instruments and principles adopted by leading states at the international level to combat money laundering by financial institutions, thereby reducing systemic risk.

WP178 Putting Partnership Into Practice In Britain

Sep 00 *William Brown*

The paper reviews industrial relations developments in Britain during 1999 by assessing how New Labour's policy commitment to encouraging 'partnership' is developing in practice.

WP179 Emu Versus The Regions? Regional Convergence And Divergence In Euroland

Sep 00 *Ron Martin*

This paper examines the theoretical arguments and empirical evidence for divergence and convergence in Europe, and analyses patterns of regional productivity trends and employment growth in 1975-1998.

WP180 On Enlarging Employment By Promoting Small Enterprises

Sep 00 *Alan Hughes*

This paper provides an overview of the role of SMEs in employment generation in advanced and developing countries, critiques 'job generation' literature, and emphasises the importance of efficient managerial strategies.

WP181 The Small Business Service: Business Support, Use, Fees And Satisfaction: Econometric Estimates

Sep 00 *Robert Bennett and Paul Robson*

This paper assesses advice and information support for firms provided by the Small Business Service (SBS) Business Link, using a new survey of client use, satisfaction and experience of service fees.

WP182 Government Advice Networks For Smes: An Assessment Of The Influence Of Local Context On Business Link Use, Impact And Satisfaction

Sep 00

Robert Bennett, Paul Robson and William Bratton

This paper uses a 1997 survey of SMEs to determine how Business Link use, impact and satisfaction are influenced by firm, local partnership, local geographical, service intensity and other characteristics.

WP183 Creating New Local Industry Through Inter-Organizational Collaboration: A Japanese Case

Sep 00 *Yushi Inaba*

This paper looks at entrepreneurs' attempts to create a new local industry for regional regeneration in Japan, collaborating beyond their own organizations to create and operate a "technical core".

WP184 Human Resource Management And Business Objectives And Strategies In Small And Medium Sized Business

Sep 00 *Frank Wilkinson*

Survey findings show that a substantial majority of UK SMEs use HRM methods. Use is associated with commitment to non-price competition and other strategy, management and market variables.

WP185 Knowledge, Economic Growth And The Role Of Policy On The Role Of "Public-Private Partnerships" In The New "Knowledge-Driven" Economy

Sep 00

Stephanie Blankenburg

The paper examines the economic rationale for "public-private partnerships" to promote technological progress and growth in the new "knowledge-driven" economy.

WP186 An Empirical Investigation of the Terms of Corporate Charters and Influences on Term Standardization in a Laissez-Faire Environment

Dec 00 *Michael Whincop*

Corporate governance contracts in Australia prior to legislation on directors' duties demonstrates pervasive alteration of default rules, and subsequently standardisation, but not the lock-in of network externality theory.

WP187 Creative Work Systems in Destructive Markets

Dec 00 *Suzanne Konzelmann and Robert Forrant*

Using the productive systems approach, this paper examines the inter-relationship between "creative" work systems and "destructive" markets using a sample of U.S. manufacturing firms in three industries.

WP188 The Relationship Between Training and Employment Growth in Small and Medium Sized Enterprises (limited availability)

Dec 00 *Andy Cosh, Alan Hughes and Melvyn Weeks*

A rigorous analysis of the impact of training upon the employment growth characteristics of SMEs shows a positive relationship, especially when training is embedded in a wider range of human relations practices.

WP189 The Professions Between State and Market: A Cross-National Study of Convergence and Divergence

Dec 00 *Christel Lane, Margaret Potton and Wolfgang Littek*

This paper analyses the impact on the professions of changes in their institutional environment during the last two decades, comparing solicitors/advocates and pharmacists in Britain and Germany.

WP190 The Influence of Location on the Use by Smes of External Advice and Collaboration: Detailed Econometric Estimates

Dec 00 *Robert Bennett, Paul Robson and William Bratton*

This paper provides a large scale analysis of the influence of location on the extent of use and impact of external advice and collaboration on small and medium sized enterprises (SMEs) in Britain.

WP191 The Many Futures of the Contract of Employment

Dec 00 *Simon Deakin*

The paper sets out a number of possible futures for the employment contract as a mechanism for risk management, and identifies 'mutations' within the conceptual framework of employment law which suggest possible directions of change.

WP192 The Macroeconomic Environment and the Size Pattern of Business Firms Mar

01 *Fabrizio Traù*

This paper explores changes affecting the macroeconomic environment, notably global competition and market uncertainty, which have led to a gradual decrease in the average size of firms since the 1970s.

WP193 Crisis and Innovation in Japan: A New Future through Techno-Entrepreneurship? Mar

01 *Hugh Whittaker*

This paper looks at the profound transitions Japan is currently experiencing, focusing on 'techno-entrepreneurship' and ideological currents of nationalism and internationalism.

WP194 Why do Business Service Firms Cluster? Small Consultancies, Clustering and Decentralisation in London and Southern England

Mar 01 *David Keeble and Lilach Nachum*

This paper compares clustering of management and engineering consultancies in central London and their growth in decentralised locations of East Anglia and South West England.

WP195 External Networks and Geographic Clustering as Sources of MNE Advantages: Foreign and Indigenous Professional Service Firms in Central London

Mar 01 *Lilach Nachum and David Keeble*

This study suggests that MNE internal networks partially replace the advantages provided by external networks of indigenous professional service firms in Central London.

WP196 Enhancing Corporate Governance for Financial Institutions: The Role of International Standards

Mar 01 *Kern Alexander and Rahul Duhmale*

This paper analyses corporate governance within framework of international financial markets and examines how international standards can be applied to effectively reduce systemic risk.

WP197 The Law and Economics of Corporate Insolvency: A Review

Mar 01 *John Armour*

After an overview of law and economics literature, this paper asks whether a solution to the common pool problem might be sought through contract, or reliance on social norms.

WP198 Corporate Governance, The Limits of Rationality and Proceduralisation

Jun 01 *John Paterson*

A striking feature of theorising about corporate governance, whether from the perspective of economics or in terms of a stakeholder model of the company, is that even quite basic questions posed at the outset remain to be answered. A range of alternatives from both law and economics which this paper considers may be described as procedural theories. Including conventionalist economics and autopoiesis, these alternative theories are seen to offer tantalising possibilities of answering some of the questions currently confronting traditional approaches.

WP199 The Limits of Statutory Trade Union Recognition (Download only from website)

Jun 01 *William Brown, Simon Deakin, Maria Hudson and Cliff Pratten*

The paper assesses the prospects for Britain's new statutory trade union recognition procedure in the light of empirical evidence concerning union derecognition practice in the 1990s. It is shown that in practice, the line between recognition and non-recognition

was extremely blurred. A move towards more cooperative workplace arrangements, associated with a 'partnership' model of industrial relations, was common to employers in both categories.

WP200 Partnership, Ownership and Control: The Impact of Corporate Governance on Employment Relations

Jun 01 *Simon Deakin, Richard Hobbs, Sue Konzelmann and Frank Wilkinson*

Most large UK private-sector organisations are listed companies that are subject to intense pressures to enhance shareholder value. The question arises of whether this constrains the ability of UK managers to pursue genuine partnership arrangements with long-term stakeholders, including employees. The corporate governance system can be seen to support partnership, but in conjunction with market regulation underpinning quality standards, relative stability in product markets, and a willingness on the part of senior management to mediate between the claims of different stakeholder groups.

WP201 The Theory and Practice of Wage Subsidisation: Some Historical Reflections

Jun 01 *Frank Wilkinson*

Economists explain welfare dependency of the unemployed and in-work poverty by the low labour market quality of the poor. Work can be made to pay by working family tax credits. But these might lower wages and price non-recipients out of the market, widening the eligibility for the wage supplementation and raising social welfare bills. This was precisely the effect of the Speenhamland system of wage supplementation of the early 19th Century which permanently affected labour markets, and attitudes to welfare and the poor. The possibility of working family tax credit having a similar effect cannot be ruled out.

WP202 Taking Risks In Regions: The Geographical Anatomy of Europe's Emerging Venture Capital Market

Jun 01 *Ron Martin, Peter Sunley and Dave Turner*

Over the past twenty-five years, the USA has pioneered a new technological revolution, based on large numbers of new small enterprises, financed by a dynamic venture (risk) capital market. The European Union, meanwhile, has lagged behind in this sector of economic activity, and compared to the US innovative small and medium enterprises appear to find it more difficult to get started and grow. This paper charts the growth and geographical anatomy of the emerging European venture capital market and examines its spatial development and regional implications.

WP203 The Contract of Employment: A Study in Legal Evolution

Jun 01 *Simon Deakin*

This paper reconstructs the evolutionary path of the contract of employment in English law. It demonstrates that the contract of employment is a more recent innovation than is widely thought, and that its features owe as much to legislation as they do to the common law of contract. The master-servant model of the nineteenth century was only displaced by the modern contract of employment as a result of twentieth century social legislation and collective bargaining. The paper discusses present-day mutations in the legal form of employment in the light of this analysis.

WP204 Insolvency, Employment Protection and Corporate Restructuring: The Effects of TUPE

Jun 01 *John Armour and Simon Deakin*

The statutory protection currently provided by UK law to employees during transfers of undertakings and other restructurings has been criticised on the grounds that it undermines insolvency procedures and interferes with the 'rescue' process. Case-study evidence is presented to show that while in some situations employment rights may obstruct reorganisations, in others they allow employee interests to be factored into the bargaining process in such a way as to enhance the survival chances of enterprises undergoing restructuring.

WP205 Mutuality and Corporate Governance: The Evolution Of UK Building Societies Following Deregulation

Jun 01 *Jackie Cook, Simon Deakin and Alan Hughes*

This paper studies the effects of deregulation following the UK Building Societies between building societies and commercial banks and introduced a procedure for the demutualisation of a building society. The main Act 1986, which opened the way for competition beneficiaries of demutualisation were corporate managers who used conversion to boost their earnings and status, and speculative investors who profited from windfall gains. Losses to borrowers and to communities most likely outweighed these private gains.

WP206 Collective Employee Representation and the Impact of Law: Initial Response to the Employment Relations Act 1999)

Sep 01 *Sarah Oxenbridge, Simon Deakin, William Brown and Cliff Pratten*

Using data gathered primarily during interviews with managers and trade union officials, this paper examines how trade unions and employers have reacted to the introduction of the statutory procedure for union recognition in the Employment Relations Act 1999. The Act has had a substantial effect in shifting the balance of employer attitudes towards greater approval of trade unions and have accelerated the rate at which employers are redesigning their relationships with unions. Although employers are tending to restrict unions' influence over traditional issues such as pay-setting, they are increasingly seeking their assistance in implementing difficult organisational changes. The article explores the impact of such changes on trade union activity and collective representation more broadly.

WP207 Entrepreneurial Collaboration: Terms of Endearment or Rules of Engagement? Sep

01 *Thelma Quince*

Small business research has generated little in the way of information or advice on collaborative entrepreneurship. The paper reports the findings of a survey of 106 collaborative entrepreneurs and describes their assessments of the benefits and disadvantages of coownership and their evaluation of the factors making for its success. The findings illustrate how those involved saw collaborative entrepreneurship in terms of economic, organisational and interpersonal relationships. Whilst the benefits of collaboration were primarily economic, the affective aspects of the close inter-personal relationship provided the 'glue'.

WP208 On the Determinants of Industrial Firm Failure in the UK and Russia in the 1990's

Sep 01 *John Hunter and Natalia Isachenkova*

It has been common approach to apply empirical predictors for the UK and USA to Russian data on corporate insolvency, which would appear poor practice in the context of an economy in transition. The model for Russia indicates that profitability is the dominant predictor as compared with gearing and liquidity for the UK. In the context of softer budget constraints and the common use of barter in Russian payments, the results suggest that policy makers and practitioners should pay specific attention to the profit position of companies.

WP209 Understanding the Relationship Between Manufacturing Strategy and Competitiveness: Towards a Dynamic Approach

Sep 01 *Shekhar Jayanthi* Manufacturing firms are facing a "competitive gridlock" despite implementing strategic organizational and technological changes. Building on the product-process matrix and developments in organizational learning, we develop a two-level model that focuses on balancing the decisions related to the short-term and long-term organizational activities at both the firm and manufacturing levels dynamically. The model indicates that the system behaviour is *likely* to be dynamically robust as environmental uncertainty increases, suggesting that the set of drivers (practices and capabilities) of competitiveness *tends* to be bounded; the elements of this set are *likely* to be closely integrated across the two levels.

WP210 Changing Use of External Business Advice and Government Supports by SME's in the 1990's Sep

01 *Robert Bennett and Paul Robson*

This paper uses cross-sectional surveys of 1991 and 1997, and a panel survey of firms surviving between 1991 and 1997, to compare the levels of use by SMEs of external business advice. The analysis demonstrates only modest changes over time in aggregate use, and these are not statistically significant. This suggests that earlier growth in external business advice services may now have plateaued. Sector differences are shown to be considerable and need to be taken account of in future analyses.

WP211 A Uniform Choice of Law Rule for the Taking of Collateral Interests in Securities: Using Private Law Approaches to Reduce Credit and Legal Risk in Financial Systems

Sep01

Kern Alexander

Traditionally, securities were held, traded, and settled in *direct holding systems* in which owners of securities were either recorded on the issuer's register or were in physical possession of bearer securities certificates. Today, most-publicly traded securities are recorded electronically. Credit and liquidity risks arise in the context because there is uncertainty as to which legal system's rules apply to the disposition of collateral interests in securities. This legal uncertainty may lead to increased credit and liquidity risk. This paper analyses a recent Hague Conference Report that proposes a uniform conflict of law rule for determining which law should apply to the disposition of collateral interests in securities held in indirect holding systems. This paper argues that more legal uniformity across national systems is needed to devise common principles and rules for the creation, perfection, and protection of collateral interests in securities.

WP212 Markets, Competition, Cooperation and Innovation

Sep 01 *Mike Kitson, Jonathan Michie and Maura Quinn*

The paper analyses the relationship between, on the one hand, markets, competition and cooperation, and on the other hand, firms' innovative behaviour, drawing on ESRC Centre for Business Research survey results. A high level of *domestic* competition is positively correlated with the probability of innovating. In addition, inter-firm cooperation is found to be positively correlated with firms' probability of innovating. These results suggest that it is not just the *degree* of competition that is important but also the *nature* of the competitive process. Aspects of financial market pressure – such as a take-over bid – are found to be negatively correlated with the probability of innovating, especially in relation to product innovation.

WP213 The Management of Pay as the Influence of Collective Bargaining Diminishes

Sep 01 *William Brown, Paul Marginson and Janet Walsh*

The management of pay in Britain has changed substantially in recent years. The paper starts with a theoretical discussion of the extent to which individual employers can exercise discretion in the management of their employees' pay. It then examines the

ways in which pay is used to secure productive effort. An analysis of the influence of trade unions leads on to an examination of the diminishing influence of collective bargaining in British pay determination. The implications of this are discussed for employer pay strategies, within and between firms, and internationally. It concludes with the consequences of diminishing trade union influence for the distribution of pay.

WP214 Long-Run Share Performance of UK Firms Engaging in Cross-Border Acquisitions

Sep 01 *Charlie Conn, Andy Cosh, Paul Guest and Alan Hughes*

This study examines the impact of cross-border and domestic acquisitions on the long-run share returns of U.K. acquiring firms. We find evidence that the timing of cross-border acquisitions has a significant effect on post-acquisition returns. Cross-border postacquisition returns do not differ significantly according to the country of the target company.

WP215 The Long-Run Performance of Hostile Takeovers: UK Evidence

Sep 01 *Andy Cosh and Paul Guest*

This paper examines the long-run pre and post-takeover performance of hostile takeovers. Bidders in hostile takeovers are not superior performers in terms of profit levels, although share returns are significantly high prior to takeover. However, in the posttakeover period hostile takeovers show significant improvements in profit returns, which are associated with significant asset disposals. In contrast, friendly takeovers do not improve profit returns and result in significantly negative long-run share returns.

WP216 Managerial Discretion and Takeover Performance

Sep 01 *Andy Cosh, Paul Guest and Alan Hughes*

We investigate the relation between long run takeover performance and board share ownership in the acquiring company for a sample of 142 UK takeovers completed between 1985-95. We find evidence of a non-linear relationship both between board ownership and post-takeover share returns. We cast the analysis in a simultaneous equations framework using non-linear twostage least squares, and find that our results are robust to this alternative specification. The results are therefore consistent with a managerial alignment/entrenchment trade-off.

WP217 How Banks Construct and Manage Risk: A Sociological Study of Small Firm Lending in Britain and Germany Sep 01 *Christel Lane and Sigrid Quack*

This paper analyses the role of banks in financing SMEs in Britain and Germany. It applies a sociological institutionalist approach to understand how banks construct and manage risk, relating to SME business. The empirical analysis is based on the results of a comparative survey of a sample of British and German banks and also refers to statistical material produced by the banks themselves. The paper concludes that, even though bank-firm relations are still deeply embedded in national institutional frameworks, some tendencies towards convergence can also be observed, particularly among commercial banks from the two countries. These flow from both internationalisation and from the political influence of the EU.

WP218 University And Technology: Science and Technology Parks in the Cambridge Region Dec 01 *David Keeble*

This paper reviews the recent development and growth of small and medium-sized high-technology firms in the Cambridge region of the United Kingdom, as an example of an innovative and R&D-focused business cluster associated with a major international university and successful local science and technology parks. It discusses the concept of a local innovation system and the role of the UK's national innovation system, before attempting to assess the strengths and weaknesses of the Cambridge model of technology transfer and innovation as a possible paradigm of linkages between university research and local high-technology SMEs.

WP219 Income Inequality in Advanced Economies: A Critical Examination of The Trade And Technology Theories and an Alternative Perspective Dec 01 *Ajit Singh*

This paper critically examines the trade and technology theories which dominate the large and growing literature on the determinants of changes in income inequality in advanced industrial countries during the 1980s and 1990s. Both theories, despite their rather different approaches to the subject are shown to have a common premise: advanced countries have experienced a fall in the relative demand for unskilled labour and an increase in that of skilled labour. This single explanation for both phenomena has been dubbed the 'transatlantic consensus'. This paper argues that this consensus, together with the associated theories based on trade with the Third World and skill biased technological progress respectively, is analytically as well as empirically unsatisfactory. It puts forward an alternative analysis which emphasises the role of institutions (e.g. unions, minimum wages), macro-economic conditions and social norms. It naturally arrives at rather different policy conclusions from those of the orthodox economists.

WP220 How do Multinationals Build Social Capital? Evidence From South Africa

Dec 01 *Ian Jones, Chris Nyland, Michael Pollitt*

This paper looks at the self-reporting of social engagement by multinational firms in South Africa, developing previous measures of social capital to fit the unique context of the multinational firm – in particular mapping the configurations of declared engagement and the firms' provision. It finds large intersectoral variation which cannot be predicted by one factor alone, and sometimes wide intrasectoral variation. In particular (and for different reasons) 'extractive' and 'industrial' sector firms – traditionally criticised for their impact on communities - and 'medical' sector firms are engaged in practices conducive to the generation of social capital.

WP221 Who Influences Debates In Business Ethics? An Investigation Into The Development Of Corporate Governance In The UK Since 1990

Dec 01 *Ian Jones, Michael Pollitt*

We investigate the influences behind five major investigations into corporate governance in the UK since 1990: the Cadbury, Greenbury, Hampel and Turnbull Committees, and the Company Law Review. In each case we examine the roles of business, the authorities, public opinion and events in shaping the course of the investigation, its conclusions and its impact. We do this on the basis of interviews with members of the committees and analysis of newspaper coverage of the debates. The picture that emerges is one where the process of forming the investigating committee, its membership and its mode of operation strongly influence its recommendations and effectiveness. We draw conclusions that contrast the strong influence of the accountancy and legal professions in shaping the debate and the varied influence of the authorities, the media and events.

WP222 Insider Dealing And Market Abuse: The Financial Services And Markets Act 2000 Dec

01 *Kern Alexander*

The Financial Services and Markets Act 2000 (FSMA) provides the statutory framework for the new UK market abuse regime, which became effective on 1 December 2001. The FSMA market abuse regime provides new powers to the Financial Services Authority (FSA) to sanction anyone who engages in 'market abuse', that is misuse of information, misleading practices, and market manipulation, relating to investments traded on prescribed UK markets. It also applies to those who require or encourage others to engage in conduct that would amount to market abuse. FSMA's stated objective is to fill the 'regulatory gap' by giving the FSA substantial powers to punish unregulated market participants whose market conduct falls below acceptable standards, but does not rise to the level of a criminal offence. This paper analyses the major features of both the UK insider dealing legislation contained in Part V of the Criminal Justice 1993, the FSMA market abuse regime contained in section 118 of the Act, and the proposed European Union Directive on Market Abuse that represents a significant level of convergence in European securities regulation. The paper argues that an efficient price discovery process for securities markets can be facilitated only by a comprehensive regulatory regime that provides substantive standards and rules that ensure high standards of transparency and disclosure through effective enforcement.

WP223 Firm-Specific Attributes And MNE Location Choices: Financial And Professional Service FDI To New York and London

Mar 02 *Lilach Nachum and Cliff Wymbs*

In this paper, we sought to extend the theory of the location determinants of MNEs by challenging one of the fundamental assumptions underlying it, namely that location advantages are absolutes whose values are identical for different MNEs. We explicitly acknowledge the relative value of location advantages for individual MNEs and search for the firm-specific attributes affecting this variation. The findings confirm that the value of particular location advantages varies for MNEs with different attributes, and that it is the interaction between location and firm-specific attributes, rather than each of these independently, that affects location choices. Firms' previous experience in a country, the geographic scope of their acquisition activity, and their size were found to be particularly influential attributes.

WP224 International Business in a World of Increasing Returns

Mar 02 *Lilach Nachum*

This study examines the factors affecting the propensity of firms to engage in cross border activities in a world of increasing returns. A model connecting outward FDI from the US with a set of firm-specific advantages is estimated on samples of industries dominated by increasing and diminishing return processes.

WP225 Productive Systems and the Structuring Role of Economic and Social Theories Mar

02 *Frank Wilkinson*

The institutions of productive systems are structured by mutual interests and relative power. Securing mutually beneficial cooperation in production requires resolving distributional differences. These objectives are secured in liberal economic theory by the working of markets which mediate the power of individuals and reward individual success. The centrality of individuals and hierarchies in market theory contrasts with developments in labour management theory which identifies group activity and decentralised responsibility as productive factors and organisations as unitary. This neglects the separate interest that productive partners have and the role of institutions in resolving conflicts in productive systems to secure productive co-operation.

WP226 Corporate Ownership Structure and the Evolution of Bankruptcy Law in the US and UK Mar

02 *John Armour, Brian R. Cheffins, David A Skeel, Jr.*

The past decade has seen intense academic debates over possible explanations for the different systems of corporate ownership and control that exist in developed economies. Yet the role of bankruptcy as a mechanism of corporate governance has received relatively little attention. Furthermore, many theories have failed to account successfully for events occurring in the UK, notwithstanding its similarity to the US. In response, this paper offers an account of the complementarities between bankruptcy law and ownership structure, which it is argued can explain developments in both the UK and the US. By identifying the effects of concentration or dispersion in firms' capital structure (across both equity and debt), and by analysing implications of these capital structure choices for bankruptcy, the paper develops a richer account of the corporate governance patterns we see in different nations.

WP227 Network Embeddedness and the Value of Complex Resources

Mar 02 *Anastasios Karamanos*

This paper assesses the role of the structure of market networks in the imputation of value of knowledge-intensive resource exchanges. Our framework identifies two processes of knowing exchange value, namely knowing as learning and knowing as fad. We argue that knowing value as learning is enabled by the normative and cognitive proximity of exchange partners, and that this is facilitated by the centrality of the focal firm in market networks. We also argue that knowing value as a fad is based on a positional construction of the focal firm's status, which is determined by the centrality of the focal firm's network partners in their corresponding networks. This is a ranking system based on positional rather than reputational network data, whose efficacy stems from the inability of firms to manipulate their network positions because the latter are derived solely from the activities, events and relations in which the firms are actually involved.

WP228 A Panel Analysis Of UK Industrial Company Failure

Mar 02 *Natalia Isachenkova and John Hunter*

We examine the failure determinants for large quoted UK industrials using a panel data set comprising 539 firms observed over the period 1988-93. The empirical design employs data from company accounts and is based on Chamberlain's conditional binomial logit model, which allows for unobservable, firm-specific, time-invariant factors associated with failure risk. We find a noticeable degree of heterogeneity across the sample companies. Our panel results show that, after controlling for unobservables, lower liquidity measured by the quick assets ratio, slower turnover proxied by the ratio of debtors turnover, and profitability were linked to the higher risk of insolvency in the analysis period. The findings appear to support the proposition that the current cashflow considerations, rather than the future prospects of the firm, determined company failures over the 1990s recession.

WP229 Liability of Foreignness in Global Competition? Financial Service MNEs in the City of London Jun

02 *Lilach Nachum*

This study was inspired by the observation that foreign financial service firms operating in the City of London do not suffer the liability of foreignness to the extent suggested by theory. This study advances a theoretical framework that distinguishes three types of advantages that together account for the competitive performance of MNEs relative to that of indigenous firms.

WP230 Managing competences in entrepreneurial technology firms: a comparative institutional analysis of Germany, Sweden and the UK

Jun 02 *Steven Casper and Richard Whitley*

Researches the subsectors of the computer software and biotechnology industries in three distinct European countries: UK, Germany and Sweden, that vary in their level of technical change and appropriability.

WP231 Institutional transplant and American corporate governance: the case of Ferodyn

Jun 02 *Suzanne Konzelmann*

This paper examines the relationship between employment relations and American corporate governance using the case of Ferodyn*, American-owned Landis* Steel Corporation and Japanese-owned Daiichi* Steel Corporation (*fictitious names). The case study reveals the American system of corporate governance and the nature of power relations in the corporation created antigens that weakened both Landis's ability to support the joint venture and Ferodyn's ability to survive in an alien and hostile corporate, industry and macro-economic environment.

WP232 Lean Production and Manufacturing Performance Improvement in Japan, the UK and US 1994-2001 Jun

02 *Nick Oliver, Rick Delbridge, Harry Barton*

This study compared productivity and quality in the Japanese, US and UK automotive industries. A total of 26 first tier auto component makers were studied in 1994 and again in 1999-2001. The results show that the Japanese plants improved their labour productivity by around 20 per cent between 1994 and 2001, whilst productivity in the US plants remained static and in the UK plants actually fell (by 13 per cent) over the same period. All plants improved product quality, but the Japanese plants retained their lead with an average defect rate of 81 parts per million (ppm), compared to 111 ppm for the US plants and 416 ppm for the UK plants. There were few signs that the strong buyer-supplier relationships so characteristic of the Japanese auto industry were breaking down. However, independent firms such as Toyota and Honda appear to retain a stronger 'Japanese' character than their counterparts who have been acquired by non-Japanese companies.

WP233 'Meet the parents': the importance of 'pre-conception' conditions in facilitating high-technology spin-out companies

Jun 02 *Thelma Quince*

Encouraging the spinning out of high tech companies from higher education institutes (HEIS) is now a major tenet of industrial policy in the UK and other European countries. New enterprise formation is seen as a vehicle for technology transfer and the commercialisation of research by universities, and independent and government funded research institutes. Despite the proliferation of schemes and mechanisms supporting would-be entrepreneurs and their nascent enterprises, we are still some way from identifying the factors making for success. Understanding any scheme aimed at generating new technology based firms (ntbfs) requires a holistic approach which considers the nature of the parent research organisation, the local economic context, the specific objectives of the scheme and the changing needs of new enterprises. The nature of the parent is particularly important in setting what may be seen as 'pre-conception' conditions: namely inspiration, motivation, willingness to take risk and identification of potential idea. This paper describes differences found in these pre-conception conditions in a number of research organisations in the UK.

WP234 High Tech Businesses in the UK: performance and niche markets

Jun 02 *Thelma Quince and Hugh Whittaker*

This paper presents the findings of a survey of 237 high tech small and medium sized businesses based in the UK. The survey is part of an ongoing comparative study of high tech small businesses in the UK and Japan. The paper describes the growth, innovative activity and market structure of businesses studied. Based on characteristics of the businesses and their CEOs five 'types' of high tech small business are identified. Differences between the types of business in respect of market structure, competitive advantages and limitations suggest fundamental differences in 'niche' markets. At one extreme are niche markets in which the technology is embodied in the person: the scientific or technical expert, at the other niche markets in which the technology is embodied in the product or service product. Implications for innovation, growth and policy associated with these differences are discussed.

WP235 Close Encounters: Evidence of the potential benefits of proximity to local industrial clusters

Jun 02 *Thelma Quince and Hugh Whittaker*

Local clusters of high technology small businesses are of increasing interest to politician and academics. This papers draws on a study of 237 high tech small businesses located throughout the UK. Combining information on activity and location, firms were grouped according to their potential degree of embeddedness in local industrial clusters. Businesses with differing levels of cluster involvement were then examined in terms of market structure, supportiveness of local cluster and their performance. The findings lend support to the role of untraded rather than traded interdependencies in the dynamics of localised high tech clusters. Research indicating compensating behaviour by high tech businesses disadvantaged by location is also supported, emphasising the need to consider not only the location and activity but also entrepreneurial objectives.

WP236 MNEs in the digital economy?

Jun 02 *Lilach Nachum and Srilata Zaheer*

Technological advances are changing many aspects of business activity and in particular the meaning of distance and geography. Such changes are likely to have profound impact on firms whose activities take place over distance, namely MNEs. Using the motivations for FDI identified in the literature as a theoretical framework, this study examines the motivations of firms producing and selling products that can be transferred electronically in real time and at little or no cost, to establish operations outside their home countries. The paper advances a set of hypotheses regarding the likely motivations for foreign activity under such circumstances and provides some statistical testing for their prevalence in US inward and outward FDI. The findings suggest that the investment motivations of firms operating in the digital economy differ from those of firms in the traditional world. The most important motivations for FDI in the digital economy appear to be efficiency and the quest for intangible assets, especially those embedded in human capital, while market seeking and the search for low cost export platforms appear to be the dominant motivations for FDI in the traditional economy.

WP237 Theorizing Corporate Governance: New Organizational Alternatives

Jun 02 *Simon Learmount*

This paper contrasts 'economic' and 'organizational' approaches to corporate governance, in order to draw out some of their distinctive features and discuss their relative strengths and weaknesses.

WP238 Meanings of ownership of the firm

Jun 02 *Simon Learmount and John Roberts*

The notion of 'ownership of the firm' is central to conventional treatments of corporate governance, yet there is very little discussion about what this means in practice. In this paper we briefly draw attention to some of the debates around the notion of ownership in various disciplinary fields, and then recount and discuss some of the meanings associated with ownership of the firm that we have found in two empirical studies carried out in the UK and Japan. Our aim is to illuminate and disturb some of the commonly taken for granted notions of what it means to 'own' a firm.

WP239 Partnership in Practice

Jun 02 *Maria Hudson, Suzanne Konzelmann, Frank Wilkinson*

This paper examines human resource management practices adopted in a group of eight case study firms and their tendencies towards versus away from partnership.

WP240 Market Network and the Value in Knowledge Exchanges: Evidence from Biotechnology Strategic Alliances Sep 02 *Anastasios Karamanos*

Researchers have argued that market networks are an integral part of the firm's value output, but the extent to which the structural characteristics of firms and their partners in market networks mediate the link between network embeddedness and value generation remains a largely unexplored area of research. This paper argues that diffusion mechanisms within market networks enable them to selectively impute and know the value of inter-organisational knowledge exchanges. The purpose of this paper is to empirically determine the extent of this phenomenon in the context of the strategic alliance market network in the biotechnology industry. We find evidence that the position of firms' partners in the network of strategic alliances is a significant predictor of wealth gains from the announcement of knowledge exchange deals. Also, for explicit knowledge exchanges, the market reacts more to announcements by firms that are in the periphery of the strategic alliance network.

WP241 The Trading of Unlimited Liability Bank Shares: The Bagehot Hypothesis

Sep 02 *Charles Hickson and John Turner*

From the mid-1820s, banks became the first business sector in Great Britain and Ireland to be granted the right to form freely on an unlimited liability joint stock basis. Walter Bagehot, the renowned contemporary banking expert, warned that shares in such banks would ultimately be owned by widows, orphans and other impecunious individuals. An alternative hypothesis is that the governing bodies of these banks constrained by special legal restrictions on share trading acted effectively to prevent such shares being transferred to the less wealthy members of society. We test both conjectures using the archives of an Irish joint stock bank. The results do not support Bagehot's hypothesis, but instead indicate that shares continued to be owned by wealthy individuals.

WP242 Evolution for our time: a theory of legal memetics

Sep 02 *Simon Deakin*

The purpose of this paper is to explore the significance for legal thought of recent developments in evolutionary theory which are associated with the notion of 'memetics'. 'Memetics' aims to account for processes of cultural transmission and change using a version of the 'genetic metaphor'. This is the idea that patterns of cultural evolution are closely analogous to those which occur in the natural world as a result of the interaction between genes, organisms and environments. At a further, more ambitious level, the initial metaphor gives way to a search for mechanisms which unite biological and cultural evolution. Identifying these general evolutionary mechanisms is part of a wide-ranging, interdisciplinary research agenda.

WP243 Law, Innovation and Finance: A Review Sep 02 *John Armour*

A number of recent national and EU initiatives have sought explicitly to encourage innovative firms and venture capital finance. In keeping with the policy debate, this paper focuses explicitly on the role of law and lawyers in facilitating venture capital: that is, both supply by investors, and demand by entrepreneurs. It reviews existing literature in a way that seeks to clarify the links between law and legal institutions and the facilitation of venture capital finance, identifies open research questions and suggests a number of hypotheses. As such, it forms the first part of a wider study which will seek to test these hypotheses.

WP244 Deconstructing clusters: chaotic concept or policy panacea?

Sep 02 *Ron Martin and Peter Sunley*

Recently there has been growing interest in local industrial agglomeration and specialisation, by economic geographers, economists and policy-makers. Michael Porter's work on 'clusters' has proved by far the most influential to have emerged. His 'cluster theory' has become the standard concept in the field, and policy-makers worldwide have seized upon it as a tool for promoting national, regional and local competitiveness, innovation and growth. However, seductive though the cluster concept is, there is much about it that is problematic, and the rush to employ 'cluster ideas' has run ahead of many fundamental conceptual, theoretical and empirical questions. Our aim is to deconstruct the cluster concept in order to reveal and highlight our concerns relating to the definition of the cluster concept, its theorisation, its empirics, the claims made for its benefits and advantages, and its use in policy-making.

WP245 Capital account liberalization, free long-term capital flows, financial crises and economic development Dec 02 *Ajit Singh*

The first part of this paper examines the theoretical and empirical case for full capital account liberalisation in developing countries and finds it unconvincing. Indeed, analysis and evidence presented here point to a compelling case against it. The second part considers the liberalisation of only the long-term capital account, particularly FDI – a form of in-flow favoured by most economists.

This paper, however, argues that even FDI, if unregulated, may do more harm than good. It is suggested that DCs should, therefore, resist the new advanced country proposals for a multilateral agreement on FDI.

WP246 Competition and competition policy in emerging markets: international and developmental dimensions Dec 02 *Ajit Singh*

This paper examines the role of competition policy in emerging markets from a development and international perspective. Its main conclusions include: contrary to conventional wisdom, evidence suggests that the intensity of competition in leading emerging markets is certainly no less than that observed in advanced countries; analysis and evidence indicates that maximum competition is not necessarily optimal, in terms of dynamic efficiency; developing countries need a competition policy today, because of (a) privatisation and deregulation, and (b) the huge international merger wave will enhance global economic efficiency; and the current competition policies in the US and EU are unsuitable for developing countries. Countries at different levels of development and governance capacities require different types of competition policies. This paper presents a proposal for a development-oriented international competition authority to control anti-competitive conduct and growth by mergers of large multinationals.

WP247 Competition, corporate governance and selection in emerging markets Dec 02 *Ajit Singh*

The paper introduces the three articles in this Policy Feature, concerned respectively with the competition, corporate governance and selection in emerging markets. Apart from being important in their own right, it is shown how these topics have recently acquired urgent domestic and international policy significance. This overview also provides the intellectual background to the issues raised in the papers and examines their interrelationships in analytical, empirical and methodological terms. It outlines a research programme which would not only have direct policy relevance for both emerging and mature countries, but would also have broader analytical significance for many areas of economic theory.

WP248 Corporate profitability and the dynamics of competition in emerging markets: a time series analysis Dec 02 *Jack Glen, Kevin Lee and Ajit Singh*

The paper presents time-series analyses of corporate profitability in seven leading developing countries (DCs) using the common methodology of the persistence of profitability (PP) studies and systematically compares the results with those for advanced countries (Acs). Surprisingly, both short- and long-term persistence of profitability for DCs are found to be lower than those for Acs. The paper concentrates on economic explanations for these findings. It also reports the results on the persistence of the two components of profitability – capital – output ratios and profit margins. These too raise important general issues of economic interpretation for PP studies which are outlined.

WP249 How do multinationals build social capital? Evidence from Mexico.

Dec 02 *Ian Jones, Chris Nyland, Michael Pollitt*

This paper looks at the self-reporting of social engagement by multinational firms in Mexico, mapping the configurations of declared engagement. Such social engagements are an important component of how these companies contribute to social capital in the communities within which they operate. We find high performance by some firms, with negligible performance by others. Strong performing sectors include pharmaceuticals and healthcare, other chemical products and manufacturing. Two case studies – on Alcoa and Schlumberger – detailing different but successful approaches to social capital building are given.

WP250 Corporate governance, competition, the new international financial architecture and large corporations in emerging markets

Dec 02 *Ajit Singh, Alaka Singh, Bruce Weisse*

This paper examines from the developing countries perspective important analytical and policy issues arising from a) the current international discussions about corporate governance in relation to the New International Financial Architecture; b) changes in the international competitive environment being caused by the enormous international merger movement in advanced countries. The paper's main conclusions include: the thesis that the deeper causes of the Asian crisis were the flawed systems of corporate governance and a poor competitive environment in the affected countries is not supported by evidence; emerging markets, as well as European countries have successful records of fast long-term growth with different governance systems, indeed superior to those of Anglo-Saxon countries; corporate financing patterns in emerging markets in the 1990s continue to be anomalous, as they were in the 1980s; and the claim that developing country conglomerates are inefficient and financially precarious is not supported by evidence or analysis.

WP251 Gender Pay Inequity: a question for corporate social responsibility

Dec 02 *Jude Browne*

This paper examines the extent to which contemporary business-led approaches designed to maximize female human capital are effective in reducing the gender pay gap in the British labour market. In particular it asks whether the approach outlined by the latest Cabinet Office review on women's employment and pay in Britain, headed by Denise Kingsmill, can help overcome the

issue of gender pay inequality. The paper outlines Kingsmill's recommendations and then analyses their efficacy by means of a case study of a single organisation which has adopted many similar employment practices, the British Broadcasting Corporation (BBC). The paper uses descriptive statistics and qualitative analysis to test both the successes and limitations of these recommendations in overcoming the gender pay gap within the BBC. It concludes by arguing that a partnership between innovative methods of human resource management and corporate governance on the one hand and government-centred mechanisms of social policy on the other, offers the most likely solution to gendered pay inequality.

WP252 Do takeovers create value? A residual income approach on UK data

Dec 02 *Magnus Bild, Andy Cosh, Paul Guest, Mikael Runsten*

The paper develops and empirically tests a new methodology for evaluating the financial performance of takeovers. The existing accounting and event study methodologies do not adequately address the key issue of whether takeovers are a positive net present value investment for the acquiring company. Our methodology attempts this by employing the residual income approach to valuation, and comparing the present value of the acquirer's future earnings before acquisition, the acquirers cost of capital, and the earnings which are created beyond the sample period. The methodology is used for evaluating a comprehensive sample of UK acquisitions, with those that actually result in a significant improvement in profitability. However, the residual income approach reveals that on average, acquisitions destroy roughly 30 percent of the acquirer's pre-acquisition value.

WP253 Capabilities, social rights and European market integration

Dec 02 *Jude Browne, Simon Deakin and Frank Wilkinson*

This paper explores links between the economic notion of 'capabilities' and the juridical concept of social rights. We begin by revisiting TH Marshall's classic analysis of social rights and their ambiguous relationship in the market. We then examine how far Amartya Sen's Capabilities Approach provides a framework for locating social rights within a market setting. We argue that Sen's non-dogmatic, contact-oriented approach to defining the meaning of capabilities offers a viable way forward for thinking about the current tension between market rights and social rights in the EU. This argument is illustrated by reference to the role played by mechanisms of corporate social responsibility in promoting gender equality.

WP254 Implicit contracts, takeovers, and corporate governance: in the shadow of the City Code

Dec 02 *Simon Deakin, Richard Hobbs, David Nash, Giles Slinger*

This paper offers a qualitative, case-study based analysis of hostile takeover bids mounted in the UK in the mid-1990s, under the regime of the City Code on Takeovers and Mergers. It is shown that during bids, directors of bid targets focus on the concerns of target shareholders to the exclusion of other shareholders. A review of the case studies five years on finds that, almost without exception, mergers led to large-scale job losses and asset disposals. However, almost none of the bids were considered by financial commentators, at this point, to have generated shareholder value for investors in the merged company. While there is therefore clear evidence that the TC is effective in protecting the interests of target shareholders, the implications of the Code for efficiency in corporate performance are much less certain.

WP255 Lessons from the rise of the US Limited liability partnership

Dec 02 *Kern Alexander*

This working paper forms part of the CBR Research Programme on InThe limited liability partnership has been heralded as a cost-effective way of doing business for professional firms that seek to reduce the personal liability risk of partners who are not directly involved in negligent acts or wrongdoing. The LLP business form has been adopted by all US states and has proved widely popular for lawyers and accountants/auditors in reducing vicarious and joint and several liability exposure for the rendering of professional advice. The LLP structure allows professional firms to retain the benefits of the partnership structure, such as tax breaks and ease of operation, while reducing the personal liability of individual partners for torts and negligent acts committed by other partners. This paper examines the rise of LLPs statutes in the US by analysing the LLP statutes of three states that have proved prominent in recent litigation involving professional firms performing services in a negligent or reckless manner. The paper suggests that the liability protections of the US LLPs have not reduced risk, but simply shifted it onto customers, pensioners and the investing public. The liability limitation provisions of the US LLPs create a disincentive for professional firms to adopt effective risk management systems to control negligence and malfeasance within the professional firm. The paper suggests that the UK LLP statute addresses some of these issues because it requires LLPs to operate in a transparent manner, but the courts have yet to determine the extent of protection against personal liability that will be available to members not directly involved in negligence or wrongdoing. Future research should examine the implementation of the UK LLP statute and whether it can address the needs of business without increasing risks for consumers, employees and the investing public.

WP256 Determinants of the use of financial incentives in investment banking

Mar 03 *David Nash*

This paper examines the use of incentive pay schemes within the financial services sector in London. Various theories of wage determination are reviewed with particular attention placed on the principal-agent literature as a framework for analysing the use of incentive pay. This is combined with case study interviews and a number of hypotheses regarding the use of bonuses.

Quantitative analysis of a detailed industrywide survey validates the hypothesis that those occupations where output is easily identifiable receive higher bonus pay. The proximity of an occupation to the revenue generating activity within the organisation is also found to be significant in determining bonus levels, as is job grade within the organisation. The paper concludes that principalagent theories of wage determination are useful in understanding the use of bonus pay in the City, but need to be modified to take account of particular institutional characteristics, in particular the power of individual agents.

WP257 Globalisation, Labour Standards and Economic Development

Mar 03 *Ajit Singh and Ann Zammitt*

In recent years a few advanced countries have been advocating multilateral rules permitting punitive trade measures to be taken against countries not upholding core labour standards. The mainly developing target countries have rebutted these initiatives which they argue are protectionist, in intent and in effect. Whilst closely examining the economic arguments in this controversy, this paper is also concerned with the broader political and moral dimensions. The authors suggest that developing countries are committed to improving core and other labour standards; the reason why they are unable to implement many of these forthwith is not because of the wickedness of their governments, but essentially their economic circumstances and the structure of their economies. The paper concludes that core ILO Conventions 87 and 98 should be re-drafted to take into account the economic conditions of developing countries.

WP258 Corporate Governance, Corporate Finance and Stock Markets in Emerging Markets

Mar 03 *Ajit Singh*

This paper focuses on the inter-relationship between corporate governance, financing of corporate growth and stock market development in emerging countries. It explores both theoretically and empirically the nature of the inter-relationships between these phenomena, as well as their implications for economic policy. It concentrates on how corporate growth is financed, an area where the literature has identified important anomalies in relation to corporate behaviour and governance. The paper provides new information and analysis on this subject for the 1990s which it is shown leads to further anomalies from the perspective of extant economic theory. It also comments briefly on the recent research on the legal system, corporate laws, corporate governance and corporate performance. In considering the latter issues the paper examines more closely the evolution of the financing of corporate growth and of stock market development in the specific case of the Indian economy in the 1980s and 1990s.

WP259 Changes in Corporate Governance of German Corporations: convergence to the Anglo-American model?

Mar 03 *Christel Lane*

This paper examines the many changes which have transformed the German system of corporate governance during the last seven odd years. It concludes that it is in the process of converging towards the Anglo-American system and that this has fundamentally affected the way strategic decisions are made in firms. Large, internationally oriented companies are particularly affected. But the notion of shareholder value and its many behavioural effects are gradually spreading also to other parts of the economy. Consequently, the distinctive logic, which had underpinned the German variety of capitalism during most of the postwar period, is eroding. This transformation is affecting also labour and industrial relations in negative ways. The argument is empirically substantiated with data about recent trends in capital markets, banks and firms. The paper theoretically examines institutional change, focussing on the notions of system logic and institutional complementarity. It examines both external sources of change and internal powerful actors who promote the process of transformation. The notion of hybridisation of the German business system is examined but is rejected in favour of a trend towards convergence. Convergence is not seen as a functional necessity, nor is it viewed as inevitable.

WP260 The Home-based Advantages and a Hierarchy of Location Advantages: Foreign and British-owned Firms in the London Wholesale Insurance Market

Jun 03 *Lilach Nachum*

This study seeks to explain why, in some cases, locationally advantageous countries attract foreign firms, who develop dominant competitive positions in the market, rather than facilitate the development of internationally competitive national firms, as theory suggests. Comparative analyses of samples of foreign and British-owned insurance firms in the London wholesale insurance market are used to establish a hierarchy of location advantages in terms of their competitive importance. It is shown that foreign affiliates compensate for their liability in accessing Britain's location advantages by accessing resources via the MNE internal networks. Their competitive strength is based primarily on such resources. The contributions of the findings to the conceptualisation of the MNE as an internal network within an external network, and the potential substitution of internal and external resources, are discussed. The implications for the theory of the national origin of the competitive advantages of MNEs are outlined.

WP261 The Effect of Board Structure on Bidder-Shareholders' Wealth: Further Evidence from the UK Bidding Firms

Jun 03 *Charalambos Th. Constantinou and Costas Th. Constantinou*

In this study we provide evidence of cross-sectional dependence of bidder-shareholder wealth and target's board characteristics. More specifically we provide evidence that the percentage of non-executives, the board size, the stock holdings of executives, and the other directorships held by non-executives serving the target board are important in assessing the announcement of the bid, whereas in the bidder's board only the percentage of non-executive directors is important for bidder-shareholders. In addition to that we provide evidence that some of these relationships are not monotonic in nature. Finally, in this study it is documented that bidder-shareholder wealth is favoured in acquisitions where bidders have marginally more executive than non-executive directors in their boards and therefore the question arises as to whether "dependent" boards are more efficient than "independent" ones.

WP262 Globalisation and its Impact on Competitiveness: The Case of the British and German Pharmaceutical Industry
Jun 03 *Christel Lane and Jocelyn Probert*

This paper assesses the degree of financial and economic globalisation of British and German pharmaceutical companies during 1990 and 2001 and explores the changing balance between globalisation and national embeddedness. It tries to explain both the much lower degree of globalisation of German as compared to British companies in 1990, as well as their catching up at the beginning of the 21st century. The paper suggests that the lesser degree of globalisation of German firms during most of the 1990s partly explains their slide in competitiveness during this period. The conclusion examines prospects for the future of firms in both economies. The paper draws on detailed industry data, as well as case studies of the major firms in the two national industries.

WP263 Growth Response to Competitive Shocks: Market Structure Dynamics under Liberalisation – the Case of India
Jun 03 *Uma S. Kambhampati and Paul A. Kattuman*

Liberalisation transforms market structures through the behavioural responses of incumbent firms and entrants, large firms and small, to enhanced freedom of choice. Change in market share volatility, and change in the effective agility of small and large firms underpin changes in market structure. We analyse these processes for Indian manufacturing industries over the 18-year period from 1980, spanning the domestic liberalisation of 1985 and the more comprehensive reforms of 1991, using a data set of large and medium firms in 83 industries. We find that while market structures themselves appeared to change little, turbulence in market shares, as well as the way growth is related to size responded markedly, differing in direction and magnitude, depending on whether the liberalisation was partial and domestic, or comprehensive. We find that they tended to offset each other, leading to little visible change in market structure itself. We also find that while drivers of market structure traditionally recognised in industrial organisation studies had significant impacts on both components of concentration change, their dynamics are captured very well by a parsimonious model that has just the announcement effects - the reform dates.

WP264 N/A

WP265 Capital Structure, Rates of Return and Financing Corporate Growth: Comparing Developed and Emerging Markets, 1994-00
Jun 03 *Jack Glen and Ajit Singh*

Firm level data from financial statements for nearly 8,000 listed companies in 22 emerging and 22 developed countries over the period 1994-00 are examined. Capital structure, asset structure, rates of return and financing patterns are compared across countries and over time. Generally, there are as many similarities as differences between the two groups. The differences include lower levels of debt to finance assets and lower levels of current assets in emerging markets compared with developed countries. Returns on assets, expressed in local currency, are comparable in the two groups but appear more volatile in emerging markets.

WP266 Shareholder Primacy and the Trajectory of UK Corporate Governance

Jun 03 *John Armour, Simon Deakin and Suzanne J. Konzelmann*

Core institutions of UK corporate governance, in particular those relating to takeovers, board structure and directors' duties, are strongly orientated towards a norm of shareholder primacy. Beyond the core, in particular at the intersection of insolvency and employment law, stakeholder interests are better represented, thanks to European Community influence. Moreover, institutional shareholders are redirecting their investment strategies away from a focus on short-term returns, in such a way as to favour stakeholder-inclusive practices. We therefore suggest that the UK system is currently in a state of flux and that the debate over shareholder primacy has not been concluded.

WP267 Interpreting Employment Contracts: Judges, Employers, Workers

Jun 03 *Simon Deakin*

This paper reports findings from a survey designed to estimate the numbers excluded from employment protection in the UK by the 'employee' test and to examine, through qualitative research, perceptions of the process of employment contracting. The survey evidence shows that approaching one third of the labour force does not fit neatly into the categories of 'employee' and 'self employed'. The case studies suggest that there is a considerable disjuncture between the assumptions of choice, control and risk that underlie the legal tests, and the perception of these issues by workers whose employment status is most in doubt.

WP268 Are Good Managers Required for a Separation of Ownership and Control? Sep

03 *Brian R Cheffins*

Logically, in a corporate governance system where big companies are widely held and control over corporate policymaking is delegated to a cohort of full-time executives, there needs to be "good" managers. In Britain, however, ownership separated from control in large business enterprises at a time when the country's corporate executives were allegedly amateurish and complacent. The paper examines this British paradox and concludes that dynamics affecting institutional investors explain how ownership structures were reconfigured when doubts existed about managerial quality.

WP269 Towards Governance for Uncertain Times: Joining up Public, Business and Civil Society Sectors Sep

03 *Ken Coghill*

This paper examines the complexity and "fuzzy logic" actually at play in governance in case studies such as HIH (Australia) and Enron (USA). The rules applying to each sector cannot fully explain events. Non-prescribed factors influencing behaviours affecting the interconnections, interdependencies and interactions of the individuals and institutions concerned often determine outcomes. Socio-political systems are dynamic complex evolving systems that function according to bounded self-organisation. Their governance often involves decision-making behaviour that does not operate according to formulaic rules but is analogous to the fuzzy logic according to which certain systems behave. Viewing the relationship between public management as regulators, corporations and others as complex dynamic relationships assists understanding the role of unanticipated events and the management of responses and adaptation to uncertainty in a society's internal and external environments. This can facilitate the protection and advancement of the public interest by public management.

WP270 Significant Feedbacks in Firm Growth and Market Structure

Sep 03 *Paul Kattuman and Alexandru Chirmiciu*

There are some markets where the growth of firms are held to be subject to diminishing returns, or negative feedbacks; and there are other markets where firm growth is believed to be subject to increasing returns, or positive feedbacks. A long run tendency towards monopoly might be expected in this latter market type, as opposed to a tendency towards relative equality of size shares in the former. It would be useful to draw inferences about the nature of the feedback process from observed market shares and concentration. We motivate and develop a test for feedbacks in firm growth under the null hypothesis that there are none. We use the equivalence between an urn model of the no-feedback process and the asymptotic distribution of sums of ordered intervals in the random division of the unit interval. In the empirical application for the United States, we find that most markets are subject to significant positive feedbacks.

WP271 Entrepreneurial Orientation and Entrepreneurs' Intentions and Objectives

Sep 03 *Thelma Quince and Hugh Whittaker*

Entrepreneurship has become an important issue for policy. At one level, enterprise creation is recognised as important for employment growth and effecting structural change; at another, there is concern to encourage existing firms to become more entrepreneurial as a means of enhancing international competitiveness. Entrepreneurial orientation (EO) reflected in recurring organisational behaviour such as innovativeness, pro-activeness and risk-taking is important in the latter context. This paper explores the extent to which differences in motives, intentions and personal objectives held by entrepreneurs were reflected in organisational behaviour relating to the dimensions of EO suggested by Lumpkin and Dess.

The paper reports on a group of 153 high-tech CEOs first surveyed in 1998 when information was sought about their family and educational background, antecedents to setting up in business, motivations for doing so and personal objectives. The same CEOs were subsequently surveyed early in 2001. This second study examined ownership structures, perception of competitive issues, market characteristics, innovative behaviour, attitudes towards HRM policies, personal objectives, approaches towards risk and recent performance.

WP272 The Beer Beneath The Froth: Preliminary findings from case studies of 25 small high technology firms

Sep 03 *Thelma Quince and Hugh Whittaker*

Across Europe those who create and run high-tech SMEs have become a primary focus of industrial policy. Part of the rationale for the focus on small high-tech firms lies in the desire to emulate the experience of the US, particularly Silicon Valley and Boston in which spinning off new ventures from research institutions has been seen to play a key role. By comparison the performance of Europe's research base has been less dynamic. A more pro-active stance towards new ventures created by HEIs is welcomed, however to focus policy too narrowly on this group has inherent dangers. There is a danger of implicitly promoting a particular business model: one emphasising personal financial gain and venture capital funding, which may be at variance with those prevailing among the broad spectrum of existing high-tech small firms. The characteristics, pre-occupations and problems of the vast bulk of small firms operating in high-tech sectors, and making a contribution to international competitiveness through innovation and export may be overlooked in the current policy climate. By way of redress this paper reports the preliminary findings from a qualitative study of 25 existing small high technology firms in the UK. The themes outlined include: the motivation and drivers of entrepreneurship, the nature of collaboration with HEIs, relationships with customers and the development of 'customer empathy' and experiences of venture capital.

WP273 Knowledge Transfer, Entrepreneurship and Economic Growth: Some Reflections and Implications for Policy in the Netherlands

Sep 03 *Alan Hughes*

This paper provides an overview of the relationship between entrepreneurship university spin-off activity and economic growth. It suggests the need for a diversified university structure, and that spin-offs are a misleading measure of the most important activity for technology transfer which remains the training and education of highly qualified scientists and technologists. It argues that a linear approach to the innovation process positioning basic science at one end of a chain and commercialization at the other is misleading. The reality is more complex and incorporates important areas of activity where consideration of use and the pursuit of basic science go hand in hand.

WP274 Learning from Enron

Sep 03 *Simon Deakin and Suzanne J. Konzelmann*

This essay argues that the Enron affair has been misunderstood as a failure of monitoring, with adverse consequences for the drafting of the Sarbanes-Oxley Act and the Higgs report. Where Enron's board failed was in underestimating the risks that were inherent in the company's business plan and failing to implement an effective system of internal control. Enron demonstrates the limits of the monitoring board and points the way to a stewardship model in which the board takes responsibility for ensuring the sustainability of the company's assets over time.

WP275 Exports, FDI, Linkages and Regional Disparities in China

Dec 03 *Xiaolan Fu*

Pronounced disparities in income and economic opportunities between the coastal and the inland regions of China have often been noted. This paper explores the proposition that regional disparities in China are intimately linked with the structure of her exports and FDI, which results in limited linkages from the growth engines. The spillover and migration effects of exports and FDI on regional income inequalities are investigated. The emphasis on FDI-driven labor-intensive processing-type exports in the coastal regions is found to have attracted the relatively mobile and efficient resources from the inland regions, but have only offered limited growth linkages to them. All this has exacerbated the backwardness of the inland regions.

WP276 The Impact on U.K. Acquirers of Domestic, Cross-border, Public and Private Acquisitions

Dec 03 *Robert L. Conn, Andy Cosh, Paul M. Guest and Alan Hughes*

We examine the announcement and post-acquisition share returns of 4,000 acquisitions by U.K. public firms during 1984-1998. We include acquisitions of domestic and cross-border targets, and of both publicly quoted and privately held targets. In acquisitions of domestic public targets, abnormal returns are negative over both the announcement and post-acquisition period. In acquisitions of cross-border public targets, abnormal returns are zero over the announcement period but negative over the post-acquisition period. In contrast, acquisitions of both domestic and cross-border private targets result in positive announcement returns and zero long run returns. The main difference between private and public acquisitions is that glamour acquirers experience negative announcement and long run returns in public acquisitions, whereas glamour acquirers do not under-perform in private acquisitions. Furthermore, whereas the under-performance of domestic public acquisitions is limited to acquirers using non-cash methods of payment, acquirers of domestic private targets that use non-cash methods do not under-perform. Overall, crossborder acquisitions result in lower announcement and long run returns than domestic acquisitions. In cross-border acquisitions involving high-tech firms both announcement and long run returns are positive, whilst non-high-tech cross-border acquisitions experience zero announcement returns followed by negative long run performance. Our results also suggest that, in cross-border acquisitions, the national cultural difference between the bidder and target countries has a significantly negative impact on long run returns.

WP277 Understanding How Issues in Corporate Governance Develop: Cadbury Report to Higgs Review

Dec 03 *Michael Pollitt and Ian Jones*

Issues in corporate governance develop according to an identifiable process. Using the influence model of Jones and Pollitt (2002) we compare the conduct of and influences on the investigations leading to the Higgs Review (2003) and the Cadbury Report (1992). We suggest that while there are similarities in the investigations there are important differences arising from the review process adopted, the role of the government, the background of the leaders of the investigations and the influence of academics. These differences have had important implications for the effectiveness of the implementation of the conclusions of the Higgs Review.

WP278 Exports, Technical Progress and Productivity Growth in Chinese Manufacturing Industries

Mar 04 *Xiaolan Fu*

Theories suggesting either static or dynamic productivity gains derived from exports often assume the prior existence of a perfect market structure. In the presence of market failure, however, the competition effect and the resource reallocation effect of exports on productive efficiency may be greatly reduced; and there may actually be disincentives for innovation. This paper analyses the impact of exports on total factor productivity (TFP) growth in a transitional economy using a panel of Chinese manufacturing

industries over the period 1990-1997. TFP growth is estimated by employing a non-parametric approach and is decomposed into technical progress and efficiency change. We have not found evidence suggesting significant productivity gains at the industry level resulting from exports. Findings of the current study suggest that, for exports to generate significant positive effect on TFP growth, a well-developed domestic market and a neutral, outward-oriented policy are necessary.

WP279 Labour Standards and the “Race to the Bottom”: Rethinking Globalisation and Workers Rights from Developmental and Solidaristic Perspectives

Mar 04 *Ajit Singh and Ann Zammit*

There is a protracted stalemate between rich (the North) and poor (the South) countries over the question of minimum labour standards in developing economies. This paper is a sequel to Singh and Zammit (2000). It considers afresh key issues in the controversy. While fully recognizing the moral, political and philosophical dimension of this complex issue, the paper concentrates on the central economic question of the “race to the bottom”. It emphasizes the difficulties of establishing labour standards in the vast informal sectors in developing countries and suggests that the ILO conventions 87 and 98 should be amended to properly reflect these concerns. It also argues that ILO core conventions should be broadened to include the right to decent living. The overall conclusion is that labour standards are important indicators of economic development but their promotion is best achieved in a noncoercive and supportive international environment such as that provided by the ILO.

WP280 The Impact of Regulatory Stringency on the Foreign Direct Investment of Global Pharmaceutical Firms

Mar 04 *Beth Ahlering*

Cross-national regulatory differences in safety, price and intellectual property protection are an inherent feature of the operating environment of the global pharmaceutical firm. Institutional, transaction cost and more recent ‘race to the bottom’ theories assume that regulation represents a cost to the firm; therefore firms ‘vote with their feet’ and avoid investment in stringently regulated markets. However, a cross-national empirical study of the FDI levels of 20 firms across 19 markets reveals that regulatory stringency is not related to FDI, and price control stringency is positively related to FDI, when controlling for other market factors. National governments are not powerless in games of regulatory arbitrage, and have in fact developed adaptive strategies to maintain high regulatory standards and FDI simultaneously. Furthermore, global firms weigh various factors in their investment decisions, and suffer from classic optimisation problems, including information asymmetries and bounded rationality, which prevent total ‘regulatory optimisation’. The implications for existing theories of international business, globalisation and regulation are discussed.

WP281 The Legal Road to Replicating Silicon Valley

Mar 04 *John Armour and Douglas Cumming*

Must policymakers seeking to replicate the success of Silicon Valley’s venture capital market first replicate other US institutions, such as deep and liquid stock markets? Or can legal reforms alone make a significant difference? In this paper, we compare the economic and legal determinants of venture capital investment, fundraising and exits. We introduce a cross-sectional and time series empirical analysis across 15 countries and 13 years of data spanning an entire business cycle. We show that the legal environment matters as much as the strength of stock markets; that government programmes more often hinder than help the development of private equity, and that temperate bankruptcy laws stimulate entrepreneurial demand for venture capital. Our results provide generalizable lessons for legal reform.

WP282 Opting Out of the 48-hour Week – Employer Necessity or Individual Choice? An Empirical Study of the Operation of Article 18(1)(b) of the Working Time Directive in the UK

Mar 04 *Catherine Barnard, Simon Deakin and Richard Hobbs*

The EU Working Time Directive has so far had little impact on an ingrained culture of long-hours working in the UK. Case studies suggest that the use of individual opt-outs from the 48-hour limit on weekly working time is a principal reason for this. However, removal of the individual opt-out (currently under consideration at EU level) is unlikely to make much difference to UK practice in the absence of a wider review of working time policy. In particular, the UK’s individualised system of workplace bargaining is currently illplaced to adapt to a continental European model of working time regulation.

WP283 Between the Global and the Local: a Comparison of the British and German Clothing Industry

04 *Christel Lane and Jocelyn Probert*

The clothing industry is regarded as one the most globalised industries of developed economies, yet most studies focus on the geography of production for US firms and pay scant attention to the geography of trade or to other national cases. This paper broadens the perspective to cover the whole network of German and British clothing firms’ relationships by examining both their supply chain organisation and their market strategy, including their relations with retailers. It demonstrates the interdependencies between their strategic responses at different stages of the value chain and shows that relationships with both suppliers and customers have strongly defined the industry and firms in both countries, albeit differently. The global context of the clothing industry and the common pressures experienced by the national industries are also considered. We draw on industry statistics and on early impressions from interviews with clothing firms and retailers in both countries during 2003.

WP284 Entry, Exit and the Dynamics of Productivity Growth in Chinese Manufacturing Industry Mar
04 *Qing Gong, Yang*

In this paper we have attempted to examine aspects of the competitive selection process, firms' entry, survival and exit, in an important sector of Chinese manufacturing, looking in particular for changes resulting from the latest stage of reform, dubbed the transition to the "socialist market economy". These dynamic processes may be becoming increasingly important for the continuing growth of manufacturing, as the agricultural sector as a source of surplus labour begins to decline.

Our analysis suggests that the competitive selection process is taking shape in China, with new firm entries contributing substantially to both output growth and productivity growth, however old firm is still an important stabilizing element in determining the trend of the economy. Our analysis also suggests that it is insufficient to analyse the competitive process from the point of view of new firm entry and incumbent firm growth alone; firms' exit needs to be examined as well.

WP285 Multinationals in Developing Communities: How EU Multinationals Build Social Capital in Poland

Mar 04 *Ian W. Jones, Chris M. Nyland and Michael G. Pollitt*

Corporate Social Responsibility (CSR) is usually an area that does not lend itself easily to inter-company or cross-country analysis. This paper is an attempt to provide some metrics of multinational CSR drawing on the recent literature on social capital. We look at the self-reporting of social engagement in Poland by European multinational firms with operations there, mapping the configurations of declared engagement. Such social engagements are an important component of how these companies contribute to social capital in the communities within which they operate. We find high performance by some firms, with stronger performance depending upon the multinational's country of origin. Two case studies - on Bayer and Danone - detailing different but successful approaches to social capital building are given.

WP286 Exports, FDI, Growth of Small Rural Enterprises and Employment in China

Jun 04 *Xiaolan Fu, VN Balasubramanyam*

This paper analyses the growth of employment in China during the post reform period. It argues that the Chinese experience with export-led growth provides an excellent example of the phenomenon of a vent for surplus productive capacity provided by exports, identified by Adam Smith in the Wealth of Nations and elaborated by Hla Myint. The paper extends the Smith-Myint model of 'vent-for-surplus' productive capacity to 'vent-for-surplus' resources by allowing foreign investment inflows. The 'vent-for-surplus' effect of exports on employment growth is examined in a dynamic labour demand framework for a panel of township and village enterprises (TVEs) in China.

WP287 Has China's Economic Reform Improved Enterprise Performance? A DEA Evaluation of China's large and medium enterprises

Jun 04 *Qing Gong, Yang* This paper attempts to investigate whether China's economic reform has improved enterprise performance, and what determine enterprise efficiency in the context of China's transition. Contrast to the results of improving enterprise performance measured by TFP from other studies, we find that there is a general tendency of divergence of enterprise efficiency rather than a convergence of firm's efficiency as is expected from a competitive market. Further econometric analysis suggests that firms of different ownership types seem to respond similarly to catch up with technology frontier, enterprise reform characterised by profit retention program have improved firms' efficiency at the initial stage of reform, and market competition seems to be working, but ineffectively.

WP288 Corporate Governance, Competition and Finance: Re-thinking lessons from the Asian Crisis Jun

04 *Ajit Singh, Jack Glen*

This paper critically examines the Greenspan-Summers-IMF thesis concerning the Asian crisis, which suggested that the fundamental causes of the Asian crisis lay in the microeconomic behavior of economic agents in these societies – in the Asian way of doing business. The paper concentrates on corporate governance and competition in emerging markets and outlines the international significance of these issues in the context of the New International Financial Architecture and the Doha Development Round at the WTO. It reviews new analyses and fresh evidence on corporate governance, corporate finance and on competition in emerging and mature markets, to suggest that the basic thesis above is not valid and the consequent policy proposals are therefore deeply flawed.

WP289 Reforming the Governance of Corporate Rescue: the Enterprise Act 2002

Jun 04 *John Armour, Rizwaan Jameel Mokal*

English corporate insolvency law has been reshaped by the Enterprise Act 2002. The Act was intended to 'to facilitate company rescue and to produce better returns for creditors as a whole'. Administrative receivership, which placed control of insolvency proceedings in the hands of banks, is for most purposes being abolished. It is being replaced by a 'streamlined' administration procedure. Whilst it will still be possible for banks to control the appointment process, the administrator once in office owes duties to all creditors and must act in accordance with a statutory hierarchy of objectives. In this article, we seek to describe, and to evaluate, this new world of corporate rescue.

WP290 In the Mirror of the Market: the disciplinary effects of company/fund manager meetings

Jun 04 *Richard Barker, Paul Sanderson, John Hendry and John Roberts*

We consider the consequences of the regular private meetings between directors of FTSE 100 companies and their major institutional shareholders. Whilst the economic incentives for both the flow of information and the formation of 'strategic informational relationships' between the two have been described elsewhere, little attention has been paid to date to the effects that increased levels of monitoring and surveillance have on the conduct and performance of company directors. We present findings from a qualitative study in which we interviewed finance directors and fund managers, and observed a series of meetings between them. We draw on Foucault's analysis of the operation of disciplinary power to suggest that the meetings serve as ritual reminders to directors that their primary objective must be the pursuit of shareholder value, a task that whilst empowering, may also have unintended consequences.

WP291 Exploring the patent explosion

Sept 04 *Bronwyn H. Hall*

This paper looks more closely at the sources of patent growth in the United States since 1984. It confirms that the increase is largely due to US patenters, with an earlier surge in Asia, and some increase in Europe. Growth has taken place in all technologies, but not in all industries, being concentrated in the electrical, electronics, computing, and scientific instruments industries. It then examines whether these patents are valued by the market. We know from survey evidence that patents in these industries are not usually considered important for appropriability, but are sometimes considered necessary to secure financing for entering the industry. I compare the market value of patents held by entrant firms to those held by incumbents (controlling for R&D). Using data on publicly traded firms 1980-1989, I find that in industries based on electrical and mechanical technologies the market value of entrants' patents is positive in the post-1984 period (after the patenting surge), but not before, when patents were relatively unimportant in these industries. Also, the value of patent rights in complex product industries (where each product relies on many patents held by a number of other firms) is much higher for entrants than incumbents in the post-1984 period. For discrete product industries (where each product relies on only a few patents, and where the importance of patents for appropriability has traditionally been higher), there is no difference between incumbents and entrants.

WP292 Incentives for knowledge production with many producers

Sep 04 *Bronwyn H. Hall*

In this paper, I briefly review the motivations for inventive behavior and describe two common incentive systems that harness and encourage such behavior. This review of well-trodden ground is performed only so that the implications of the rise of the networked knowledge economy for the effectiveness of these incentive systems can be noted. Some theoretical results on the operation and stability of the two incentive systems for the production of knowledge are presented with a discussion of how they might apply in the networked economy. The paper concludes with suggestions on open research questions.

WP293 The Corporate-Fund Management Interface: Objectives, Information and Valuation

Sep 04 *Richard Barker, Paul Sanderson, John Hendry and John Roberts*

Fund managers are the primary investment decision-makers in the stock market, and corporate executives are their primary sources of information. Meetings between the two are therefore central to stock market investment decisions but are surprisingly under researched. There is little in the academic literature concerning their aims, content and outcomes. We report findings from interview research conducted with chief financial officers and investor relations managers from FTSE 100 companies and with chief investment officers and fund managers (FMs) from large institutional investors. Of particular interest we note that FMs place great reliance on discounted cash flow valuation models (despite informational asymmetry in favour of CFOs). This leads the former to seek to control encounters with the latter and to place great store on the clarity and consistency of corporate messages, ultimately relying on them for purposes other than estimating fundamental value. We consider some of the consequences of this usage.

WP294 Reflexive Law, Corporate Social Responsibility and the Evolution of Labour Standards: the case of working time

Dec 04 *Catherine Barnard, Simon Deakin, Richard Hobbs*

Through an empirical study of working time in the United Kingdom, we explore the scope for initiatives based on corporate social responsibility (CSR) to engender voluntary action by employers to raise labour standards. Our evidence suggests that a CSR-based approach faces considerable problems of implementation in this area, in large part because the legal mechanisms which might underpin CSR ('reflexive law') have not yet been effectively developed.

WP295 Motor Vehicle Recalls: trends, patterns and emerging issues

Dec 04 *Hilary Bates, Nick Oliver, Matthias Holweg, Michael Lewis*

This paper examines patterns and trends in motor vehicle safety recalls using a dataset based on 23.1 million vehicles registered in the UK between 1992 and 2002. A safety recall occurs when vehicle manufacturers call vehicles that have been sold and are in use back to their dealerships for safety-related remedial work. Safety recalls can be costly for car makers, and potentially harmful to brand and image. The data show that the incidence of vehicle recalls has been increasing – between 1998 and 2002 there was an average of over 120 recall incidents per annum in the UK, compared to less than 50 per annum between 1992 and 1994. Total numbers of vehicles recalled show no trend over time, but absolute level of recalls year on year is very high: 10.8 million vehicles were recalled during 1992-2002, representing 47% of all vehicle registrations in the period. Moreover, there are substantial differences in recall rates between different car manufacturers, suggesting that recall rates may be a useful final

indicator of process performance in the car design-and-production chain. European and American producers have recall rates that are nearly three times greater than their East Asian counterparts. This paper offers some suggestions for corporate differences in propensity to recall, and concludes with an agenda for further research.

WP296 Owners, traders and providers of capital: the multiple faces of institutional investors

Dec 04 *Richard Barker, Paul Sanderson, John Hendry and John Roberts*

We draw on a series of in-depth interviews with senior fund managers and senior company executives to explore how different and often-contradictory conceptualizations of institutional investors, their role in the corporate governance process, and their interactions with corporate management, are reflected in the attitudes and perceptions of the actors concerned. We find that while conceptualizations in terms of agency and ownership dominate both academic and popular discourses, the actors conceptualize institutional investors more as financial traders and, from the management perspective, politically powerful resource providers.

WP297 Responsible ownership, shareholder value and the new shareholder activism

Dec 04 *Richard Barker, Paul Sanderson, John Hendry and John Roberts*

In this paper we use interview data to explore the 'new shareholder activism' of mainstream UK institutional investors. We describe contemporary practices of corporate governance monitoring and engagement and how they vary across institutions, and explore the motivations behind them. Existing studies of shareholder activism mainly assume that it is motivated by a desire to maximise shareholder value, and we find some evidence both of this and of alternative political/moral motivations related to ideas of responsible ownership. We conclude, however, that in the current situation both these act primarily as rationalisations rather than as genuine motivators. The main driving force behind the new shareholder activism is the institutions' own profit maximisation and the need to position themselves against competitor institutions in the context of political and regulatory changes that have significantly changed the non-financial expectations of their clients.

WP298 R&D And Patenting Activity And The Propensity To Acquire In High Technology Industries Mar

05 *Panayotis Dessylla Alan Hughes*

In this paper we investigate the incidence of high technology acquisitions using a large international sample of acquisitions by public high technology firms.

WP299 The Proprietary Foundations Of Corporate Law

Mar 05 *John Armour The late Michael J. Whincop*

Recent work in both the theory of the firm and of corporate law has called into question the appropriateness of analysing corporate law as 'merely' a set of standard form contracts. This working paper develops these ideas by focusing on *property law's* role in underpinning corporate enterprise.

WP300 Bankruptcy Law And Entrepreneurship

Mar 05 *John Armour Douglas Cumming*

Entrepreneurs, catalysts for innovation in the economy, are increasingly the object of policymakers' attention. Recent initiatives both in the UK and at EU level have sought to promote entrepreneurship by reducing the harshness of the consequences of personal bankruptcy law. Whilst there is an intuitive link between the two, little attention has been paid to the question empirically. We investigate the link between bankruptcy and entrepreneurship using data on self employment over 13 years (1990-2002) and 15 countries in Europe and North America.

WP301 Outside Entrepreneurial Capital

Mar 05 *Douglas Cumming Andy Cosh Alan Hughes*

This paper investigates the internal versus external financing decisions among 1900 early stage privately held UK firms in 1996/1997.

WP302 How Do Multinationals Build Social Capital? Diageo's Corporate Citizenship Programme Mar

05 *David Bek Ian W Jones Michael J Pollitt*

This paper attempts to enhance understanding of the process by which multinationals build social capital by examining the Corporate Citizenship (CC) activities and associated social capital outcomes of the UK-based branded alcoholic drinks company, Diageo. The firm possesses a structured portfolio of CC initiatives and projects and has a long-standing tradition of community engagement. This paper examines Diageo's CC strategy in depth and considers the ways that their engagements impact upon social capital development in different arenas. The forces driving social capital outcomes are considered and implications for companies and governments are offered.

WP303 The 'Capability' Concept And The Evolution of European Social Policy Mar

05 *Simon Deakin*

Amartya Sen's capability approach has the potential to counter neoliberal critiques of social welfare systems by overcoming the false opposition between security and flexibility. In particular, it can be used to promote the idea of social rights as the foundation of active participation by individuals in the labour market. This idea is starting to be reflected in the case law of the European Court of Justice concerning free movement of persons but its use in the European employment strategy is so far more limited, thanks to the continuing influence of neoliberal 'activation policies'.

WP304 FDI, Globalisation And Economic Development: Towards Reforming National And International Rules Of The Game

Mar 05 *Ajit Singh*

The key analytical and policy question examined in this paper is whether multinational companies and their overseas investment need to be regulated at the national or the international level, in order to address market failures, and to enhance their potential contribution to world welfare. The paper examines two kinds of regulatory regimes: first the current regime and second, a new regime proposed by the European community and Japan at the WTO (ECJ) to institute fresh global rules of the game which will effectively allow multinationals unfettered freedom to invest where they like, whenever they like, how much and in what products.

WP305 Combined And Uneven Development: Reflections On The North-South Divide

June 05 *Robert Rowthorn*

This paper is concerned with the geography of structural change in Great Britain since 1971. It divides the country into two broad areas – the 'North' comprising Northern England, the West Midlands, Wales and Scotland, and the 'South' comprising the rest of mainland Britain. The paper documents the uneven regional impact of industrial decline and the rise of the new service economy. The North has experienced the greatest industrial decline and has gained least from the growth of new service industries. With certain local exceptions, the apparent revival of the Northern economy in recent years is not based on self-sustaining growth but on public sector and related employment financed by fiscal transfers from the more dynamic South. Such transfers have disguised but have not eliminated the old North-South divide.

WP306 The Revealed Preferences Of High Technology Acquirers: An Analysis Of The Characteristics Of Their Targets

June 05 *Panayotis Dessylla Alan Hughes*

In this paper we investigate the motives of high-tech acquirers by analysing their revealed preferences in terms of the high-tech companies they acquire.

WP307 Who Should Make Corporate Law? EC Legislation Versus Regulatory Competition

June 05 *John Armour*

This paper makes a case for the future development of European corporate law through regulatory competition rather than EC legislation.

WP308 Anglo-American corporate governance and the employment relationship. A case to answer?

June 05 *Simon Deakin, Richard Hobbs, Sue Konzelman, Frank Wilkinson*

The corporate governance environment in the UK and US is generally thought to be hostile to the emergence of cooperative employment relations of the kind exemplified by labour-management partnerships. We discuss case study evidence from the UK which suggests that, contrary to this widespread perception, enduring and proactive partnerships may develop, in conditions where management can convince shareholders of the long-term gains from this approach, and where other regulatory factors operate to extend the time-horizon for financial returns. We conclude that there is more scope than is commonly allowed for measures which could reconcile liquidity in capital markets with cooperation in labour relations.

WP309 The book publishing industry in Japan and the UK. Corporate philosophy/objectives, behaviour and market structure

June 05 *Dai Miyamoto, Hugh Whittaker*

A number of prominent publishers in the UK and US have become parts of globalized media groups. In Japan, by contrast, they have neither been absorbed into media groups nor become globalized businesses. Based on interviews of major players in the Japanese publishing industry as well as annual reports, other written materials, and in comparison with the UK, this paper examines core relationships among corporate philosophy, behaviour, and market structure with a view to explaining comparative divergence between Japan and the UK.

WP310 Will services be the new engine of economic growth in India?

Sep 05 *Sukti Dasgupta, Ajit Singh*

This paper revisits the role of manufacturing and services in economic development in the light of the following new facts: (a) a faster growth of services than that of manufacturing in many developing countries (DCs). (b) The emergence of "deindustrialisation" in several DCs at low levels of *per capita* income. (c) Jobless growth in the formal sector even in fast growing countries such as India and (d) a large expansion of the informal sector in both fast growing and slow growing DCs. Although the paper examines these phenomena in the specific case of the Indian economy, the analysis has much wider application, both for economic policy and for theories of growth and structural change.

WP311 Management characteristics, collaboration and innovative efficiency: evidence from UK survey data Sep 05 *Andy Cosh, Xiaolan Fu, Alan Hughes*

This paper explores the impact of management characteristics and patterns of collaboration on a firm's innovation performance in transforming innovation resources into commercially successful outputs.

WP312 Labour regulation, corporate governance and legal origin: a case of institutional complementarity Sep05 *Simon Deakin, Beth Ahlerting*

We explore the finding of La Porta *et al.* that differences in 'legal origin' account for part of cross-national diversity in labour regulation and corporate governance. We suggest that the finding needs a better historical grounding and that a mechanism which might explain it has not been adequately spelled out. In search of an explanation we focus on the role of complementarities between legal and economic institutions, and in particular the part played by the distinctive 'legal cultures' of the common law and civil law in setting national systems on separate pathways to economic development.

WP313 Corporate governance, stake-holding and the nature of employment relations in the firm

Sep 05 *Suzanne Konzelmann, Neil Conway, Linda Trenberth, Frank Wilkinson*

This paper investigates the effect of different forms of corporate governance on the structure and nature of stakeholder relationships within organizations and the consequent impact on employment relations within the firm.

WP314 The export of national varieties of capitalism: the cases of Wal-mart and Ikea

Sep 05 *Suzanne Konzelmann, Frank Wilkinson, Charles Craypo, Rabi Aidi*

Using the cases of Wal-Mart and IKEA, this paper takes a productive systems approach to examine 'varieties of capitalism' from the perspective of the ways by which production and market relations are structured and prioritised. It considers the nature of these relations and their interaction within the domestic economy and the ways that firms and national systems interact with each other in the global economy. It examines the processes by which trading standards are transported via supply chain relationships, which ultimately become embedded in products and recognized by consumers at various stages. In this analysis, the cases of Wal-Mart and IKEA provide insight into the ways by which national systems extend themselves globally, their contrasting effects on the business environments in host localities, and the impact of the resulting supply chain relations on organizational performance.

WP315 Shareholder value maximization, stock market and new technology: should the US corporate model be the standard?

Sep 05 *Ajit Singh, Jack Glen, Ann Zammit, Rafael De-Hoyas, Alaka Singh, Bruce Weisse*

In 1992 a blue-ribbon group of US economists led by Michael Porter concluded that the US stock market-based corporate model was misallocating resources and jeopardising US competitiveness. The faster growth of US economy since then and the supposed US lead in the spread of information technology has brought new legitimacy to the stock market and the corporate model, which is being hailed as the universal standard. Two main conclusions of the analysis presented here are: (a) there is no warrant for revising the blue-ribbon group's conclusion; and (b) even US corporations let alone developing country ones would be better off not having stock market valuation as a corporate goal.

WP316 ICT and productivity growth – the paradox resolved?

Dec 05 *Alan Hughes, Michael S Scott Morton*

This paper argues that the gains from ICT at the individual business level depend upon the implementation of a range of complementary 'investments' and organisational changes appropriate to the competitive and institutional context of particular sectors. To support our proposition we provide a brief overview of a recently emerging but compelling body of large sample microeconomic research. We focus in depth, however on a single case study of ICT related organisational transformation in the transportation sector. This case builds upon the conceptual framework developed in the MIT interesting organisations project (Scott Morton (2003)). Taken as a whole we believe there is clear evidence of the conditions that seem to be required before the payoff from ICT can be realised by an organisation and hence diffuse through the economy. Effective use of ICT requires a holistic solution which recognises that there is no single factor, or even just a few, which leads to successful exploitation. Rather success comes from the artful crafting of a series of interrelated and mutually interdependent driving forces. The paradoxical 'gap' between investment in computers and realised performance can be closed if this lesson is absorbed.

WP317 The comparative evolution of the employment relationship

Dec 05 *Simon Deakin*

It is widely believed that the legal institution of the contract of employment is currently undergoing a conceptual crisis as a result of changes in labour markets, the organisation of production, and the form of the enterprise. A historical and comparative perspective, however, indicates that conceptual crises of this kind are nothing new, and have occurred periodically in the systems of western Europe since the industrial revolution. The employment form serves important functions in a market economy even in an era of deregulation and liberalization, and is unlikely to be replaced by a radically new model in the near future.

WP318 Domestic capabilities and global production networks in the clothing industry: a comparison of German and UK firms' strategies

Dec 05 *Christel Lane, Jocelyn Probert*

In this paper we examine the sourcing strategies of clothing firms in the developed economies of the UK and Germany in the context of their national institutional framework. We argue that, as a result of their embeddedness in divergent national structures, these firms pursue different sourcing strategies and make different locational choices. We place particular emphasis on the different mix of arms' length and relational contracting that firms develop, and on the divergent degree of control over the manufacturing process and the product that they retain. We suggest that the construction of global production networks and control over supplier firms is mediated by co-ordinating firms' product strategy and the degree of dependence on national retailers this engenders. In the UK and Germany, firms and their networks differ from the US case which is normally taken as representative of the industry.

WP319 Should we redistribute in insolvency?

Mar 06 *John Armour*

The characterisation of a security interest as 'fixed' or 'floating' has generated much litigation in English courts. This is because a floating charge is subordinated by statute to other claims in the debtor's insolvency, whereas a fixed charge is not. This paper uses the example of the floating charge to argue that such statutory redistribution between claimants in corporate insolvency is generally undesirable. If particular types of voluntary transaction are subjected to statutory 'taxation', then parties may be expected to structure their affairs so as to avoid the ambit of the legislation. The paper traces the history of the floating charge, showing how both its use by business, and the litigation that has shaped its juridical 'nature', have been driven by the desire to avoid redistribution in insolvency. This has resulted in relatively little money reaching the intended beneficiaries of the statutory redistribution. It has also engendered significant costs: the direct costs of litigation and the opportunity costs of a constrained choice of financial structures.

WP320 Legal capital: an outdated concept?

Mar 06 *John Armour*

This paper reviews the case for and against mandatory legal capital rules. It is argued that legal capital is no longer an appropriate means of safeguarding creditors' interests. This is most clearly the case as regards mandatory rules. Moreover, it is suggested that even an 'opt in' (or default) legal capital regime is unlikely to be a useful mechanism. However, the advent of regulatory arbitrage in European corporate law will provide a way of gathering information regarding investors' preferences in relation to such rules. Those creditor protection rules that do not further the interests of adjusting creditors will become subject to competitive pressures. Legislatures will be faced with the task of designing mandatory rules to deal with the issues raised by 'non-adjusting' creditors in a proportionate and effective manner, consistent with the Gebhard formula.

WP321 Legal Origins: Reconciling Law & Finance And Comparative Law

Mar 06 *Matthias M. Siems* In the last years law and finance scholars have "discovered" the usefulness of comparative law. Their studies look at the quantifiable effect that legal rules and their enforcement have on financial development in different countries. Moreover, they link their results with the old distinction between Civil Law and Common Law countries. Whether this revival of "legal families" (or "legal origins") is a useful way forward is, however, a matter of debate. The following article challenges these studies, and looks for characteristic features which are more precise and meaningful than the use of legal families as such.

WP322 The Return Of The Guild? Network Relations in Historical Perspective

Mar 06 *Simon Deakin*

Prior to the industrial revolution, the predominant form of economic organization in western Europe and north America was the guild. Guilds were network forms, loose associations of independent producers, with strong local and regional identities, in which cooperation and competition were combined. The decline of the guild was brought about in large part by legal changes which privileged the emerging conjunction of the vertically integrated enterprise and mass consumer market. If present-day network forms are not to be consigned to the margins of capitalism as their predecessors were, we need a set of legal concepts and techniques which can underpin and protect network relations, most importantly in the context of competition law.

WP323 Legal Diversity and Regulatory Competition: Which model for Europe? Mar

06 *Simon Deakin*

Two models of regulatory competition are contrasted, one based on a US pattern of 'competitive federalism', the other a European conception of 'reflexive harmonisation'. In the European context, harmonization of corporate and labour law, contrary to its critics, has been a force for the preservation of diversity, and of an approach to regulatory interaction based on mutual learning between nation states. It is thus paradoxical, and arguably antithetical to the goal of European integration, that this approach is in danger of being undermined by attempts, following the *Centros* case, to introduce a Delaware-type form of inter-jurisdictional competition into European company law.

WP324 Shareholder Protection: A Leximetric ApproachJun 06 *Priya P. Lele, Mathias M. Siems*

In this paper we build a new and meaningful shareholder protection index for five countries and code the development of the law for over three decades. Attributing and comparing legal differences by numbers is contrary to the traditional way of doing comparative law and the use of a quantitative methodology to account for variations across legal systems has been subjected to some searching criticisms. However, we believe that with a cautious approach, it has the potential to open new vistas of research in the area of comparative law and as such should not be shunned. This paper provides an illustration of the interesting possibilities that diligent quantification of legal rules ('leximetrics') provides for comparing variations across time series and across legal systems. For instance, our study finds, that in all of our panel countries shareholder protection has been improving in the last three decades; that the protection of minority against majority shareholders is considerably stronger in 'blockholder countries' as compared to the non-blockholder countries and that convergence in shareholder protection is taking place since 1993 and is increasing since 2001. Finally, our examination of the legal differences between the five countries does not confirm the distinction between common law and civil law countries.

WP325 'Capacitas': contract law and the institutional preconditions of a market economy' Jun06 *Simon Deakin*

Capacity may be defined as a status conferred by law for the purpose of empowering persons to participate in the operations of a market economy. This paper argues that because of the confining influence of the classical private law of the nineteenth century, we currently lack a convincing theory of the role of law in enhancing and protecting the substantive contractual capacity of market agents, a notion which resembles the economic concept of 'capability' as developed by Amartya Sen. Re-examining the legal notion of capacity from the perspective of Sen's 'capability approach' is part of a process of understanding the preconditions for a sustainable market order under modern conditions.

WP326 University-industry linkages and UK science and innovation policyJun 06 *Alan Hughes*

This paper assesses the current nature of university-industry links in the UK and US using the recent unique IPC-CBR innovation benchmarking survey of the UK and the US. It argues for a more diverse approach to the complex nature of university-industry links than is currently the case. The paper in addition provides a brief overview of SET policy in the UK locating university-industry links within the overall UK policy framework. It argues for a greater degree of coordination of existing policy levers rather than new initiatives and for an effective use of public procurement in relation to SET policy.

WP327 Manufacturing, services and premature de-industrialisation in developing countries: a Kaldorian empirical analysisJun 06 *Sukti Dasgupta, Ajit Singh*

This paper uses a Kaldorian framework to examine the evidence of deindustrialisation in developing countries at low levels of income, the jobless growth in these economies and the fast expansion of the informal sector. The questions are specifically examined for the Indian economy using state level data, but the analysis has a wider application for economic policy in developing countries.

WP328 Globalisation, instability and global insecurityJun 06 *Ajit Singh, Sonja Fagerås*

This paper documents and analyses the volatility of economic growth in rich and poor countries. It concludes that whereas volatility has declined almost universally in advanced countries, the picture is more mixed for developing countries. The paper then concentrates on the case of India, where GDP volatility has declined over the past two decades. The evidence shows that the move away from agriculture has stabilised the economy. Increased financial depth and more favourable developments in terms of trade have had a similar effect. Finally, the paper discusses the relationship between economic instability and insecurity at a general level.

WP329 Corporate governance, crony capitalism and economic crises: should the US business model replace the Asian way of 'doing business'?Jun 06 *Ajit Singh, Ann Zammitt*

This paper considers the Greenspan/Summers/IMF (GSI) argument that the Asian way of doing business was the deep cause of the Asian crisis. The IMF reform programme for the crisis-affected Asian countries suggested they should abandon the Asian business model and adopt the US corporate model. The main findings are: a) contrary to GSI doctrine, poor corporate governance and lack of competition are not common characteristics of the Asian business model; b) that the stock-market based US business model has severe limitations for developing country corporations, not least because of imperfect share prices and the imperfect market for corporate control.

WP330 Entrepreneurs, HRM orientations and environmental fit: A UK-Japan comparison in high tech manufacturing Sep06 *Hugh Whittaker, Philippe Byosiére, Thelma Quince, Junpe Higuchi*

Entrepreneurs cannot develop a business single handedly. One of the most important tasks the entrepreneur faces is to recruit, allocate work to, motivate and retain employees who will help the business to grow. Based on survey data, this paper examines the HRM orientations of UK and Japanese high tech manufacturing entrepreneurs, and identifies fundamentally different approaches to these tasks, at least as expressed by the entrepreneurs. The UK entrepreneurs espouse an employment relationship based on 'give and take' flexibility, while the Japanese entrepreneurs are more focused on raising or nurturing their employees. Reasons for the differences are explored, and relate to the entrepreneurs' backgrounds, as well as the business *and* social environment. Implications for the 'new employment relationship' are explored.

WP331 Who writes the rules for hostile takeovers, and why?— the peculiar divergence of US and UK takeover regulation
 Sep 06 *John Armour, David A Skeel Jr.*

Hostile takeovers are commonly thought to play a key role in rendering managers accountable to dispersed shareholders in the "Anglo- American" system of corporate governance. Yet surprisingly little attention has been paid to the very significant differences in takeover regulation between the two most prominent jurisdictions. In the UK, defensive tactics by target managers are prohibited, whereas Delaware law gives US managers a good deal of room to maneuver. Existing accounts of this difference focus on alleged pathologies in competitive federalism in the US. In contrast, we focus on the "supply-side" of rule production, by examining the evolution of the two regimes from a public choice perspective. We suggest that the *content* of the rules has been crucially influenced by differences in the *mode* of regulation. In the UK, self-regulation of takeovers has led to a regime largely driven by the interests of institutional investors, whereas the dynamics of judicial law-making in the US have benefited managers by making it relatively difficult for shareholders to influence the rules. Moreover, it was never possible for Wall Street to "privatize" takeovers in the same way as the City of London, because US federal regulation in the 1930s both pre-empted self-regulation and restricted the ability of institutional investors to coordinate.

WP332 The costs and benefits of secured creditor control in bankruptcy: evidence from the UK

Sep 06 *John Armour, Audrey Hsu, Adrian Walters*

Recent theoretical literature has debated the desirability of permitting debtors to contract with lenders over control rights in bankruptcy. Proponents point to the monitoring benefits brought from concentrating control rights in the hands of a single lender. Detractors point to the costs imposed on other creditors by a senior claimant's inadequate incentives to maximise net recoveries. The UK provides the setting for a natural experiment regarding these theories. Until recently, UK bankruptcy law permitted firms to give complete *ex post* control to secured creditors, through a procedure known as Receivership. Receivership was replaced in 2003 by a new procedure, Administration, which was intended to introduce greater accountability to unsecured creditors to the governance of bankrupt firms, through a combination of voting rights and fiduciary duties. We present empirical findings from a hand-coded sample of 348 bankruptcies from both before and after the change in the law, supplemented with qualitative interview data. We find robust evidence that whilst gross realisations have increased following the change in the law, these have tended to be eaten up by concomitantly increased bankruptcy costs. The net result has been that creditor recoveries have remained unchanged. This implies that dispersed and concentrated creditor governance in bankruptcy may be functionally equivalent.

WP333 False dawn for CSR? Shifts in regulatory policy and the response of the corporate and financial sectors in Britain

Sep 06 *Simon Deakin and Richard Hobbs*

We present a model of CSR as a set of mechanisms for aligning corporate behaviour with the interests of society in reducing externalities and promoting a sustainable corporate sector. These mechanisms include voluntary action by companies to go above minimum legal standards, with the aim of enhancing competitiveness ('action beyond compliance'); interventions by regulators designed to promote self-regulation by industry ('reflexive law'); and steps taken by shareholders to put pressure on companies to make effective use of corporate assets (shareholder engagement). We then assess the degree to which the model is realized in current British practice. Focusing on the issue of working conditions, we find managerial resistance to the linking of CSR with internal employee relations, and obstacles to shareholder engagement on this issue.

WP334 The stigma of failure: an international comparison of failure tolerance and second chancing Dec

06 *Alan Hughes, Brendan Burchell*

It is commonly asserted that high rates of entrepreneurship and superior economic performance in the United States is linked to a higher cultural tolerance of business failure. After reviewing cross country patterns of entrepreneurship we develop in this paper a measure of cultural attitudes towards failure which has two components. We term these *failure tolerance* which captures attitudes towards the risk of a business failing and *second chancing* which measures the degree of agreement with the proposition that those who have failed should be given a second chance. Using a unique dataset on attitudes to failure for a sample of 9,500 individuals drawn from 19 economies for the year 2002 we show that respondents in the USA appear to have relatively high levels of failure tolerance. However, they are less willing to grant a second chance to those who have tried and failed. We find that having relatively high levels of failure tolerance is not positively correlated with GDP growth. Having a relatively positive attitude towards second chancing across countries is positively related to GDP growth. Taken together these results suggest there is a link between attitudes to failure and economic growth, but it is not the one conventionally assumed in current policy rhetoric which argues that relatively favourable attitudes towards second chancing in the USA explains its more entrepreneurial activity.

WP335 How do family ties, boards and regulation affect pay at the top? Evidence for Indian CEOs Dec*06 Sonja Fagernäs*

This paper investigates the effects of corporate governance factors and family ties on the pay of managing directors in a sample of Indian stock listed companies. It uses a unique seven-year firm level panel dataset and controls for firm performance and both CEO and firm specific fixed effects. The hypothesis is that corporate governance, ownership structures and market pressure shape the power relations between the board and managers, and affect the level and structure of CEO pay. The evidence for India supports these hypotheses. Managing directors, who are related to the founding family, or controlling group, or any of the members on the board of directors, are paid more. This holds for total pay and both for the less variable component and the performance-related component of pay. In contrast, the presence of outside representatives on the board - non-executive directors or nominees of creditors or institutional investors - is found to have a disciplinary effect. The presence of nominees lowers the level of pay and that of non-executives ties pay more to firm performance. A further timely finding is that the staged introduction of a recent mandatory corporate governance code, aiming to improve governance and pay disclosure in listed companies, has raised the tendency of firms to tie pay explicitly to firm performance. Overall, the practice of tying pay explicitly to performance has become more common over time.

WP336 What's in a name and when does it matter? The hot and cold market impacts on underpricing of certification, reputation and conflicts of interest in venture capital backed Korean IPOs*Dec 06 Alan Hughes and Jaeho Lee*

This article analyses the impact of the participation of venture capital (VC) firms on underpricing in 372 businesses brought to IPO during the period 1999-2001 in KOSDAQ. Korea's second-tier stock market, KOSDAQ, has grown dramatically since 1999 and about half of the firms listed in KOSDAQ during this period were VC-backed, thus providing a good testing ground for empirical analysis. We measure VC participation in terms of pre IPO share-ownership by VC firms and attempt to differentiate IPO impacts between VCs grouped in terms of their reputation (measured by their dominance of the VC market, and by their affiliation in terms of ownership by banks and security companies). In estimating impacts we control for a wide range of variables which may affect the extent of underpricing. These include uncertainty inducing factors such as the age, size, profitability, leverage, and technical riskiness (measured by sector and R&D intensity) of the firm brought to IPO. We also control for market conditions using proxies for hot and cold market effects based on the numbers of contemporaneous IPOs, underpricing trends and market price movements. Finally in addition to allowing for the impact of underwriting quality we control for share overhang and price revision effects. We find that, controlling for other relevant factors, pre-IPO ownership by VCs has an insignificantly negative impact on underpricing in both hot and cold markets. However in cold markets reputational effects within the VC group do matter. In those conditions the top 3 VCs and those owned by or affiliated with banks are significantly associated with lower underpricing. The same is true for the quality of underwriting. However in hot market conditions none of these effects are present.

WP337 Multinationals In Their Communities: A Social Capital Approach To Corporate Citizenship Projects*Dec 06 Michael Pollitt, Ian Jones, David Bek*

The objectives of this research is to provide new ways of thinking about and measuring the extent and effectiveness of multinational efforts to contribute to society via their corporate citizenship (CC) (or corporate social responsibility - CSR) programmes. It uses as its method of analysis the emerging literature relating to the theory and measurement of social capital. The paper summarises the findings of a forthcoming book (from Palgrave, 2007). We begin by discussing the concept of corporate citizenship in the context of the multinational. We go on to introduce the concept of social capital employed in the study. Next we summarise our case study evidence with cases from Anglo-American and Diageo. Following this, we review our statistical and econometric analysis which maps the community engagements of UK multinationals in South Africa, US multinationals in Mexico and EU multinationals in Poland. We demonstrate the usefulness for analysis of social capital thinking in this context and make suggestions for future work

WP338 Regulating organizations through codes of corporate governance*Dec 06 David Seidl*

Although codes of corporate governance have come to be widely used as a mode of regulating corporations, our understanding of how they function is still rather limited. In this paper we describe the design of such code regimes and propose a theoretical framework for studying their effects. On the basis of an observation-theoretical approach, codes are conceptualized as schemas of observation that determine the way we evaluate corporations. On the one hand, the effect of a code depends on the extent to which it becomes integrated into recursive cycles of mutual observation between the corporation and the various actors in the field. On the other hand, it also depends on how the code relates to other observational schemas in the field. The paper concludes with some guidelines for empirical research on code regimes.

WP339 The Eclipse of Private Equity*Mar 07 Brian Cheffins and John Armour* Private equity, characterized by firms operating as privately held partnerships organizing the acquisition and 'taking private' of public companies, is currently dominating the business news due to deals growing rapidly

in number and size. If the trend continues unabated, the 1989 prediction by economist Michael Jensen of 'the eclipse of the public corporation' could be proved accurate soon. This paper argues matters will work out much differently, with private equity being at least partially eclipsed. One possibility is that current market and legal conditions, which are highly congenial to public-to-private transactions, could be disrupted in ways that cause the private equity surge to stall or even go into reverse. The paper draws on history to make this point, discussing how the spectacular rise of conglomerates in the 1960s was reversed in subsequent decades and how the 1980s buyout boom led by LBO associations – the private equity firms of the day -- collapsed. Factors that undercut conglomerate mergers and buyouts by LBO associations (e.g. the tightening of debt markets and increased regulation) potentially could do the same with the current wave of private equity buyouts, and cause at least a temporary eclipse of private equity deals. Even if conditions remain favorable to private equity, its eclipse is likely to occur in a different way. Privacy has been a hallmark of private equity, with industry leaders operating as secretive partnerships that negotiate buyouts behind closed doors and restructure portfolio companies outside the public gaze. However, assuming market conditions remain sufficiently favorable, top private equity firms, following the lead of the Blackstone Group, may well carry out public offerings. If this happens, then even if the taking private of publicly quoted companies remains a mainstream pursuit, the exercise will occur largely under the umbrella of public markets.

WP340 The End of Comparative Law Mar

07 *Mathias Siems*

Following the 1900 congress in Paris, the beginning of the 20th century saw comparative law emerge as a significant discipline. This paper suggests that the early 21st century is seeing the decline, or maybe even the 'end', of comparative law. In contrast to other claims which see the 21st century as the 'era of comparative law', there are at least four trends which give rise to pessimism: 'the disregard', 'the complexity', 'the simplicity', and 'the irrelevance' of comparative law. These phenomena will be explained in the body of this paper; the concluding part considers suggestions as to how to proceed further.

WP341 Fiscal Policy in a Stock Flow Consistent (SFC) Model: A Comment Jun

07 *Bill Martin*

This comment provides a simple analytical exposition of the stock-flow consistent closed economy model used by Godley and Lavoie (2007b) to argue a case for fiscal stabilization policy. We show that the government spending stabilisation rule proposed by Godley and Lavoie (GL) is equivalent to an optimal-output budget deficit rule that automatically ensures budget solvency as long as private sector saving behaviour is itself stable. Assuming a non-inflationary full-employment objective, we derive an optimal government-spending rule. We endorse GL's view that fiscal policy needs to be "appropriate" if monetary policy is to be actively pursued. The main requirement of fiscal policy is a government debt rule to avoid instabilities arising from the accumulation of debt interest payments. Godley and Lavoie (2007a) simulate such instabilities but do not propose a solution. We do so and derive an optimal monetary rule. The theoretical substitutability of policy rules raises important questions about the wisdom of macroeconomic stabilization strategies that relegate fiscal policy to a purely supporting role

WP342 The Productivity-enhancing Impacts of the Minimum Wage: Lessons from Denmark, New Zealand and Ireland Jun

07 *Colm McLaughlin*

There has been increasing interest of late in the question of whether minimum wage regulations can raise productivity through the 'shock effect'. This paper explores this question in comparative perspective, by examining the impact of minimum wage regulations and institutions in Denmark, New Zealand and Ireland. It argues that while they are important, a supportive institutional framework plays a far more crucial role in providing coordinated solutions to issues of market failure, such as inadequate levels of training. The paper suggests that sectoral bargaining institutions in low-paid sectors may have the potential to facilitate such coordination and enable the high-productivity model to emerge. For the UK context, this raises the question as to whether Wages Councils in a modernised form might have some future role to play.

WP343 Legal Origin, Shareholder Protection and the Stock Market: New Challenges from Time Series ANALYSIS Jun

07 *Sonja Fageräs, Prabirjit Sarkar, Ajit Singh*

This paper uses a new time series dataset of shareholder protection consisting of 60 annual legal indicators for the period 1970-2005 for France, Germany, the UK and the US. On the basis of these data it examines developments in shareholder protection and reassesses the claims that common-law countries have better shareholder protection than civil law countries. Furthermore it examines the relationship between legal changes and stock market development. It casts serious doubt on the claim that common-law countries have better shareholder protection which in turn leads to more stock market development.

WP344 NHS Reforms and the Working Lives of Midwives and Physiotherapists

Jun 07 *Frank Wilkinson, Anna Bullock, Brendan Burchell, Suzanne J. Konzelmann, Roy Mankelaw*

From 2000 the NHS was subjected to a series of far reaching reforms, the purposes of which were to increase the role of the primary care sector in commissioning and providing services, promote healthier life styles, reduce health inequality, and improve service standards. These were seen as requiring a greater leadership role from health professionals, closer and more cooperative working between health professionals, and between health professionals, social services, and community and other service providers. The project surveyed a random sample of midwives and physiotherapists to investigate their perceptions of the

effectiveness of the reforms, and their effects on working lives. The predominant perception was that NHS reforms had negatively affected the funding of their services; and had done little to improve service quality, delivery or organisation. Although the potential existed for the reforms to improve services, the necessary resources and required staffing were not made available and the objectives of the reforms were only partially secured by intensifying of work. The downside of this was a deterioration of the sociopsychological wellbeing of midwives and physiotherapists, especially the former, exacerbating the shortage of skilled and experienced. Shortage of staff and the associated increased work burdens were demoralising and demotivating; morale and job satisfaction declined, and job insecurity and labour turnover increased.

WP345 Work Intensification and Employment in Security in Professional Work

Jun 07 *Suzanne J. Konzelmann, Frank Wilkinson, Roy Mankelov*

Professional work is a category of employment that has traditionally been associated with high levels of worker autonomy, economic and social status. During the past decade, changes in customer expectations, government policy and technology have generated pressures resulting in enhancement of the quality and efficiency of service provision, expansion in task requirements and a need for higher levels of discretion. In this sense, professional work has been upgraded. However, the changes have also led to a deterioration in the economic and social status of professional work, adversely impacting on the social and psychological well-being of professional workers. This paper examines these developments in five professions including two established professions (lawyers and pharmacists), one aspiring profession (midwives) and two emerging professions (counselling psychologists and human resource managers). The empirical findings are based on a survey of 1270 professional workers conducted in 2000 and 2001.

WP346 Reflexive Governance and European Company Law

Jun 07 *Simon Deakin*

The use of reflexive forms of regulation is growing within the EU, in particular as the open method of coordination ('OMC') is applied to a growing number of contexts including employment policy, social inclusion, enterprise promotion, environmental protection, energy policy, and fundamental human rights. Company law, however, seems to be an exception to this: recent activity has taken the form of 'hard law' harmonization through directives, coupled with the stimulation of regulatory competition through judgments of the European Court of Justice in relation to freedom of movement, stemming from the Centros case. There is a very limited 'company law OMC' in the form of the deliberations of the European Corporate Governance Forum, but there is little evidence here of what proponents of the OMC call 'learning from diversity'; instead, the Forum appears to envisage the elimination of country-specific practices which it refers to as 'distortions of competition'. This paper argues that the lack of a meaningful company law OMC is likely to prove a more serious longterm obstacle to capital market integration than the persistence of intercountry variations in corporate governance practices. The example of labour law shows how functional convergence and a coordinated raising of standards can be achieved by the dovetailing of the OMC with social policy directives. By contrast, the recent failure of the Takeover Directive to impose a uniform model of takeover regulation indicates the limits of top-down modes of harmonization. At the same time, the case of labour law highlights the importance of placing the OMC within a wider framework of legal support for fundamental rights, of the kind which is capable of providing a countervailing force against court-led deregulation.

WP347 Varieties of Capitalism and the Learning Firm: Corporate Governance and Labour in the Context of Contemporary Developments in European and German Company Law

Jun 07 *Peer Zumbansen*

Research in corporate governance and in labour law has been characterized by a disjuncture in the way that scholars in each field are addressing organizational questions related to the business enterprise. While labour has eventually begun to shift perspectives from aspirations to direct employee involvement in firm management, as has been the case in Germany, to a combination of 'exit' and 'voice' strategies involving pension fund management and securities litigation, it remains to be seen whether this new stream will unfold as a viable challenge to an otherwise exclusionary shareholder value paradigm. At the same time, recent suggestions made by Delaware Chancery Court Vice Chancellor Strine, to dare think about potentially shared commitments between management and labour – and UCLA's Stephen Bainbridge's response – underline the viability – and, the contestedness – of attempts at moving the corporate governance debate beyond the confines of corporate law proper. While such a wider view had already famously been encouraged by Dean Clarke in his 1986 treatise on Corporate Law (p. 32), mainstream corporate law does not seem to have endorsed this perspective. This paper takes the questionable divide between management and labour within the framework of a limiting corporate governance concept as starting point to explore the institutional dynamics of the corporation, hereby building on the theory of the innovative enterprise, as developed by management theorists Mary O'Sullivan and William Lazonick. Largely due to the sustained distance between corporate and labour law scholars, neither group has effectively addressed their common blind spot: a better understanding of the business enterprise itself. In midst of an unceasing flow of affirmations of the finance paradigm of the corporation on the one hand and 'voice' strategies by labour on the other, it seems to fall to management theorists to draw lessons from the continuing co-existence of different forms of market organization, in which companies appear to thrive. Exploring the conundrum of 'risky' business decisions within the firm, management theorists have been arguing for the need to adopt a more sophisticated organizational perspective on companies operating on locally, regionally and transnationally shaped, often highly volatile market segments. Research by comparative

political economists has revealed a high degree of connectivity between corporate governance and economic performance without, however, arriving at such favourable results only for shareholder value regimes. Such findings support the view that corporate governance regimes are embedded in differently shaped regulatory frameworks, characterized by distinct institutions, both formal and informal, and enforcement processes. As a result of these findings, arguments to disassociate issues of corporate governance from those of the firm's (social) responsibility [CSR] have been losing ground. Instead, CSR can be taken to be an essential part of understanding a particular business enterprise. It is the merging of a comparative political economy perspective on the corporation with one on the organizational features, structures and processes of the corporation, which can help us better understand the distribution of power and knowledge within the 'learning firm'.

WP348 Innovation policy as cargo cult: Myth and reality in knowledge-led productivity growth Jun

07 *Alan Hughes*

This paper questions the current emphases in innovation policy on a particular interpretation of US performance which emphasises R&D intensive high technology producing sectors, spin-offs from the science base and private sector venture capital. Whilst recognizing the important role they may play it is argued that it has been greatly exaggerated to the neglect of other key factors. One is the importance of the diffusion and use of ICT as a general purpose technology beyond the ICT and other R&D intensive high-tech producing sectors. A second is the dominant role which performance transformation in existing firms plays in driving industry level productivity compared with the direct role of new entrants. A third is the diversified role played by universities in knowledge exchange which extends beyond a narrow focus on spin offs and licensing to encompass the creation of human capital and a wide range of formal and informal business interactions. Finally there is the major role that public R&D procurement policy has played in the US in the effective provision of public rather than private sector venture capital. The paper provides a broad overview of evidence on each of these factors and considers some broad implications for innovation policy which might be drawn on the basis of that review. In particular it concludes by arguing that the crafting of innovation policy in the context of any specific national innovation system requires a careful consideration of the structural features of that context and the particular opportunities and challenges facing policy practitioners in it. An imperfect interpretation of the experience of one country's system is unlikely to be an appropriate guide to innovation system failure or success elsewhere.

WP349 The Legal Framework of Employment Relations

Sep 07 *Simon Deakin and Wanjiru Njoya*

The aim of this paper is to reassess the place of labour law in the wider area of employment relations research and to argue the case for labour law's importance to social scientists. We give an analytical account of the principal institutional features of labour law as a form of legal regulation, from an interdisciplinary perspective which takes into account both the internal workings of the labour law system and the social and economic context within which it has evolved. We analyze, in the manner of an internal or 'immanent' critique, the categories which are generally used within labour law discourse to describe the social and economic relations of employment; account for their emergence and evolution in historical terms; consider the origins of their diversity across different national systems; and look at future prospects for convergence or divergence.

WP350 The Regulation of Women's Pay: From Individual Rights to Reflexive Law?

Sep 07 *Simon Deakin and Colm McLaughlin*

Legislation mandating equality of pay between women and men was among the earliest forms of sex discrimination legislation to be adopted in Britain. However, the model embodied in the Equal Pay Act 1970 is increasingly being questioned: the law is, at one and the same time, highly complex and difficult to apply, while apparently contributing little to the further narrowing of the pay gap. As a result there is a growing debate about whether a shift in regulatory strategy is needed, away from direct legal enforcement to a more flexible approach, based around the concept of 'reflexive law'. This paper provides an assessment of whether reflexive approaches are likely to work in the equal pay area'

WP351 Japan's Paradoxical Response to the New 'Global Standard' in Corporate Governance

Sep 07 *John Buchanan and Simon Deakin*

We suggest, on the basis of empirical research into the implementation of recent legal reforms, that Japan is not moving inexorably towards a 'global standard' in corporate governance, based on external monitoring and a market for corporate control. Japanese corporate governance is nevertheless changing: in part as an indirect response to legal initiatives, new structures and practices are emerging, aimed at providing greater flexibility in decision-making, while retaining the organisational core of the Japanese firm. The paradoxical effect of legal reforms aimed, in large part, at transplanting the global standard, may be to renew the distinctive Japanese model of the corporation.

WP352 The Evolution of Labour Law: Calibrating and Comparing Regulatory Regimes

Sep 07 *Simon Deakin, Priya Lele and Mathias Siems*

We present evidence on the evolution of labour law in five countries (the UK, USA, Germany, France and India) using a newly created dataset which measures legal change over time. The results cast light on the claim that legal origin, or the influence of common law and civil law regulatory styles, affects the content of labour law regimes. We find some divergence between

common law and civil law countries at the aggregate level but a more complex picture when the index is decomposed so as to identify changes in specific areas of labour law. We discuss the potential significance of this relatively new approach to the measurement of law for understanding the forces at work in the evolution of labour law.

WP353 Labour Law, Judicial Efficiency and Informal Employment in India

Sep 07 *Sonja Fagernäs*

This study assesses the effects of industrial disputes legislation and the dispute settlement process on informal versus formal employment in India. It uses indicators of pro-worker court awards and court efficiency as well as amendments to the Industrial Disputes Act (IDA) at the level of Indian states. The state-level IDA amendments are classified as pro-worker or pro-employer and enforcement enhancing. Three complementary empirical approaches and data sources are used. These include a quasipanel dataset constructed from four household employment surveys (NSSO) between 1983-1999, a state-industry level panel dataset for organised (formal) sector industrial units (ASI) for 1980-1997 and a cross-sectional survey of unorganised (informal) manufacturing firms for 2000/2001. The significance of the judicial indicators varies by indicator and the magnitude of relationship with formal employment remains rather small. The evidence is neither robust, nor consistent, enough to confirm that pro-worker judicial change would be related to a lower degree of formal work in the entire service or industrial sectors. However, pro-worker judicial change and judicial efficiency can be linked more consistently to a formalisation of work within the organised industrial sector. More efficient courts are also associated with a lower tendency of unorganised firms to produce for a sub-contractor. Finally, education, personal attributes and social status are found to be significant correlates of employment type, which implies that policies aiming to raise formality should also focus on such factors.

WP354 The Impact of Mergers and Acquisitions on Executive Pay in the United Kingdom Sep

07 *Paul Guest*

We examine the impact of acquisitions on executive pay in UK acquirers over 1984-2001. For the overall sample, which includes foreign, domestic, public and private targets, there is a significant transitory pay increase. Pay changes are not affected by target nationality or organizational form, although initial cross-border acquisitions do result in higher pay. Pay increases are higher following acquisitions of targets with high pay, but not of targets in high pay countries. CEOs are rewarded equally for bad and good acquisitions, and those well rewarded are more likely to reacquire. However, bad acquisitions do not on average increase CEO wealth because of an offsetting decline in CEO shareholding value. Pay impacts are not affected by the corporate governance characteristics of the acquiring firm.

WP355 Corporate Governance and Employment Relations

Dec 07 *Suzanne J. Konzelmann, Frank Wilkinson and Neil Conway*

Using the 2004 United Kingdom Workplace Employment Relations Survey (WERS 2004), this paper examines the impact of corporate governance on HRM practices and employment relations outcomes within organizations in the UK. The analysis suggests that when a remote external stake-holder is assigned dominance, particularly in the case where their liability is limited and the organization is large, the conditioning of managerial commitments on the requirements of the dominant stake-holder has the potential to undermine the effectiveness of the HRM system in achieving its objectives.

WP356 Resurrecting the UK Historic Sector National Accounts Dec

07 *Bill Martin*

The UK national accounts do not provide a full long-run set of historic data describing the behaviour of the UK's private sector. Although comprehensive figures are available from 1987, the pre-1987 historic sector national accounts are marred by discontinuities, gaps and error. A partial solution is described that enables the compilation of consistent historic figures for sectors' income and expenditure flows, albeit at a high level of sector aggregation. Particular attention is paid to transfer incomes and associated inter-sector flows. To our knowledge, our dataset is the only one freely available that provides a basis, albeit an incomplete one, for a serious examination of Britain's post-war macroeconomic history. Coherent financial flow, balance sheet and volume data and further sector disaggregation are required to complete the picture. An annual dataset is provided as a supplement to the article: www.cbr.cam.ac.uk/people/martin_bill.htm

WP357 UK Corporate Governance and Takeover Performance

Dec 07 *Andy Cosh, Paul Guest and Alan Hughes*

This chapter addresses the changing nature of corporate governance in the United Kingdom over recent decades and examines whether these changes have had an impact on the UK market for corporate control. The disappointing outcomes for acquiring company shareholders in the majority of corporate acquisitions, public discontent with some pay deals for top executives and some high profile corporate scandals led in the early 1990s to a call for governance reform. The scrutiny of governance in UK companies has intensified since the publication of the Cadbury Report in 1992 and has resulted in calls for changes in the size, composition and role of boards of directors, in the role of institutional shareholders, the remuneration and appointment of executives, and in legal and accounting regulations. We review the background to these changes and the consequences of the changes since 1990 for governance structures. Finally, we examine whether these changes have affected takeover performance in recent years. Our analysis is specific to the institutional circumstances of the UK although we refer where appropriate to takeover studies in other countries.

WP358 Shareholder Protection and Stock Market Development: An Empirical Test of the Legal Origins Hypothesis

Dec 07 *John Armour, Simon Deakin, Prabirjit Sarkar, Mathias Siems and Ajit Singh*

We test the 'law matters' and 'legal origin' claims using a newly created panel dataset measuring legal change over time in a sample of developed and developing countries. Our dataset improves on previous ones by avoiding country-specific variables in favour of functional and generic descriptors, by taking into account a wider range of legal data, and by considering the effects of weighting variables in different ways, thereby ensuring greater consistency of coding. Our analysis shows that legal origin explains part of the pattern of change in the adoption of shareholder protection measures over the period from the mid-1990s to the present day: in both developed and developing countries, common law systems were more protective of shareholder interests than civil law ones. We explain this result on the basis of the head start common law systems had in adjusting to an emerging 'global' standard based mainly on Anglo-American practice. Our analysis also shows, however, that civil law origin was not much of an obstacle to convergence around this model, since civilian systems were catching up with their counterparts in the common law. We then investigate whether there was a link in this period between increased shareholder protection and stock market development, using a number of measures such as stock market capitalisation, the value of stock-trading and the number of listed firms, after controlling for legal origin, the state of economic development of particular countries, and their position on the World Bank rule of law index. We find no evidence of a long-run impact of legal change on stock market development. This finding is incompatible with the claim that legal origin affects the efficiency of legal rules and ultimately economic development. Possible explanations for our result are that laws have been overly protective of shareholders; transplanted laws have not worked as expected; and, more generally, the exogenous legal origin effect is not as strong as widely supposed.

WP359 Shareholder Protection around the World ("Leximetric II")

Dec 07 *Mathias Siems*

This article analyzes how shareholder protection has developed in 20 countries from 1995 to 2005. In contrast to traditional legal research, it draws on a quantitative methodology to law ("leximetrics", "numerical comparative law"). Some of its results are that in most countries shareholder protection has improved in the last years; that developed countries perform better than developing countries in protecting shareholders; that shareholder protection in common law countries is relatively similar whereas there is no comparable similarity within the German and French civil law families; that German corporate law is "more main-stream" and US corporate law is "more eccentric" than the law of the other countries; and that in general there has been convergence in the last decade. In order to explain these results, the distinction between origin and transplant countries can be useful. However, in contrast to previous studies, this does not mean that all depends on the distinction between English, French and German origin and transplant countries. Rather it is decisive (a) which "version" of the corporate law the transplant country copied, (b) whether transplant countries continue to take developments in the origin countries into account and (c) whether transplant countries have left the path of their (former) origin countries.

WP360 No 'Third Way' for Economic Organization? Networks and Quasi-Markets in Broadcasting

Mar 08 *Simon Deakin, Ana Lourenço and Stephen Pratten*

We present two linked, longitudinal case studies of the use of quasi markets in UK broadcasting over the past decade: one looks at the regulated outsourcing of programme making to independent producers, the other at the development of an internal market system within the BBC. New network forms are shown to have arisen from the interaction of legal regulation, contracts, and property rights. However, these organizational forms are also seen to be associated with increased transaction costs and with signs of deterioration in programme quality and innovation. We suggest that for such networks to be a viable 'third way' between markets and hierarchy, closer attention needs to be given to the issue of institutional design.

WP361 Law, Finance, and Politics: The Case of India

Mar 08 *John Armour, Priya Lele*

The process of liberalisation of India's economy since 1991 has brought with it considerable development both of its financial markets and the legal institutions which support these. An influential body of recent economic work asserts that a country's 'legal origin'—as a civilian or common law jurisdiction—plays an important part in determining the development of its investor protection regulations, and consequently its financial development. An alternative theory claims that the determinants of investor protection are political, rather than legal. We use the case of India to test these theories. We find little support for the idea that India's legal heritage as a common law country has been influential in speeding the path of regulatory reforms and financial development. There is a complementarity between (i) India's relative success in services and software, (ii) the relative strength of its financial markets for outside equity, as opposed to outside debt, and (iii) the relative success of stock market regulation, as opposed to reforms of creditor rights. We conclude that political explanations have more traction in explaining the case of India than do theories based on 'legal origins'.

WP362 The Law and Economics Debate about Secured Lending: Lessons for European Lawmaking?

Mar 08 *John Armour*

This review paper is a contribution to a symposium on the 'Future of Secured Credit in Europe'. Its theme is the way in which empirical research has shed light on earlier theoretical literature. These findings tend to suggest that the legal institution of secured

credit is, on the whole, socially beneficial, and that such benefits are likely to outweigh any associated social costs. Having made this general claim, the paper then turns to consider the effects of four particular dimensions across which systems of secured credit may differ, and which may therefore be of interest to European law-makers. These are: (i) the scope of permissible collateral; (ii) the efficacy of enforcement; (iii) the priority treatment of secured creditors; and (iv) the mechanisms employed to assist third parties in discovering that security has been granted. In each case, consideration is paid first to the theoretical position, and then empirical findings. It is argued that perhaps the most difficult of these issues for European lawmakers concerns the appropriate design of publicity mechanisms for third parties.

WP363 Takeovers after Takeovers

Jun 08 *Andy Cosh, Alan Hughes*

We review five decades of takeover activity in the UK. We assess the relative characteristics of acquiring and acquired companies and the performance impacts of merger using both accounting and share price based measures. We conclude that the fundamental conclusions reached by Ajit Singh about takeovers and the market for corporate control in his seminal contributions of the 1970s remain true in the light of subsequent work.

WP364 Regulatory Competition in Europe after Laval

Jun 08 *Simon Deakin*

This paper considers the implications for regulatory competition of the recent judgment of the European Court of Justice in Laval. This case is potentially the most important decision on European labour law for a generation. The Court has greatly extended the scope for judicial review of state-level labour laws on the grounds that they restrict freedom of movement from one member state to another. It has also undermined the principle of the territorial effect of labour legislation and has given a strictly pre-emptive interpretation to social policy directives. The Laval judgment is, however, open to attack on a number of grounds. It fails to mount a coherent economic case for judicial intervention on the scale envisaged, and is, more generally, incompatible with the recent experimentalist or reflexive turn in European governance represented by the open method of coordination.

WP365 The Stock Market, the Market for Corporate Control and the Theory of the Firm: Legal and Economic Perspectives and Implications for Public Policy

Jun 08 *Simon Deakin, Ajit Singh*

It is argued here that – contrary to current conventional wisdom – an active market for corporate control is not an essential ingredient of either company law reform or financial and economic development. The absence of such a market in coordinated market systems during their modern economic development was not an evolutionary deficit, but an effective and positive institutional arrangement. The economic and social costs associated with restructuring driven by hostile takeover bids, which are increasingly seen as prohibitive in the liberal market economies, would most likely harm the prospects for growth in developing and transition systems.

WP366 The Influence of Stock Market Listing on Human Resource Management: Evidence for France and Britain

Jun 08 *Neil Conway, Simon Deakin, Suzanne J. Konzelmann, Héloïse Petit, Antoine Rebérioux, Frank Wilkinson*

We use data from REPONSE 2004 and WERS 2004 to analyse whether approaches to HRM differ according to whether an establishment is part of a company with a stock exchange listing. In both countries we find that listing is positively associated with teamworking and performance-related pay, while in France, but not in Britain, it is also linked to worker autonomy and training. Our findings are inconsistent with the claim that shareholder pressure operates as a constraint on the adoption of highperformance workplace practices. The pattern is similar in the two countries, but with a slightly stronger tendency for listing to be associated with high-performance workplace practices in France.

WP367 Assessing the Long-run Economic Impact of Labour Law Systems: A Theoretical Reappraisal and Analysis of New Time Series Data

Jun 08 *Simon Deakin, Prabirjit Sarkar*

Standard economic theory sees labour law as an exogenous interference with market relations and predicts mostly negative impacts on employment and productivity. We argue for a more nuanced theoretical position: labour law is, at least in part, endogenous, with both the production and the application of labour law norms influenced by national and sectoral contexts, and by complementarities between the institutions of the labour market and those of corporate governance and financial markets. Legal origin may also operate as a force shaping the content of the law and its economic impact. Time-series analysis using a new dataset on legal change from the 1970s to the mid-2000s shows evidence of positive correlations between regulation and growth in employment and productivity, at least for France and Germany. No relationship, either positive or negative, is found for the UK, and although the US shows a weak negative relationship between regulation and employment growth, this is offset by productivity gains.

WP368 Governance Processes, Employee Voice and Performance Outcomes in the Construction of Heathrow Terminal 5

Jun 08 *Simon Deakin, Aristeia Koukiadaki*

The Major Projects Agreement (MPA) is a framework agreement designed to improve performance in large mechanical and electrical engineering projects. It is built on integrated team working and includes the trade union as a partner in strategic, organizational and employment decisions. The agreement was recently implemented in the construction of Heathrow Terminal 5 (T5). The use of the MPA at T5 illustrates how the promotion of a framework that legitimizes a role for unions in continuing dialogue with employers can positively affect organizational outcomes in large construction projects. While serving as a reminder that mechanisms exist within UK corporate governance for the representation and articulation of the interests of non-shareholder constituencies, T5 may be a unique case: the currently uncertain future of the MPA is indicative of wider constraints on the adoption of the partnership model in Britain.

WP369 Legal Origin, Juridical Form and Industrialisation in Historical Perspective: The Case of the Employment Contract and the Joint-Stock Company Jun 08 *Simon Deakin*

The timing and nature of industrialization in Britain and continental Europe had significant consequences for the growth and development of labour market institutions, effects which are still felt today and which are visible in the conceptual structure of labour law and company law in different countries. However, contrary to the claims of the legal origin hypothesis, a liberal model of contract was more influential in the civilian systems of the continent than in the English common law, where the consequences of early industrialization included the lingering influence of master-servant legislation and the weak institutionalization of the juridical form of the contract of employment. Claims for a strong-form legal origin effect, which is time invariant and resistant to pressures for legal convergence, are not borne out by a growing body of historical evidence and time-series data. The idea that legal cultures can influence the long-run path of economic development is worthy of closer empirical investigation but it is premature to use legal origin theory as a basis for policy initiatives.

WP370 Does Social Democracy Matter? Corporate Governance Reforms in Switzerland and Sweden (1980-2005) Sep 08 *Gerhard Schnyder*

This paper tests the accuracy of Roe's (2003) claim that 'social democracies' tend to have insider-orientated corporate governance systems, for two extreme cases concerning Roe's independent variable: Switzerland and Sweden. Starting from a position in which both were clearly insider-orientated systems, there was a significant weakening of insider control in Switzerland during the 1990s, but no comparable change in Sweden up until the early 2000s. These developments occurred against the background of contrasting political contexts in the two countries: in Switzerland, change took place in a context of stable dominance over the political arena by centre-right parties; in Sweden, no change took place despite the fact that centre-right parties managed several times to break the traditional social democratic dominance over government. Thus it would seem that political power relations as such do not explain the observed trajectories of these two corporate governance systems. Instead, the different trajectories are explained by the different preferences of central political and economic actors. The Swiss labour movement, which was traditionally under the dominance of a strong employer side, had important incentives to favour increasing external shareholder control over firms. Conversely, the Swedish labour movement, which had played a considerable part in the shaping of the Swedish corporate governance system, had no such incentives. Also, as Swiss banks started to reorientate their strategies towards financial market-related activities, they became a very important pro shareholder reform force in Switzerland. Swedish banks, which were part of business groups in which financial interests did not necessarily prevail over industrial interests, did not play any comparable role.

WP371 The Reflexive Properties of Corporate Governance Codes: Their Reception of the 'Comply and Explain' Approach in Slovenia

Sep 08 *Nina Cankar, Simon Deakin and Marko Simoneti*

The Slovenian Corporate Governance Code for Public Joint-Stock Companies was adopted in March 2004. Using a systems theoretical approach, we examine the extent to which the implementation of the Code has resulted in the kinds of 'reflexive' learning processes which the 'comply or explain' approach aims to bring about. The adoption of the Code has already had an impact on the wider legal system, triggering certain changes in the body of core company law, and assisting the process of adjustment to EU-level norms. On the whole, companies' implementation strategies are strikingly similar both in terms of the contents of deviations as well as in the type of disclosure and explanations for deviations. At the same time, the quality of disclosures is low, with effective comply-or-explain declarations representing only a small minority of disclosures. On this basis, the Code has been more effective, to date, in legitimating Slovenia's adjustment to transnational norms and standards, than in stimulating institutional learning.

WP372 Revisiting the Party Paradox of Finance Capitalism: Evidence from Switzerland, Sweden and the Netherlands Dec 08 *Gerhard Schnyder*

The 'party paradox' thesis claims that centre-left parties have a genuine interest in pro-shareholder corporate governance reforms, while centre-right parties oppose such reforms. Based on case studies of Switzerland, Sweden, and the Netherlands, I test the accuracy of this thesis and find that it does not apply to either of these cases: in Switzerland pro-shareholder reforms were made possible by centre right not centre-left support; In Sweden and the Netherlands pro-shareholder reforms were marginal, because a broad coalition uniting centre-right and centre-left opposed them. My findings show therefore that the 'party paradox' is not a universal phenomenon and that most micro-level explanations of this phenomenon are inaccurate. In order to explain in which

cases a party paradox will emerge, we need to add the nature of relations between employees and employers (cooperative vs. confrontational) as a determinant of centre-left preferences.

WP373 The Evolution of the Corporation: Organization, Finance, Knowledge and Corporate Social Responsibility Dec 08 *Peer Zumbansen*

This paper, which selectively focuses on the contested concept of Corporate Social Responsibility [CSR], forms part of a larger research project on the evolution of corporate governance. This research posits the evolution of corporate governance along three historical paradigms: first, the economic/industrial organization paradigm, second, the financial paradigm, and third, the knowledge paradigm. With regard to CSR, the paper explores the promises and shortcomings of the concept against the background of an evolutionary theory of corporate governance. The identification of three historical-conceptual paradigms allows us to trace the development of the relation between a general discourse on corporate governance regulation [CGR] on the one hand and a more specialized, often polemic debate over corporate (social, environmental, human rights) responsibilities on the other. On the basis of the review of the three paradigms of CSR over the course of more than one hundred years, the paper concludes that there is no convincing justification to separate the general Corporate Governance from the more specific CSR discourse when assessing the nature of the corporation. Instead, it is argued that a more adequate understanding of what defines a corporation is gained when capturing its embedded nature in a continuously changing domestic, global and functional environment. Besides being both a legal fiction and an economic actor, the business corporation is assuming a host of other roles in a functionally differentiated global society. The paper suggests that the generation and dissemination of knowledge, both internally and externally, has become the defining feature of the firm. The corporation as a knowledge actor succeeds the prior stages of assessing it as a private, political or financial actor, without however erasing these dimensions of the firm. In that, the history of the corporation - as concept and reality - shares important features with that of the state - as concept and as fact.

WP374 Tiger, Tiger, Burning Bright? Industrial Policy Lessons from Ireland and East Asia for Small African Economies Dec 08 *David Bailey, Helena Lenihan and Ajit Singh*

When comparisons in terms of industrial policy lessons to be learned have taken place, it has tended to be solely vis-a-vis the 'development state' East Asian experience. This paper broadens the analysis and considers lessons which African countries can learn from other so-called 'tiger' economies including Ireland and the East and South Asian countries. The Irish model is relevant not least because of its emphasis on corporatism rather than simply relying on state direction in the operation of industrial policy. The Irish model is also more democratic in some senses and has protected workers' rights during the development process. Overall we suggest that some immediate actions are needed, notably with regard to the financial system in small African economies. Without such changes, a poorly functioning financial system will continue to keep investment at low levels. In relation to the small size of the African economies, the paper recommends regional integration and sufficient overseas development assistance (ODA) for infrastructural development.

WP375 Do the English Legal Origin Countries have more dispersed Share Ownership and more developed financial Systems?

Dec 08 *Prabirjit Sarkar*

The essence of the legal origin hypothesis is that a country with an English legal origin provides better investor and creditor protection and experiences greater financial development; financial institutions and stock markets flourish, the general public participate more in financing investment projects of companies and so shareholding is less concentrated. The present paper examines this hypothesis on the basis of a cross-country study of 85 countries. We find no evidence of more dispersed share ownership in the English law countries than in other countries with different legal origins irrespective of whether we adjust for the existence of transitional economies and less developed countries present in the sample. Using three indicators of development of banking and other credit institutions and four indicators of stock market developments, we also find no evidence of more developed financial systems in the English law countries. As expected, there is some evidence of lower financial development in the less developed countries and transitional countries. It is not the English law heritage but the security of persons and goods that appears to explain the cross-country variations in financial development.

WP376 The Past, Present and Future of Industrial Policy in India: Adapting to the Changing Domestic and International Environment

Dec 08 *Ajit Singh*

In the post-World War II period India was probably the first non-communist developing country to have instituted a full-fledged industrial policy. The purpose of the policy was to co-ordinate investment decisions both in the public and the private sectors and to seize the 'commanding heights' of the economy by bringing certain strategic industries and firms under public ownership. This classical state directed industrialisation model held sway for three decades, from 1950-1980. The model began to erode in the 1980s. Following a serious external liquidity crisis in 1991 the model was fundamentally changed. Indian industrial policy in the period 1950 to 1980, as embodied in its five-year plans, has long been the subject of intense criticism from the powerful neoliberal critics of the country's development. In their view it was the change away from India's traditional industrial policy in 1991 towards liberalisation, de-regulation, and market orientation that ushered in a new era of faster economic growth. This paper takes a wide

view of industrial policy, emphasising the government's continuing co-ordinating role in various spheres. It regards the institution of the Planning Commission as a major benefit for the country particularly as its role in formulating industrial policy in the narrow sense and in guiding India's ongoing industrial revolution in the broader sense is still widely accepted by the mainstream political parties of the left and the right (for example, Bhartiya Janata Party, Indian People's Party). The paper suggests that industrial policy and planned economic development did not come to an end with the deregulation of India's traditional investment regime in the 1980s and 1990s. Industrial policy has continued in a different form during the period, facing an agenda of new issues and an updating of older ones. The analysis of this paper suggests that today a central challenge for the Planning Commission is to exploit India's lead in ICT and its 'institutional surplus' (democracy, common law legal heritage) to raise the current 8 per cent trend rate of growth to double-digit numbers while maintaining equitable distribution of the fruits of economic progress. To do so, India requires a somewhat different industrial policy than that pursued in the Nehru-Mahalanobis era, or that has been followed since then.

WP377 Stock Markets in Low and Middle Income Countries

Dec 08 *Ajit Singh*

This paper explores the question of whether the institution of the stock market is likely to be helpful to low and middle income countries in promoting development of their real economy and ensuring fast industrial growth. The case for and against the stock market inevitably involves a discussion of the important related subjects of corporate finance, corporate governance and corporate law. Contrary to the literature the paper arrives at a negative overall assessment of the institution of the stock market in relation to economic development. It also contributes by its policy proposals concerning the markets for corporate control which again are in conflict with much of the conventional wisdom on the subject.

WP378 Does fast Growth in India and China harm U.S. Workers? Insights from Simulation Evidence

Dec 08 *Alex Izurieta and Ajit Singh*

A major political and policy issue today is whether globalisation and rapid economic growth in India and China would have an adverse affect on labour markets in the U.S. and other advanced countries. Some leading economists have argued that even though the recent integration of India and China with the liberalised global economy has not so far had a serious negative impact on wages and employment in advanced countries, it is most likely to do so in the future in view of the growing technological and scientific capabilities in the two developing countries. This is also because it is suggested that this integration represents a sudden doubling of the world labour force without a concomitant increase in capital. The present paper argues against this plausible thesis, essentially on two grounds: (a) it does not take into account the demand side effects of fast growth in India and China; and (b) it abstracts from the dynamism of the U.S. real economy and its innovative large corporations. However, simulations of different scenarios on the CAM world econometric model indicate that at a disaggregated level there are severe supply side constraints on energy, raw materials and food which thwart the expansionary demand side effects of fast growth in India and China.

WP379 Better to be rough and relevant than to be precise and irrelevant. Reddaway's Legacy to Economics

Dec 08 *Ajit Singh*

W.B. Reddaway has been a highly influential figure in Cambridge economics during the second half of the 20th Century. His method and style of doing economics - called the Reddaway-type economics - were quite distinct. The present paper explains Reddaway's methodology by examining his most important research contributions. The title of this essay conveys his distance from mainstream economists. His essential substantive difference with the latter concerned inferential econometrics. He subscribed to Keynes' critique of Timburgen's methodology. In summary, Reddaway regarded economics as an empirical, evidence-based subject which, through economic policy, should help improve the world. In his view mathematics could sometimes help, but, more often than not, it obfuscated economic reality. Currently the academic economics profession is dominated by a priori theorising and deductive modelling. Greater attention to Reddaway's legacy to economics, to its research methods and to teaching, would very much help to rebalance the subject.

WP380 New Business Formation: An Important Element of Ireland's Rapid |growth Experience?

Mar 09 *Michael Anyadike-Danes, Helena Lenihan, Mike Hart*

The extraordinary growth of the Irish economy - the 'Celtic Tiger' - since the mid-1990s has attracted a great deal of interest, commentary and research. Indeed, many countries are now looking to Ireland as an economic development role model, and The Sapir Report (2003) has suggested that Ireland should be seen as providing key lessons for other EU countries with regards to realising the objectives set out in the Lisbon Agenda. Much of the discussion of Ireland's growth has focussed around growth triggers such as: the long term consequences of fiscal stabilisation of the late 1980s; EU structural funds; education; wage moderation; devaluations of the Irish punt. From an industrial policy perspective, the focus has been on the importance of FDI inflows and to a lesser extent on the performance of an indigenous stock of firms to Ireland's growth record. A notable absence from the industrial policy discourse on the 'Celtic Tiger' has been any consideration of the role of new business venture creation and entrepreneurship. In this paper we use unpublished annual Irish VAT data for the period 1988-2004 to provide the first detailed look at national and regional trends in business birth and death rates in Ireland. We also undertake a sub-national analysis of the Irish VAT data to understand more clearly the importance of new venture creation to past and emerging spatial trends in Ireland.

Our conclusion is that new business formation made no detectable contribution to the acceleration of Ireland's growth in the late 1990s.

WP381 Shareholder, Creditor and Worker Protection: Time Series Evidence about the Differences between French, German, Indian, UK and US Law

Mar 09 *Mathias M. Siems* This paper uses a new quantitative methodology ("numerical comparative law", "leximetrics") in order to answer the questions whether there has been convergence, divergence or persistence of legal rules, and how this relates to the Common Law/Civil Law distinction. It is based on indices for shareholder, creditor, and worker protection which code the legal development of France, Germany, India, the UK and the US from 1970 to 2005. The main result is that one has to distinguish between different areas of law: the laws have converged in shareholder protection, they have diverged in worker protection and in creditor protection converging and diverging trends even out. These results do not depend on the distinction between Civil Law and Common Law countries because there have been a number of instances where countries of different legal families have converged and countries of the same legal family have diverged.

WP382 How do legal Roles evolve? Evidence from a cross-country Comparison of Shareholder, Creditor and Worker Protection

Mar 09 *John Armour, Simon Deakin, Priya Lele, Mathias M. Siems*

Much attention has been devoted in recent literature to the claim that a country's 'legal origin' may make a difference to its pattern of financial development and more generally to its economic growth path. Proponents of this view assert that the 'family' within which a country's legal system originated—be it common law, or one of the varieties of civil law—has a significant impact upon the quality of its legal protection of shareholders, which in turn impacts upon economic growth, through the channel of firms' access to external finance. Complementary studies of creditors' rights and labour regulation have buttressed the core claim that different legal families have different dynamic properties. Specifically, common law systems are thought to be better able to respond to the changing needs of a market economy than are civilian systems. This literature has, however, largely been based upon cross-sectional studies of the quality of corporate, insolvency and labour law at particular points in the late 1990s. In this paper, we report findings based on newly constructed indices which track legal change over time in the areas of shareholder, creditor and worker protection. The indices cover five systems for the period 1970-2005: three 'parent' systems, the UK, France and Germany; the world's most developed economy, the US; and its largest democracy, India. The results cast doubt on the legal origin hypothesis in so far as they show that civil law systems have seen substantial increases in shareholder protection over the period in question. The pattern of change differs depending on the area which is being examined, with the law on creditor and worker protection demonstrating more divergence and heterogeneity than that relation to shareholders. The results for worker protection are more consistent with the legal origin claim than in the other two cases, but this overall result conceals significant diversity within the two 'legal families', with different countries relying on different institutional mechanisms to regulate labour. Until the late 1980s the law of the five countries was diverging, but in the last 10-15 years there has been some convergence, particularly in relation to shareholder protection.

WP383 Horse, Cow, Sheep, or 'thing-in-itself'? The cognitive Origins of Corporate governance in Switzerland, Germany and the US, 1910s-1930s

Mar 09 *Martin Lüpold and Gerhard Schnyder*

This paper investigates the origins of the shareholder-orientated corporate governance (CG) model of the US and the stakeholder orientated model prevailing in continental Europe (exemplified by Switzerland and Germany) for most of the 20th century. We reject the most common theories, which explain cross-national differences in CG models either as the result of a natural evolution, different legal origins, social democratic political power, or openness to trade. We show instead that – starting from fairly similar corporate governance structures in the US and continental European countries during the late 19th century – the crucial period for the emergence of two different corporate governance models was the period from the 1910s to the 1930s. We stress in particular the importance that legal experts and the ideas that they produced played in this process. In fact, during this period, the increasing size of firms and the professionalisation of their management led to new problems, which increasingly challenged existing corporate governance structures and the related individualistic theory of the firm. The diagnoses of this situation and possible remedies formulated by legal scholars informed political decision-makers in times of uncertainty and contributed, in important ways to shaping the different 'paths', which the different countries went down subsequently. While the scholarly debates in all three countries were surprisingly similar, different solutions were finally institutionalised due to differences in the political context.

WP384 An Augmented UK Private Expenditure Function

Mar 09 *Bill Martin*

This paper re-examines the UK private sector expenditure function invented in the 1970s by the 'New Cambridge' School of economists led by Wynne Godley. Evidence is found that helps to justify the New Cambridge focus on a private sector aggregate. More problematic is the School's basic axiom that posits a simple long-run target norm for private financial wealth in relation to income. The wealth to income ratio is instead subject to shifting trends and persistent oscillations.

One explanation is that the private sector chooses between investments in financial and non-financial assets on the basis of competing expected rates of return. These returns are not easily measured but experimentation with a proxy leads to a tentative augmented private expenditure function with interesting attributes. These include a stable steady-state ratio of financial wealth to income granted unchanging relative rates of return. Preliminary results reveal a powerful connection between UK private expenditure and house prices.

WP385 A Third Way: Regional Restructuring and the Societas Europaea

Jun 09 *Jodie A. Kirshner*

The Societas Europaea (SE) harmonized minimal amounts of company law and assigned employee representation to a supplementary negotiation process. Commentators predicted that it would introduce cross-border regulatory competition within the EU. Others suggested that companies would choose the SE over other national corporate structures, in order to mitigate the requirements of mandatory codetermination. This paper reports case-study evidence to argue that companies are utilizing the SE in a third, more significant way: to facilitate within-group restructurings that enable them to submit to a simplified, integrated regulation at the level of the parent company. This generates pressure for the unification of additional areas of law and more national-level regulation. Empowering the SE therefore represents a first step towards streamlining the regulation of European companies.

WP386 Networks of Learning within the English Wine Industry: Communitarian, Distanciated, Organisational, and Redundant

Jun 09 *Simon Turner*

The literature on industrial districts (also referred to as business clusters) has grown out of recognition that spatial proximity among firms supports the formation and exchange of knowledge within an industry and is therefore a source of competitive advantage. While such a 'territorial' perspective on interfirm relationships is valuable in highlighting the informal means through which firms can gain access to innovative knowledge, localised perspectives have received criticism from a number of quarters. This paper aims to evaluate the relevance of 'territorial' processes – untraded, informal, and localised relationships – for producing learning in industrial districts, when situated within a 'relational' perspective that also recognises the role of firm-specific strategies in shaping the learning practices that take place within industrial districts. The research explores the role of both territorial and non-territorial interfirm relationships within industrial districts using empirical evidence drawn from interviews with small enterprises working within the English wine industry of southern England. The findings suggest that the development of non-local knowledge links and formal interfirm arrangements by leading firms within the industrial district are starting to displace the extant communitarian logic of learning within the English wine industry

WP387 Law, Finance and Development Further Analyses of Longitudinal Data

Jun 09 *Prabirjit Sarkar and, Ajit Singh*

This paper analyses a longitudinal dataset on legal protection of shareholders over a 36 year period, 1970-2005 for four advanced countries, UK, France, Germany and the US. It examines two aspects of the legal origin hypothesis - whether shareholder protection is higher in the common law countries (UK and USA) than in the civil law countries (France and Germany) and whether shareholder protection matters for stock market development in the short and long runs. It also examines the 'causation' issue and the 'endogeneity' problem- whether greater shareholder protection leads to stock market development or whether stock market development leads to changes in law. The paper casts serious doubt on the validity of the basic theses of the Anglo Saxon legal and developmental model.

WP388 How a Social Capital Approach can help Multinationals show Ethical Leadership

Jun 09 *Peter Heslam, Ian Jones and Michael Pollitt*

In this paper we explore how social capital concepts can guide multinational firms' decision making in developing countries. From a survey of recent research, we identify four types of social capital: institutional, relational, moral and spiritual. Because these capitals overlap and yet are distinctive, they are individually and collectively useful in assessing how firms contribute to society beyond the generation and accumulation of financial capital. In each case we discuss examples of how particular multinationals have sought to build the different elements of social capital. Our examples include Intel, Anglo American, Merck and ServiceMaster. We suggest that a consideration of the impact of decisions on each of these elements of social capital provides an important 'moral compass' for these firms. We also suggest further work that needs to be done in understanding the impact that multinationals have on the social capital of the countries in which they operate.

WP389 Applying 'Comply-or-Explain': Conformance with Codes of Corporate Governance in the UK and Germany

Jun 09 *David Seidl, Paul Sanderson and John Roberts*

The comply-or-explain principle is a central element of most codes of corporate governance. Originally put forward by the Cadbury Committee in the UK as a practical means of establishing a code of corporate governance whilst avoiding an inflexible 'one size fits all' approach, it has since been incorporated into code regimes around the world. Despite its wide application very little is known about the ways in which managers apply the principle – in particular, how they make use of the option to 'explain' deviations. To address this we analysed the compliance statements and reports of 257 listed companies in the UK and Germany,

producing some 708 records of deviations, which we used to generate our empirically derived taxonomy of forms of 'explanation'. We find these varied form of 'explanation' are based in part on different logics of argumentation. This leads to a broader use of the option to 'explain' than envisaged by the Cadbury Committee. In addition our country comparison shows significant divergence in compliance patterns in the UK and Germany which may be explained by differences in experience, culture and legal system.

WP390 Acquisition, Insolvency and Managers in UK Small Companies

Sep 09 *Natalia Isachenkova and Melvyn Weeks*

This paper investigates the importance of managerial capital to involuntary insolvency and acquisition in UK small and medium-sized companies. Given that small businesses are informationally opaque and lack detailed financial data, the role of non-financial factors such as managerial capital has been emphasised. Although the role of managers in determining small firms' longevity has received considerable attention, much of what has been written is concerned with businesses trading as either sole proprietors or partnerships. In this study we draw attention to the effect of managerial human capital and whether these findings generalise to incorporated small firms. In addition, we examine whether the determinants of exit exhibit significant differences across acquisition and insolvency. Using data from the survey database of the ESRC CBR at the University of Cambridge our results indicate that firms run by managers with higher human capital and intentions to pursue a strategy of growth have greater survival prospects and are less likely to be forced into insolvency or become acquired. In addition, the relevance to exit of firm age, firm size, and financial variables is confirmed.

WP391 System and Evolution in Corporate Governance

Sep 09 *Simon Deakin and Fabio Carvalho*

We explore the relevance of systems theory for an understanding of legal evolution, with specific reference to the law and practice of corporate governance. The legal system can be understood as a cognitive resource which, by stabilising normative expectations, reduces transaction costs and enhances contractual cooperation. However, the cognitive capacity of the legal system is not simply a function of its adaptability to external economic conditions. Because of the need to ensure legal continuity and certainty, there is a trade-off between innovation and stabilisation in the production of legal rules. Legal change is discontinuous, asynchronic, and imperfectly matched with developments in the economy. We discuss the relevance of this model for understanding and evaluating corporate governance default rules.

WP392 Governance, Regulation and Financial Market Instability: The Implications for Policy

Dec 09 *Sue Konzelmann, Frank Wilkinson, Marc Fovargue-Davies and Duncan Sankey*

Just as the 1929 Stock Market Crash discredited Classical economic theory and policy and opened the way for Keynesianism, a consequence of the collapse of confidence in financial markets and the banking system – and the effect that this has had on the global macro economy – is currently discrediting the 'conventional wisdom' of neo-liberalism. This paper argues that at the heart of the crisis is a breakdown in governance that has its roots in the co-evolution of political and economic developments and of economic theory and policy since the 1929 Stock Market Crash and the Great Depression that followed. However, while many are looking back to the Great Depression and to the theories and policies that seemed to contribute to recovery during the first part of the twentieth century, we argue that the current context is different from the earlier one; and there are more recent events that may provide better insight into the causes and contributing factors giving rise to the present crisis and to the implications for theory and policy that follow.

WP393 The Evolution of Ownership Disclosure Rules across Countries

Dec 09 *Mathias M. Siems and Michael C. Schouten*

Over recent years, a number of regulators have launched proposals to expand the obligation to disclose major share ownership in listed companies. This article shows that these are not stand-alone developments. Using a unique dataset comprising data from 25 countries over 11 years (1995-2005) and collected by the Centre for Business Research of the University of Cambridge, we empirically study the evolution of ownership disclosure rules across countries. The analysis demonstrates that these rules have become more stringent over time, in the sense that disclosure thresholds have been lowered, and that there has been convergence. A breakdown of the results suggests that the degree of countries' economic development is a relevant factor in explaining the differences between countries. The analysis also suggests a positive correlation between ownership disclosure and other variables that protect minority shareholders, as well as a positive correlation between the stringency of countries' ownership disclosure rules and the degree of dispersed ownership. In the article, we offer various possible explanations for these results. Going forward, while it appears unlikely that disclosure thresholds will be lowered much further, ownership disclosure rules can be expected to continue to evolve in other dimensions. Regulators are likely to broaden the definition of the stake that triggers disclosure, so as to ensure that the ultimate owner is reached. In addition, regulators may require more information be disclosed when the notification is made, so as to enable other investors and issuers to adequately assess the implications of major share ownership.

WP394 Prospects for the UK Balance of Payments

Dec 09 *Ken Coutts and Bob Rowthorn*

This paper presents disaggregated projections for the UK balance of payments up to 2020. Under conservative assumptions about underlying trends it is projected that the current account deficit will increase from 2% of GDP in 2009 to almost 5% of GDP

by the end of the period. Empirical evidence indicates that a deficit of this magnitude is not sustainable and, if unchecked, will lead to a painful adjustment involving lost output and higher unemployment. The paper calls for industrial and other policies to improve UK trade performance, above all in manufacturing, but also in knowledge-intensive services (communications, consultancy, R&D, media etc). It also points out the need to safeguard London's role as a global financial centre.

WP395 University and Business Relations: Connecting the Knowledge Economy Dec

09 J. Stanley Metcalfe

The old question 'How is wealth created from knowledge?' captures with great force and clarity one of the most important problems in any economy, but it subsumes a far more particular and very modern instantiation, a simpler and more direct question, 'How should universities interact with business in the promotion of economic progress?' Like many seemingly simple questions they preclude any simple answers, yet it turns out that by focusing on the role of universities in the innovation process we can identify some of the deeper complexities of our knowledge based economies. In so doing, we may better understand the design of university-business relationships in pursuit of economic progress and provide surer guidance for policy initiatives in this area. The discussion is centred on three interrelated ideas: the division of labour in the production and use of knowledge; processes of knowledge accumulation; and, innovation systems. We conclude that, critics of the role of universities and firms in respect to their performance in supporting wealth creation should reflect first on the fact that the division of labour between profit seeking business corporations and universities reflects both the quite distinct roles that these organisations fulfil, and, the complementarity between those roles. We can all understand that it would be as unwise to expect firms to behave like universities as it would be to expect universities to behave like firms. The division of labour is there for a purpose, it should be respected.

WP396 Models of Technology Development in Intermediate Research Organisations Dec

09 Mina, A., Connell, D. and Hughes, A.

The development and exploitation of new scientific and technological know-how is a prime engine of economic growth. Different innovation systems have developed different approaches to this problem and have built upon varying combinations of public and private support for R&D over time. In this context, research and technology intermediaries play an important brokering and entrepreneurial role. This paper contains a comparative institutional analysis of the policy and business models of the Fraunhofer Society (Germany), IMEC (Belgium), the Holst Centre (the Netherlands), ITRI (Taiwan) and ETRI (South Korea). It includes an investigation and discussion of their main features, modus operandi, opportunities/risks and trade-offs. The study responds to the need to gain better understanding of possible ways to strengthen the capacity of the UK economy to generate value from its science and technology base. The case studies presented in this paper offer a number of useful lessons for the development of new innovation policy instruments of great potential benefit to the UK plc.

WP397 Systems Thinking, Market Failure, and the Development of Innovation Policy: The Case of Australia Dec

09 Dodgson, Foster, J., M., Hughes, A., Metcalfe, J.S.

Innovation policy is increasingly informed from the perspective of a national innovation system (NIS), but, despite the fact that research findings emphasize the importance of national differences in the framing conditions for innovation, policy prescriptions tend to be uniform. Justifications for innovation policy by organizations such as the OECD generally relate to notions of market failure, and the USA, with its focus on the commercialization of public sector research and entrepreneurship, is commonly portrayed as the best model for international emulation. In this paper we develop a broad framework for NIS analysis, involving free market, coordination and complex-evolutionary system approaches. We argue that empirical evidence supporting the hypothesis that the 'free market' can be relied upon to promote innovation is limited, even in the USA, and the global financial crisis provides us with new opportunities to consider alternatives. The case of Australia is particularly interesting: a successful economy, but one that faces continuing productivity and innovation challenges. Drawing on information and analysis collected for a major review of Australia's NIS, and the government's 10-year plan in response to it, we show how the free market trajectory of policy-making of past decades is being extended, complemented and refocused by new approaches to coordination and complex-evolutionary system thinking. These approaches are shown to emphasize the importance of systemic connectivity, evolving institutions and organizational capabilities. Nonetheless, despite the fact that there has been much progress in this direction in the Australian debate, the predominant logic behind policy choices still remains one of addressing market failure, and the primary focus of policy attention continues to be science and research rather than demand-led approaches. We discuss how the development and elaboration of notions of systems failure, rather than just market failure, can further improve policy-making in the future.

WP398 Green Values in Communities: How and why to engage individuals with decarbonisation targets

Mar 10 Pollitt, M.

We suggest that engaging individuals and changing norms of behaviour will be crucial if substantial decarbonisation is to be achieved and if the full costs of climate change and related development challenges are to be willingly met by societies around the world. Engaging individuals and changing norms fundamentally relate to individual moral values. This brings us to a consideration of how organised religion can play a role in providing the moral basis for individual action in this area. We also suggest implications for how business will need to engage with the challenges posed by decarbonisation. Our discussion links the underlying ethical issues raised by The Economics of Climate Change (Stern, 2007) with Vandenberg's (2005) emphasis on the need for 'personal norm activation' to engage individuals in protecting the environment.

WP399 Law and Financial Development: What we are learning from time-series evidence Mar*10 Armour, J., Deakin, S., Mollica, V. and Siems, M.M.*

The legal origins hypothesis is one of the most important and influential ideas to emerge in the social sciences in the past decade. However, the empirical base of the legal origins claim has always been contestable, as it largely consists of cross-sectional datasets which provide evidence on the state of the law only at limited points in time. There is now a growing body of data derived from techniques for coding cross-national legal variation over time. This time-series evidence is reviewed here and is shown to cast new light on some of the central claims of legal origins theory. Legal origins are shown to be of little help in explaining trends in the law relating to shareholder protection, although the classification of legal systems into English-, French- and German-origin 'families' has greater explanatory force in the context of creditor rights. The widely-held view that increases in shareholder rights foster financial development is not supported by time-series analyses. More generally, the new evidence casts doubt on the suggestion that legal origins operate as an 'exogenous' force, independently shaping both the content of laws and economic outcomes. It is more plausible to see legal systems as evolving in parallel with changes in economic conditions and political structures at national level.

WP400 Firm Ownership and Philanthropy Jun*10 Chai, D.H.*

This paper empirically examines the relationship between firm ownership structure and corporate charitable donations. Using a panel data set of 1,017 listed Korean firms, we find that larger firms with higher advertising intensity and lower export intensity 'give' relatively more, suggesting that charitable donations are both strategic and discretionary corporate expenditures. In addition, the study explores the effects of ownership structure on corporate philanthropy. We find a positive relationship between charitable donations and foreign ownership. However, we do not find a significant effect of corporate philanthropy on financial performance, indicating that donations appear to be "revenue" neutral.

WP401 Foreign Corporate Ownership and Dividends Jun*10 Chai, D.H.*

This paper investigates the relatively unexplored relationship between dividends and ownership structure in an emerging market setting. Using a unique panel dataset of foreign ownership and firm attributes of listed Korean firms, we first characterize foreign ownership after the full capital market liberalization in 1998. Foreign investors in Korea tend to overweight larger and profitable firms with large export sales and underweight highly leveraged firms with low market-to-book ratio. Then we explore the effects of the rise in foreign ownership on dividend policies in Korea. Firms make higher dividend payouts as the shareholdings of foreigners increase. This result is consistent with the agency theory view of dividends, i.e. dividends can substitute for direct monitoring of firms by large external shareholders.

WP402 The Impact of Foreign Corporate Ownership on Downsizing and Labour Cost Jun*10 Chai, D.H.*

This study examines the impact of foreign ownership on the firm's labour cost using a panel data of 496 publicly traded Korean companies during the post Asian financial crisis period of 1998-2003. It shows that foreign ownership is positively related to labour cost but this positive effect is significantly weaker for firms with weak financial performance than those with strong financial performance. These results provide support to the view that foreign investors take both monitoring and disciplinary roles for publicly traded firms.

WP403 Varieties of Liberalism: Anglo-Saxon Capitalism in Crisis?*Jun 10 Konzelmann, S., Fovargue-Davies, M. and Schnyder, G.*

'Global financial crisis' is an inaccurate description of the current upheaval in the world's financial markets. The initial banking crisis did not affect all countries to the same degree. Notably, while the US and UK banking systems were badly hit, those of the other two major Anglo-Saxon economies, Canada and Australia, remain largely unscathed and have even gained in terms of global market share. The national business systems and comparative corporate governance literatures underscore the similarities among these four 'liberal market economies' (LMEs) and would predict similar trajectories. This paper investigates the reasons behind the differing performance of the Anglo-Saxon banking systems, which defy a verdict of failure of the LME variety of capitalism as such.

WP404 Globalisation, Openness and Economic Nationalism: Conceptual Issues and Asian Practice Jun*10 Singh, A.*

This paper considers the question of economic nationalism through the lens of economic openness. Complete economic openness, which connotes close or total integration of a country with that of the world economy, is the antonym of economic nationalism. The paper argues that economic openness is a multi-dimensional concept. A country can be open, or not so open to all or some of the following: trade, exports, imports, finance, science, culture and education, migration, foreign investment, investment by its citizens and companies abroad, among other things. There is no economic theory that suggests that a country has to be open in all dimensions simultaneously. Given its economic and geo-political situation, a country may choose to be open

in some areas and not in others. The paper examines the analytical question: what is the optimum degree of openness for an economy? This theoretical framework is used to illustrate and explain the Asian experience, specifically of Japan and Korea. The implications for policy for these and other national economies as well as those for the global economy are outlined. The main policy message of the paper is that countries should seek, whenever they can, 'strategic' rather than close integration with the international economy. In that sense economic nationalism, notwithstanding globalization is still the order of the day in many Asian countries. They need to maintain national control over volatile capital movements and prudently regulate the financial sector in the national interest.

WP405 Financial Globalisation and Crisis, Institutional Transformation and Equity Jun 10 *Arestis, P. and Singh, A.*

This paper comprises the long introduction to the symposium of five papers on financial globalisation published in the Cambridge Journal of Economics, volume 34, no 2. The paper discusses the impact of financial globalisation in a variety of spheres and shows how the five papers link together to provide a coherent view of the current economic and financial crisis. In this paper we also examine the globalisation of finance more broadly both in historical terms as well as in relation to the current widespread failure in the financial markets. We take up the policy question of how the interests of the poor in particular, and developing countries in general, could be safeguarded from the vagaries of financial globalisation, questioning how much choice communities and countries have and what can the international community do to extend these choices?

WP406 Varieties of Insider Corporate Governance: Centre-Right Preferences and the Determinants of Reform in the Netherlands, Sweden and Switzerland Jun 10 *Schnyder, G.*

The impact of centre-left political parties' preferences on a given country's corporate governance system has been widely debated and empirically investigated. Comparatively few efforts have been made to analyse the preferences of centre-right parties and to link these to the 'employer side' of the corporate governance equation. Recent scholarship sought to explain centre-right preferences in corporate governance reforms by electoral strategies that appeal to the median voter, arguing that the aggregate ownership structure that prevails in a country is the main determinant of the politics of corporate governance reforms. In this paper, I challenge this electoral strategy explanation by opposing it to an interest group power explanation of centre-right preferences. Based on the cases of the Netherlands, Sweden and Switzerland I show that the ownership patterns do not explain political preferences. Instead, opening up the black box of insider-orientated corporate governance systems is necessary in order to explain why centre-right parties' preferences concerning shareholder primacy vary from one country to the other. My findings suggest that the extent to which insider control relies on control enhancing mechanisms (CEMs) and the importance of the financial sector in a given economy strongly influence centre-right preferences in the political struggles over corporate governance.

WP407 Flexible or not? The Comply-or-Explain Principle in UK and German Corporate Governance Jun 10 *Sanderson, P., Seidl, D., Roberts, J. and Krieger, B.*

The current financial crisis has given rise to calls to toughen considerably the codes of corporate governance put in place in many countries to regulate corporate behaviour (e.g. the UK Combined Code). These codes vary slightly in form but tend to contain a mix of non-discretionary regulations and discretionary guidance and information. Almost all such codes embody some variation or other of the comply-or-explain principle. Companies should comply with the rules or explain why they do not. In this way the code framers avoid, or perhaps enable, a one-size-fits-all approach. It is this discretion that governments are under pressure to limit, but little is known about how it is used, in what circumstances, and to what effect? In this paper we report the findings of research carried out in the UK and Germany to investigate the extent to which large public companies comply with the rules, and the attitudes of company directors and legal counsel to using comply-or-explain. We find that positive conformance with codes depends on factors such as the extent to which regulatees are engaged in the formation and revision of the code, and thus feel a sense of ownership; the existence of interested and relevant monitors; and the extent to which soft regulation is a traditional means of control in a domain. We also found that pressure, both internal and external, both real and imagined, can lead to the establishment of a norm of full compliance, with perhaps perverse outcomes, and that in any event the majority of the contents of codes become akin to hard law, where deviation is not considered acceptable. There are however a very small number of rules where temporary deviation may be unavoidable from time to time and where non-compliance accompanied by a valid explanation is accepted.

WP408 Competition and Public Service Broadcasting: Stimulating Creativity or servicing Capital? Jun 10 *Turner, S. and Lourenço, A.*

In UK public service broadcasting, recent regulatory change has increased the role of the private sector in television production, culminating in the BBC's recent introduction of 'creative competition' between in-house and independent television producers. Using the concept of 'cognitive distance', this paper focuses on the increasing role of the independent sector as a source of creativity and innovation in the delivery of programming for the BBC. The paper shows that the intended benefits of introducing new competencies into public service broadcasting have been thwarted by, on the one hand, a high level of cognitive proximity between in-house and external producers and, on the other, a conflict in values between the BBC and the independent sector,

with the latter responding to a commercial imperative that encourages creativity in profitable genres, leaving gaps in other areas of provision. While recent regulatory reform appears to have had a limited impact on the diversity of programming, it does suggest a closer alignment of programme content with the imperatives of capital. Implications for the literature on communities of practice are noted.

WP409 Autopoietic Social Systems Theory: The Co-evolution of Law and the Economy Jun

10 *Lourenço, A.*

This paper explores the relationship between regulation and contracts from the point of view of autopoietic social systems theory. Building on the notions of contract as a structure of governance, and of regulation as a system of rules intended to govern the behaviour of its subjects that involves standard setting, monitoring and enforcement, the paper discusses the contributions of Teubner (1993), Collins (1999) and Deakin (2002) for understanding the relationship between the legal and the economic subsystems in society. The paper argues that regulation and contracts co-evolve: the influence of regulation upon contracts is mediated by the system of shared meanings that the contract develops and, reciprocally, the influence of contracts on regulation depends on each regulatory element's own network of communications. The paper concludes that reflexive regulatory strategies, by facilitating the emergence of shared meanings, may be more successful in governing the behaviour of economic actors. However, given the disturbances involved in the process of co-evolution, this is not straightforward.

WP410 The Mechanism of Voting Efficiency Sep

10 *Schouten, M.C.*

In the wake of the financial crisis, shareholders are increasingly relied upon to monitor directors. But while much has been written about directors' flawed judgments, remarkably little is known about shareholders' ability to make accurate judgments. What determines whether shareholders make the right decision when asked to vote on, say, a merger? This paper takes a novel approach to this question by drawing an analogy between corporate voting and another system to aggregate information on estimated values: stock trading. Using insights on stock market efficiency, the paper makes three contributions to our understanding of voting efficiency. First, the paper identifies four key mechanisms of voting efficiency: (1) informed voting, which implies that shareholders have some information to base their voting decision on; (2) rational voting, which implies that such information is processed in a rational, unbiased way; (3) independent voting, which implies that each shareholder arrives at a judgment by making use of his or her personal cognitive skills, and (4) sincere voting, which implies that shareholders vote with a view to furthering the common interest of maximizing shareholder value rather than their own private interest. The paper explores the operation of each mechanism, and demonstrates that the mechanisms interact in unexpected ways. Second, the paper shows that share trading, proxy solicitation and vote buying can usefully be viewed as arbitrage techniques that reallocate voting power in the hands of shareholders with superior information and processing skills, and with appropriate incentives. By reducing information asymmetry, arbitrage techniques potentially play an important role in improving voting efficiency. In practice, however, they are subject to cost constraints as well as legal constraints. The limits of voting arbitrage are significant, and affect voting efficiency much in the same way as limits of securities arbitrage affect market efficiency. Third and finally, the paper analyzes two issues that are currently being studied by the U.S. Securities Exchange Commission and policymakers around the world: voting without corresponding financial interest ('empty voting') and the major influence of proxy advisers. By showing that these issues each involve a trade off between the various mechanisms of voting efficiency, their costs and benefits are brought into sharper focus. Several policy options are then presented to mitigate the costs while fostering the benefits.

WP411 The Impact of the Patent System on SMEs Sep

10 *Hughes, A. and Mina, A.*

The authors consider the theory and evidence on the propensity of small and medium-sized enterprises (SMEs) to patent their innovations. Drawing on UK, European and US literature and data sources, they show that small firms are less likely to use patents as a means of protecting their investment than other means such as confidentiality, secrecy or time to market. SMEs are also less likely than larger firms to use others' patents as a source of information for their own innovation activities, preferring customers, suppliers and trade fairs. Conversely, smaller firms are more likely than larger firms to put their patents to productive use or to licence out their technology, a pattern that is likely to reflect relatively higher cost and capacity pressures. Among the emerging trends, of particular interest for high tech SMEs is the role of patents as an increasingly important factor in obtaining financial backing by venture capitalists. A survey of UK and US small businesses conducted jointly by the Centre for Business Research (CBR) at Cambridge and the Industrial Performance Unit at the Massachusetts Institute of Technology provides data for further analyses which reveal that small firms in the United States are twice as likely as those in the UK to patent innovations, but are still much less likely to patent than larger US firms. The authors conclude with a general discussion of main findings from a UK and European perspective.

WP412 Knowledge and the Evolving Economy Sep

10 *Mina, A.*

This paper addresses the problem of knowledge and the far-reaching implications it bears upon innovation and the functioning of economic systems. It develops a stylised analysis of the micro-dynamics of knowledge generation, exchange and absorption. It discusses the properties of knowledge accumulation as a complex process: adaptive, path-dependent, context-dependent,

opened and creative in the sense that it always entails the potential to endogenously generate radical novelty, in line with theory and evidence from the economics of innovation, but fundamentally at odds with a number of important tenets of equilibrium economics.

WP413 Turning Digital: Diversification in UK Design Consultancy Services Sep

10 Wennberg, K., Tether, B., Li, C. and Mina, A.

Why do small firms in emerging industries choose to diversify? Theories of strategic management suggest that diversification is driven by search for exogenous market opportunities, deployment of slack resources, or the exploitation of current knowledge. Institutional organization theory suggests that firms may diversify for reasons unrelated to performance, such as by mimicking similar firms. We analyse the diversification of small UK design consultancies into the field of digital design between 1996 and 2009, a period characterized by the dot-com 'boom', 'bust' and recovery. Panel data analyses reveal that financial performance had little causal impact upon diversification. Instead, most firms diversified into digital design triggered by internal growth aspirations or by the following of similar firms. We contribute to the literature on small firm growth and diversification by highlighting the interactive nature of strategic and institutional drivers to diversification, and their relationship with firms' internal growth aspirations.

WP414 Globalisation, Structural Adjustment and African Agriculture: Analysis and Evidence Sep10

Bryceson, D., Sarkar, P., Fennell, S. and Singh, A.

A major purpose of this paper is to examine the effects of poor governance or 'state fragility' in African countries on their overall economic and agrarian performance. The results of our econometric analysis show that a higher level of public security is conducive to lower levels of conflict, whether of an ethnic, religious and regional nature. It also corresponds with greater agricultural value-added per capita. The analysis further indicates that trade openness and aid do not have a substantial impact on agricultural development. Our institutional and historical examination of the structural adjustment programmes in African countries suggest that African agriculture's poor performance is not necessarily due to the negative influence of African governments, but could also, in large part, be attributed to the policies advocated by the international financial institutions and donor countries. The resolution of the problems associated with these policies lies in improving the ability of African farmers to benefit from new agrarian technologies that raise staple food productivity and thereby enhance food security and national stability. The paper also provides, inter alia, a nuanced analytical description, based upon available aggregate statistics, of the short- and long-term performance of African economies and their agricultural sectors during the last 25 years.

WP415 The Global Economic and Financial Crisis: A Review and Commentary Dec

10 Singh, A. and Zammit, A.

This paper provides a review and commentary on the current financial and economic crisis. It considers important analytical and policy issues from a global and North-South perspective. The analytical questions cover issues such as the better than expected performance of the world economy, the role of global financial imbalances, and whether or not economic theory has been helpful. It is argued that close international cooperation and policy coordination are essential to recovery and an improved distribution of the fruits of growth. Cooperation and financial regulation are particularly necessary in order to prevent international contagion and cascading sovereign debt defaults.

WP416 Employee Ownership in the European Company: Reflexive Law, Reincorporation and Escaping Codetermination

Dec 10 Njoya, W.

This article assesses the effects of reincorporation on codetermination, focusing on the scope for escaping codetermination by restructuring under the European Company (SE). This is usually associated with the prospect of corporate flight from codetermined jurisdictions. The article presents an alternative possibility, arguing that because the self-regulatory framework of employee participation in the SE encourages diversity and experimentation, it does not inevitably erode the institution of codetermination. Viewed within a framework of reflexive harmonization, the effects on codetermination are better understood as part of an open-ended process of evolution in the ownership and control structures of the firm. This points to the potential for codetermination to become more, rather than less, integrated as part of the ownership landscape of European firms.

WP417 Corporate Governance and Financial Crisis in the Long Run Dec

10 Deakin, S.

Prior to the global financial crisis which began in 2007, corporate governance reforms of the preceding thirty years had promoted a shareholder-value based model of management for which there was little historical precedent. The underlying legal model of the firm retained a vestigial sense of the corporate form as a mechanism for promoting group cooperation, but it became increasingly ill suited to achieving this end in a period of hyper-liquidity in capital and credit markets. The destabilizing effects of the shareholder value norm included growing income inequality for which asset price inflation in the Anglo-American economies served as partial compensation, thereby helping to create the conditions which led to the global financial crisis. The failure of individual financial institutions cannot plausibly be ascribed to poor governance practices in those firms; there were more immediate factors at play, including ineffective regulation. However, the general trend towards shareholder value since the 1980s

was implicated in a wider, systemic failure of the corporate governance system, of which the banking crisis was simply the most visible manifestation. Under these circumstances, a reassessment of the shareholder value based approach to the governance and management of large corporations is urgently required.

WP418 Comparative Advantage, Industrial Policy and the World Bank: Back to First Principles Mar

11 *Singh, A.*

This paper provides a critical analysis of the World Bank's new thinking on industrial policy. After outlining the changing perspectives on industrial policy put forward by the World Bank over the last three decades, we argue that the bank's economists have taken one step forward (the approval for the enhanced role of the state) but also one if not two steps backward (by strong encouragement to countries to seek their current comparative advantage in pursuing industrial policy). We argue that a critical analysis of the World Bank's policy stance on industrial policy as on other main issues is essential because of the institution's hegemony in policy analysis of economic development as well as its conditionality, which may now well include what this paper regards as its inappropriate industrial policy. The analysis in the paper combines classical contributions on international trade and the world economy, relevant economic history, as well as Krugman's comments on these issues in terms of modern economic analysis. The paper concludes with reflections on the appropriate industrial policy for developing countries that the World Bank should support.

WP419 Global Imbalances, Under-Consumption and Over-Borrowing: The State of the World Economy and Future Policies

Mar 11 *Cripps, F., Izurieta, A. and Singh, A.*

This paper addresses the question of whether growth convergence can be sustained in the global economy without compromising welfare and without causing major crises. It employs a simplified stock-flow analytical framework to examine the proposition that the pace and pattern of global growth is conditioned by 'under-consumption' in some regions of the world and 'over-borrowing' in other regions. A baseline projection using the Cambridge-Alphametrics model (CAM) illustrates consequences of resumed global imbalances after the 2008-2009 crisis. An alternative scenario exemplifies the case in which China and India shift towards internal income redistribution and domestic demand orientated policies and suggests that this will not be sufficient to correct global imbalances or induce improved growth rates in other developing regions. Finally a more ambitious development perspective is simulated. Such a scenario requires internationally-coordinated policy efforts, with greater role for governments in the management of demand, income distribution and environmental sustainability, as well as measures to reduce instability of exchange rate and commodity markets.

WP420 Equality Law and the Limits of the 'Business Case' for addressing Gender Inequalities Mar

11 *McLaughlin, C. and Deakin, S.*

The 'business case' for gender equality rests on the claim that organisations can improve their competitiveness through improved diversity management, in particular by reducing turnover and training costs and minimising reputational and litigation risks arising from potentially discriminatory behaviour. It is also argued that through the mechanism of socially responsible investment (SRI), shareholders can put pressure on the management of listed companies to take gender issues more seriously. We assess these claims through an empirical study which draws on interviews with institutional investors engaged in SRI and with managers in a range of organisations in both the private and public sector. We find that organisations are increasingly responding to the argument that persistent gender inequalities represent a form of mismanagement of human resources, with negative implications for the delivery of services, in the public sector, and for the efficiency of the firm, in the private sector. Shareholder engagement, however, has so far had very little impact in this area. We discuss regulatory reforms, including tighter rules on firm-level disclosure of gender policies and practices, which could address these issues.

WP421 Financial Globalisation and Human Development Jun

11 *Singh, A.*

This paper is concerned essentially with the question, how does financial globalisation affect welfare? Orthodox theory suggests that because of greater risk-sharing between countries that financial liberalisation entails, there should be no welfare losses. Greater risk sharing should lead to greater smoothing of consumption and/or growth trajectories for developing countries. Yet there is widespread evidence of crises following liberalisation. Apart from these international macro-economic issues, it is argued here that financial globalization changes the very nature of capitalism from managerial to finance capitalism. This profoundly affects at the microeconomic level corporate governance, corporate finance and income distribution. Both macro- and microeconomic factors outlined here influence human development.

WP422 Anglo-Saxon Capitalism in Crisis? Models of Liberal Capitalism and the Preconditions for Financial Stability Jun

11 *Konzelman, S. and Fovargue-Davies, M.*

The return to economic liberalism in the Anglo-Saxon world was motivated by the apparent failure of Keynesian economic management to control the stagflation of the 1970s and early 1980s. In this context, the theories of economic liberalism, championed by Friederich von Hayek, Milton Friedman and the Chicago School economists, provided an alternative. However, the divergent experience of the US, UK, Canada and Australia reveals two distinct 'varieties' of economic liberalism: the

'neoclassical' incarnation, which describes American and British liberal capitalism, and the more 'balanced' economic liberalism that evolved in Canada and Australia. In large part, these were a product of the way that liberal economic theory was understood and translated into policy, which in turn shaped the evolving relationship between the state and the private sector and the relative position of the financial sector within the broader economic system. Together, these determined the nature and extent of financial market regulation and the system's relative stability during the 2008 crisis.

WP423 An End to Consensus? The Selective Impact of Corporate Law Reform on Financial Development Jun

11 *Deakin, S., Sarkar, P. and Singh, A.*

Legal origins theory suggests that law reform, strengthening shareholder and creditor rights, should enhance financial development. We use recently created datasets measuring legal change over time in a sample of 25 developing, developed and transition countries to test this claim. We find that increases in shareholder protection contribute to stock market growth in the common law world and in developing countries, but not in the civil law world. We also find evidence of reverse causation, with financial development triggering legal changes in the developing world. We consider a number of reasons for the selective impact of law reform, focusing on the endogeneity of the legal system to its economic context, and on resulting complementarities between legal and financial institutions.

WP424 Legal Evolution: Integrating Economic and Systemic Approaches Jun

11 *Deakin, S.*

This paper explores the scope for synthesis between economic and systemic approaches to the understanding of legal evolution. The evolutionary and epistemic branches of game theory predict that stable norms will emerge when agents share common beliefs concerning future states of the world. Systems theory see the legal order as a social system which reproduces itself by recursive acts of legal communication, thereby giving rise to self-reference and operational closure. At the same time, the legal system is cognitively open, that is to say, indirectly influenced by other social systems in its environment. This gives rise to the possibility of coevolution of law and the economy. It will be argued that systems theory, by developing the idea of law as an adaptive system with cognitive properties, provides a missing link in the evolutionary theory of norms. Recent game theoretical models imply that common knowledge is not entirely endogenous to agents' interactions, but depends to a certain extent on emergent normative structures. These include the public representations of common knowledge which are provided by the legal system. The paper will explore the implications of this idea, argue for an integrated economic and systemic analysis of legal evolution, and consider some of the theoretical and methodological implications of such a step.

WP425 Open Innovation, the Haldane Principle and the new Production of Knowledge: Science Policy and University/Industry Links in the UK after the Financial Crisis Sep 11 Hughes, A.

This paper analyses science policy resource allocation in the light of a comparison of the open innovation and Mode 2 new production of knowledge conceptual frameworks. It provides a brief historical review of the evolution of science funding and the application of the Haldane principle in the UK. The core of the paper analyses academic and business attitudes to university/industry links using two recent large scale surveys and argues that there is a largely false dichotomy drawn between applied and basic research. University industry links are already extensive and encompass a wide range of interactions than those captured by the usual debate over science engineering and narrow conceptions of commercialisation based on patenting and spin-outs.

WP426 Gender Inequality and Reflexive Law: The Potential of different regulatory Mechanisms for making Employment Rights effective

Sep 11 *Deakin, S., McLaughlin, C. and Chai, D.H.*

We review the different regulatory mechanisms which have been used in the UK context to promote gender equality in employment over the past decade, including legal enforcement based on claimant-led litigation, collective bargaining, pay audits, and shareholder pressure. Evidence is drawn from case studies examining the effects of these different mechanisms on organisations in the public and private sectors, and from econometric analysis of the impact of stock market pressures on firms' human resource practices. We argue that there is scope for reflexive solutions to improve the effectiveness in practice of UK equality law, by inducing efficient disclosure by employers, setting default rules, and encouraging bargaining in the shadow of the law.

WP427 Science and Technology Studies: Exploring the Knowledge Base Sep

11 *Martin, B., Nightingale, P. and Yegros-Yegros, A.*

Science and Technology Studies (STS) is one of a number of new research fields to emerge over the last four or five decades. This paper attempts to identify its core academic contributions using the methodology developed by Fagerberg et al. (2011) in their parallel study of Innovation Studies. The paper uses the references cited by the authors of chapters in a number of authoritative 'handbooks', based on the assumption that those authors will collectively have been reasonably comprehensive in identifying the core contributions to the field. The study analyses the publications most highly cited by the handbook authors, in particular examining their content and what they reveal about the various phases in the development of STS. The second part of the study analyses the 'users' of the STS core contributions who have cited these contributions in their own work, exploring their research fields, journals, and geographical location. The paper concludes with some comparisons between STS and the fields of

Innovation Studies and Entrepreneurship, in particular with regard to the role of 'institution builders' in helping to develop a new research field.

WP428 Indian Labour Law and its Impact on Unemployment, 1970-2006: A leximetric Study Dec

11 *Deakin, S. and Sarkar, P.*

We analyse a recently developed leximetric dataset on Indian labour law over the period 1970 to 2006. Indian labour law is seen to be highly protective of workers' interests by international standards, particularly in the area of dismissal regulation. We undertake a timeseries econometric analysis to estimate the impact of the strengthening of labour laws on unemployment and industrial output in the formal economy. We find no evidence that pro-worker labour legislation leads to unemployment or industrial stagnation. Rather, proworker labour laws are associated with low unemployment, with the direction of causality running from unemployment and output to labour regulation.

WP429 Capability Theory, Employee Voice and Corporate Restructuring: Evidence from UK case studies Dec

11 *Deakin, S. and Koukiadaki, A.*

We examine the relationship between capability for voice and corporate restructuring through an empirical study of the operation of the UK's Information and Consultation (I&C) Regulations of 2004. These Regulations, implementing an EU Directive, introduced elements of the continental European codetermination model into UK law, while allowing for flexibility and experimentation in forms of employee representation. Although the absence of a preferred role for trade unions in the establishment of I&C arrangements limited the scope for interaction with existing structures of collective bargaining, there is evidence that unions were able to use the new arrangements to extend their influence in some contexts. We also report evidence of deliberation mitigating the impact of restructurings on workforce morale and contributing to a longer-term perspective on skills in some firms. We conclude that the I&C model has unfulfilled potential in the UK context.

WP430 Islamic Finance: Conceptual and Analytical Issues from the Perspective of Conventional Economics Mar

12 *Sheng, A. and Singh, A.*

After a brief recent empirical sketch of Islamic finance, the paper turns to its main theoretical and conceptual purpose. It seeks to relate the concepts of Islamic and conventional finance, and to examine certain important questions which arise from the interaction between these systems. The paper is written from the perspective of conventional modern economics, as the authors are students of the latter. The paper discusses the main tenets of Islamic finance, as well as those of modern economics, including the implications of zero interest rates and those of Modigliani and Miller theorems. The most notable finding of this paper is that John Maynard Keynes' analysis of employment, interest and money provides, inadvertently, the best rationale for some of the basic precepts of Islamic finance. The paper concludes that there is no inevitable conflict between the two systems and cooperation between them is eminently desirable and feasible.

WP431 Variety of Search and Innovation: A Comparative Study of US Manufacturing and Knowledge Intensive Business Services Sectors

Mar 12 *Cosh, A. and Zhang, J.*

Whilst the variety of search activities promotes innovation, there is a central tension between a firm's potential benefits from wide and diverse search activities and its ability to reap these potential benefits. In this paper, we argue that the potential and realised benefits from a firm's search activities are influenced not only by its resources and capabilities, but also by the nature of innovation activities at sector level. Drawing upon a statistical analysis of a large scale survey conducted in the US, we examine the impact of a firm's external search strategy along two dimensions (search intensity and direction) on its innovative performance. Our findings suggest that manufacturing firms tend to benefit from wide and diversified search activities whereas knowledge intensive business services (KIBS) firms tend to benefit from narrow and specialised search activities. Furthermore, when taking account of firm size and absorptive capacity, a more nuanced picture emerges. Implications and contributions to the innovation search literature are discussed.

WP432 The Evolution of Science Policy and Innovation Studies Jun

12 *Martin, B.R.*

This article examines the origins and evolution of the field of science policy and innovation studies (SPIS). In particular, it seeks to identify the key intellectual developments in the field over the last 50 years by analysing the publications that have been highly cited by other researchers. Along with other studies reported in this Special issue, it represents one of the first and most systematic attempts to identify and analyse the most influential contributions to an emerging field on the basis of highly cited books and articles. The analysis reveals how the emerging field of SPIS drew upon a growing range of disciplines in the late 1950s and 1960s, and how the relationship with these disciplines evolved over time. Around the mid-1980s, SPIS started to become a more coherent field centred on the adoption of an evolutionary (or neo-Schumpeterian) economics framework, and an interactive model of the innovation process, and (a little later) the concept of 'systems of innovation' and the resource-based view of the firm. The article concludes with a discussion of whether SPIS is perhaps in the early stages of becoming a discipline.

WP433 A Different Path to Growth? Service Innovation and Performance amongst UK Manufacturers Jun

12 *Tether, B. and Bascavusoglu-Moreau, E.*

Introducing and innovating services is advocated as a means by which manufacturing firms in advanced economies can retain or enhance their competitiveness. But little is known about how manufacturers innovate services, nor about the impact of service innovation on manufacturers' performance. Using two consecutive waves of the UK Innovation Survey, this paper first examines how manufacturers innovate services, comparing this with how they innovate goods (i.e., material products) and production processes. We find that manufacturers tend to innovate services differently: R&D is found to be unimportant, whilst investments in marketing and training are found to be related to service innovation. The paper then examines the impact of service innovation on performance, in terms of innovative sales per employee and total sales per employee. We find that service innovation does not increase innovative sales but is associated with higher total sales per employee.

WP434 The Economics of Austerity Jun

12 *Konzelmann, S.*

The 2007/8 financial crisis has reignited the debate about austerity economics and revealed that it is a highly contested yet poorly understood idea. This article locates the debate in its historical context, tracing it from the early 18th and 19th century Classical debates, which focused mainly on the means by which fiscal deficits should be financed. As capitalism evolved, so did ideas and theories about the economics of austerity. Following World War One, concerns about high levels of government debt produced the 1920s 'Treasury view' – that government deficits are economically damaging and austerity is required to rein them in. During the 1930s Great Depression, when unemployment was the main concern, this perspective was challenged by the 'Keynesian view' – that government deficits could be economically beneficial during the slump, when the private sector was unable to generate sufficient effective demand to pull the economy out of depression. From this perspective, austerity was the policy prescription for the top of the business cycle, to prevent the economy from over-heating and igniting inflation. The 'stagflationary' crises of the 1970s challenged this view; and during the decades preceding the 2007/8 crisis, austerity was considered to be a policy for the bottom of the business cycle, when the excesses of a bubble-inflated boom had been revealed by its collapse. In the aftermath of the 2007/8 financial crisis, however, austerity no longer has the economic objective of macroeconomic stabilization. Instead, it has become the objective itself – demanded by actors in the international financial markets as evidence that governments are serious about managing their deficits and paying back their debts, thereby protecting the financial interests of investors in sovereign debt. However, if austerity undermines economic growth – as it is doing at present – markets are unlikely to remain loyal to those countries suffering the effect. It is therefore important that policy-makers and political leaders learn the lessons of the 2007/8 financial crisis with regard to the economics of austerity – before it is too late.

WP435 Pathways to Impact and the Strategic Role of Universities Sep

12 *Hughes, A. and Kitson, M.*

There has been an increasing focus on the strategic role of universities in stimulating innovation and economic growth, primarily through the transfer of technology. This paper interrogates some of the key aspects of much of the conventional wisdom concerning the transfer of technology and the knowledge exchange process in general. It analyses the results from two unique surveys: a survey of the UK academic community which generated more than 22,000 responses; and stratified survey of businesses which generated more than 2500 responses. The paper shows that there are many knowledge exchange mechanisms used by academics - these include commercialisation processes but also many other 'hidden' connections. It also shows that knowledge exchange involves academics from all disciplines - not just those from science and engineering - and involves partners from the public and third (not for profit) sectors as well as private sector businesses. Furthermore, it shows that the main constraints that hinder or limit the knowledge exchange process include a lack of time, insufficient internal capability to manage relationships; and insufficient information to identify partners. Problems concerning cultural differences between academics and business and disputes concerning intellectual property are not prominent. Overall, the paper suggests that the notion of an academic 'ivory tower' seems to be a myth as far as the UK is concerned. It also suggests that a strategic focus on strengthening connections between academia and the rest of society may generate long-term benefits but it will also face challenges and should not distort or divert from the foundations of scholarship on which the success of universities are built.

WP436 Governing Externalities: The Potential of Reflexive Corporate Social Responsibility Sep

12 *Johnston, A.*

Externalities occur where an economic actor takes a decision which results in actions that affect other parties without their consent. In most cases, the creator of the externality will be a corporation because they are the most important actors in modern economies. There is a market failure as the corporation obtains all the benefits of the activity but does not bear all the costs. Since Ronald Coase's seminal work, economists have generally argued that externalities should be dealt with either by instrumental regulation or by bargaining between the creator and victim. The regulator should choose between these two options on the basis of cost-benefit analysis. In particular, the costs associated with government intervention should be compared with the transaction costs confronting parties where they attempt to deal with the externality by means of a contract. Most economists assume regulatory costs (including the costs of producing and enforcing regulation and the distortions of economic activity to which it gives rise) will be very high, so the 'cure' of regulation will normally be worse than the 'disease' of externalities, making government intervention undesirable from an efficiency standpoint. This makes them sanguine about leaving many, or even most, externalities

to the market, even though its failure led to the externality in the first place. They then assume that if the parties fail to reach agreement on a solution to a particular externality, this will be for transaction costs reasons, so leaving the externality where it falls is the most efficient outcome in the circumstances. This paper argues that neither of these methods offers a wholly adequate way of dealing with externalities in a globalised economy characterised by factually and technologically complex chains of causation. As is widely recognised by sociologists as well as economists, instrumental regulation faces massive difficulties in dealing with externalities. It can also be argued that transaction costs are not the only barrier to bargaining. The result is that many externalities go uncorrected, and it cannot simply be assumed that this is an efficient outcome. The paper then argues that this governance

'gap' could be filled by the doctrine of Corporate Social

Responsibility (CSR), but only if two conditions are met. First, CSR must be understood as corporations voluntarily taking responsibility for, or internalising, the externalities their operations create. This requires corporate decision-makers to change the frames they use so as to take account of the costs their activities create. Second, corporations must be steered towards a socially adequate identification and internalisation of those costs by the careful use of procedural, or reflexive, regulation. A reflexive regulatory approach to CSR would require corporations to meet with those who consider themselves affected in order to construct the 'facts' about the externality, and then require corporate decision-makers to internalise that externality in a manner which is acceptable to all concerned. This would arguably result in many externalities being identified and corrected in a cost-effective way, and should be considered as an alternative or complement to other methods of governing externalities.

WP437 Enhancing Islamic Finance: Establishing an Islamic Stock Market that overcomes Problems of the existing Stock market Regime

Dec 12 *Sheng, A. and Singh, A.*

This contribution is concerned with the desirability and feasibility of establishing Islamic stock markets within the current global context. There is at present deep disaffection with stock markets in advanced countries. A central contention of this paper is that the proponents of Islamic stock market will find it easier than their UK counterparts to implement an ethically based programme which is regarded as essential for successful reform. Stronger ethical underpinnings of the Islamic stock market will give it a decisive edge in world markets. The time for Islamic stock markets has therefore come.

WP438 Measuring Corporate Governance: Lessons from the 'Bundles Approach'

Dec 12 *Schyder, G.*

This paper reviews recent studies that analyse and criticise existing academic and commercial corporate governance (CG) indices. Most of these 'rating the ratings' papers reach the conclusion that encompassing composite measures of CG are ineffective and suggest therefore to return to simpler measures. This paper draws on the 'configurational-' or 'bundles approach' to CG and argues that, while the criticisms made by the 'rating the ratings' papers are justified, their recommendations are misguided. Based on four central insights derived from the 'bundles approach', the paper shows that reverting to simpler measures of firm-level CG practices is a step in the wrong direction, in that it eliminates information about interactions between different corporate governance mechanisms. This is particularly consequential for comparative CG research that aims to identify differences in country-specific CG systems. Alternative solutions are developed to improve corporate governance measures, which take into account insights from the 'bundles approach'.

WP439 The limits of flexible regulation: Managers' perceptions of corporate governance codes and 'comply-or-explain'

Mar 13 *Sanderson, P., Seidl, D. and Robert, J.*

Over the past few years regulatory regimes have become more flexible, adopting risk-based approaches and shifting from rules to principles where regulatees are given a degree of discretion in how they comply. In this way 'one size fits all'. Flexibility such as this is however under threat. The current financial crisis has given rise to calls for more and stronger regulation. Policymakers have to respond but are well aware there are limits - lack of flexibility can hinder innovation and economic growth. So, when does flexible regulation work and when does it not? In what circumstances are regulatees likely to strive to comply with underlying regulatory principles and when are they not? What factors affect regulatee 'buy-in?' To address these questions we examined the use of comply or- explain in corporate governance. This mechanism can be considered the ultimate in flexible regulation. It allows noncompliance, but only where regulatees provide a convincing explanation acceptable to shareholders. Previously we analysed the compliance records of 260 of the largest UK and German companies (Seidl et al. 2012). For this paper we analyse the accompanying interviews with selected senior managers and directors. We conclude the lessons for policymakers are that successful application of flexible regulation mechanisms such as this is contingent on the presence of powerful and influential monitors and that regulatee buy-in to flexible regulation depends primarily on the extent to which (i) 'soft' regulation is understood as a traditional means of control and, (ii) regulatees are involved in the design, implementation and evaluation of regulation. However, whatever the conditions or circumstances, large companies tend to believe they are under considerable pressure to be seen to fully comply which may ultimately render any in-built operational flexibility redundant. This is more likely to be the case under conditions of uncertainty.

WP440 India and the Eurozone: A commentary on the political economy of adjustment and correction Mar

13 Fennell, S., Kaur, A. and Singh, A.

This commentary focuses on the interaction between Eurozone and India with a particular focus on the relationship between changes and economic conditions in these two jurisdictions. In the pre liberalization world, India and the Eurozone were regarded a priori as having little interaction with each other. This story changes with globalization and relatively free capital movements. We highlight some of the important changes which have occurred in the Eurozone and Indian economies and discuss the implications for other regions and countries. The commentary sets out a number of hypotheses and uses broad- brush data to provide the intellectual foundations for our analysis.

WP441 'Picking winners' in a liberal market economy: Modern day heresy – or essential strategy for competitive success?

Jun 13 Konzelmann, S. and Fovargue-Davies, M.

This paper explores the current debate about industrial strategy and the UK's hesitant acceptance of a possible role for the state in addressing the challenges confronting British industry in the wake of the 2007/8 financial crisis. In this context – and following the 2012 London Summer Games – political leaders have been pointing to the strategy that succeeded in reversing the British Olympic team's fortunes following its nadir at the 1996 Atlanta Summer Games; and they are suggesting that there may be lessons for industry. However, the political rhetoric has yet to be translated into action. Analysis of the elite sport strategy, in the light of the evolving literature on industrial strategy and policy suggests that although there are details that are specific to sport, there are also aspects of the general strategic approach that can be used to inform the design and implementation of a strategy aimed at developing and improving the international competitive performance of UK industrial sectors and manufacturers. The significance of the UK elite sport strategy is that it was evolved and successfully implemented in the British social, political and economic context, building on and improving existing institutional capabilities.

WP442 Do Labour Laws Increase Equality at the Expense of Higher Unemployment? The Experience of Six OECD Countries, 1970-2010

Jun 13 Deakin, S., Malmberg, J. and Sarkar, P.

Using longitudinal data on labour law in France, Germany, Japan, Sweden, the UK and the USA for the four decades after 1970, we estimate the impact of labour regulation on unemployment and equality, using labour's share of national income as a proxy for the latter. We employ a dynamic panel data analysis which distinguishes between short-run and long-run effects of legal change. We find that worker-protective labour laws in general have no consistent relationship to unemployment but are positively correlated with equality. Laws relating to working time and employee representation are found to have beneficial impacts on both efficiency and distribution.

WP443 Twenty Challenges for Innovation Studies Sep

13 Martin, Ben R.

With the field of innovation studies now half a century old, the occasion has been marked by several studies looking back to identify the main advances made over its lifetime. Starting from a list of 20 advances over the field's history, this discussion paper sets out 20 challenges for coming decades. At a conference in 1900, David Hilbert put forward a list of 23 unsolved mathematical problems that were to have a profound influence on the work of mathematicians during the 20th Century. The intention here is to prompt a debate within the innovation studies community on what are, or should be, the key challenges for us to take up, and more generally on what sort of field we aspire to be. It is argued that the empirical focus of our studies has not kept pace with the fast changing world and economy, especially the shift from manufacturing to services and the growing need for sustainability. Moreover, the very way we conceptualise, define, operationalise and analyse 'innovation' seems rooted in the past, leaving us less able to grapple with other less visible or 'dark' forms of innovation.

WP444 Absorptive Capacity: The Role of Communities of Practice Sep

13 Turner, S.

Using a 'process' based conception of absorptive capacity, this paper reports the findings from an ethnography of organizational learning conducted within the marketing department of the UK's postal provider, Royal Mail. Through vignettes of two contrasting marketing projects undertaken in conjunction with external partners, the results show that interorganizational learning is supported by informal practices enacted through communities of practice. This highlights the relatively neglected role of social and material practices in the generation of absorptive capacity, but also shows that the learning produced by communities is mediated by relations of power among these groups. This paper develops the theory of absorptive capacity by shifting attention away from 'prior knowledge' in supporting learning and turning towards the role of everyday interaction and power relations in producing knowledge in practice.

WP445 Empirical Analysis of Legal Institutions and Institutional Change: Multiple-Methods Approaches and their Application to Corporate Governance Research Sep 13 Buchanan, J., Chai, D.H. and Deakin, S.

The claim that institutions matter for economic growth and development has so far received a more extensive theoretical treatment than an empirical or methodological one. Basing our approach on a coevolutionary conception of relations between law and the

economy, we link theory to method and explore three techniques for analysing legal institutions empirically: 'leximetric' measurement of legal rules, time-series econometrics, and interview-based fieldwork. We argue that while robust measurement of institutions is possible, quantitative techniques have their limits, and should be combined with fieldwork in a multiple-methods approach.

WP446 Addressing Labour Market Segmentation: The Role of Labour Law Dec

13 *Deakin, S.*

Labour market segmentation is problematic because of its links to poor job quality, inequality and discrimination, on the one hand, and inefficiency in resource allocations, on the other. Segmentation is the result of contractual ordering which is often privately efficient but socially sub-optimal. The law largely reflects the economics forces and social norms which give rise to segmentation, but can amplify and perpetuate its effects. The rise of atypical employment in some contexts and of informal employment in others is at least in part a response to the emergence of the standard employment relationship or SER as a legal model and normative benchmark for certain aspect of labour law, in particular employment protection legislation. Attempts to counter segmentation and informality by extending the scope of the SER, on the one hand, and by accepting atypical forms but aligning them more closely with the SER, on the other, have met with limited success. The most successful strategies for labour law reform are those based on an integrated policy approach in which some flexibilisation of employment protection rules is combined with complementary mechanisms for mutualising labour market risks, including collective bargaining, workplace social dialogue, worklife balance laws, work sharing arrangements, targeted fiscal reforms, and active labour market policy.

WP447 Labour Law and Inclusive Development: the Economic Effects of Industrial Relations Laws in Middle-Income Countries

Dec 13 *Deakin, S., Fenwick, C. and Sarkar, P.*

We use leximetric data coding techniques and panel data econometrics to test for the economic effects of laws governing worker representation and industrial action in the large middle-income countries of Brazil, China, India, Russia and South Africa. We find that more worker-protective laws on employee representation tend to be correlated with higher scores on the Human Development Index. By contrast, in the case of laws on industrial action, some negative effects on human development indicators are reported. Our findings imply that laws supporting employee voice and collective bargaining may have beneficial social effects in middleincome countries. We find no rise in unemployment due to more protective labour laws.

WP448 Agency Theory in Practice: a Qualitative Study of Hedge Fund Activism in Japan Dec

13 *Buchanan, J., Chai, D.H. and Deakin, S.*

We look at the reaction to hedge fund activism of managers and shareholders in Japanese firms and explore the implications of our findings for agency theory. We use a qualitative research design which treats the standard agency-theoretical model of the firm as only one possible approach to understanding corporate governance, to be tested through empirical research, rather than as an assumption built into the analysis. We find that Japanese managers do not generally regard themselves as the shareholders' agents and that, conversely, shareholders in Japanese firms do not generally behave as principals. Our findings suggest that the standard principal-agent model may be a weak fit for firms in certain national contexts.

WP449 The Legal Framework Governing Business Firms and its Implications for Manufacturing Scale and Performance: The UK Experience in International Perspective Dec 13 *Deakin, S.*

This paper reviews empirical studies examining the economic effects of laws governing the formation, financing and organisation of business firms with the aim of putting the UK experience in a comparative perspective. The literature identifies two models of legal support for manufacturing which imply different directions for policy: on the one hand, the Silicon Valley model of venture capital funded growth which depends on liquid capital markets and flexible labour markets, and the northern European and Japanese model which is based on long-term innovation, stable ownership, and institutionalised worker-management cooperation. The UK has some of the legal features of the Silicon Valley model, but important parts are missing: for example, the Californian rule under which post-employment restraints ('restrictive covenants') are void on the grounds of their anti-competitive effects has no equivalent in the UK. Conversely, although the UK has certain elements of the northern European or east Asian model of institutionalised corporate governance, it is unlikely to be able to replicate the 'productive coalition' approach of these countries as long as the legal framework prioritises shareholder rights and the market for corporate control, and provides limited encouragement for job security. The Silicon Valley and 'productive coalition' models are ideal types which can distract from the fact that most countries, the UK included, are hybrid systems with some of the characteristics of each model. Rather than designing laws and policies exclusively with one model or the other in mind, it may be preferable to consider specific laws and policies on their own merits, while bearing in mind that a given legal rule or policy does not operate in isolation from others and that there may be some 'network effects' in operation due to the way that particular rules interact.

WP450 International Industrial Policy Experiences and the Lessons for the UK Dec

13 *Chang, H.-J., Andreoni, A. and Kuan, M.L.*

The present study reviews a diverse set of countries with the most successful industrial policy experiences since the Second World War – namely, the US, Germany, Japan, Italy, Finland, (South) Korea, Singapore, China, and Brazil – with a view to deriving lessons for the UK. In Section 1 an industrial competitiveness benchmarking analysis opens by tracking long term countries' trajectories and revealing the current alarming state of UK's manufacturing. Section 2 discusses some of the key theoretical issues in the debate on industrial policy, namely: (a) different definitions of industrial policy and problems related to the standard distinction between 'horizontal' and 'vertical' measures; (b) the special role of the manufacturing sector in the overall economy, especially as the source of productivity growth, innovation, learning, and resilience; (c) main theoretical justifications for certain widely adopted industrial policy tools and institutions. Section 3, then, reviews the industrial policy experiences of the nine comparator countries. While historical material dating back from the 18th century is covered when appropriate, the focus is more on the recent period, since the 1980s or the 1990s. In Section 4, we draw lessons for the UK's industrial policy from the nine country experiences that we review in Section 3, filtered through the theoretical discussions provided in Section 2. We draw the lessons along several dimensions: (a) the role of 'vision'; (b) institutional settings and policy coordination; (c) finance and corporate governance; (d) promotion of innovation; (e) management of transnational corporations; (f) support for SMEs; (g) skills and training. Finally, section 5 looks ahead for the future of the UK's manufacturing sector and policies, taking into account our theoretical discussions, country case reviews, and the lessons we have drawn from those discussions.

WP451 Knowledge Spillovers and Sources of Knowledge in the Manufacturing Sector: Literature Review and Empirical Evidence for the UK

Dec 13 *Bascavusoglu-Moreau, E. and Li, C.*

This report provides a review of knowledge spillovers and sources of knowledge in the manufacturing sector. The literature reviewed indicates the importance of intangible investments in firms' internal knowledge assets. The weight of evidence also emphasises the importance of firms' absorptive capacity in increasing internal capabilities and in benefiting from external knowledge sources. We also highlight the importance of external knowledge and knowledge-assets (i.e., knowledge spillovers) in determining productivity and competitiveness, as well as the spatial dimension of knowledge flows in particular knowledge clusters. Our study subsequently provides an empirical analysis of firms' knowledge sourcing and cooperation behaviour for innovation activities in the UK manufacturing sector, using establishment-level data from recent four waves of the UK Innovation Survey covering the 2002-2010 period. Following the approach developed in Harris and Li (2009), we have constructed an empirical multi-index of absorptive capacity to measure a firm's ability to internalise and appropriate external knowledge for innovation activities. Our results show substantial heterogeneity across sectors; and overall, manufacturing (especially higher tech or advanced) makes the strongest use of knowledge sources and is associated with highest levels of absorptive capacity followed by Knowledge-Intensive Services (KIS), where the UK has a strong comparative advantage. There is evidence that manufacturers responded to external market conditions in their utilisation of knowledge sources and more specifically, firms were making greater use of knowledge sources in response to the recent economic recession.

WP452 Update of prospects for the UK balance of payments Dec

13 *Coutts, Ken and Rowthorn, R.*

The paper discusses the enormous structural changes in trade and income flows that have occurred in Britain over the past sixty years. In 1950, Britain was a leading industrial power with a trade surplus in manufactured goods equal to 10% of GDP. There is now a trade deficit in manufactures of 4% of GDP. Over the same period, trade in services has moved into substantial surplus exceeding 4% of GDP. No other large industrialised country has experienced such a large shift in the structure of its trade. The paper uses a small model of the balance of payments to project the main components of the current account consisting of visible trade, invisibles (services), current transfers and net investment income. Various scenarios are considered. Under the most pessimistic scenario, there is a persistent current account deficit of around 5% of GDP. A deficit of this magnitude is not sustainable over the long-run.

WP453 De-industrialisation and the Balance of Payments in Advanced Economies Dec

13 *Coutts, Ken and Rowthorn, R.*

This paper defines de-industrialisation as a secular decline in the share of manufacturing in national employment. Deindustrialisation, in this sense, has been a universal feature of economic growth in advanced economies in recent decades. The paper considers briefly what explains this development and quantifies some of the factors responsible. It then examines the experience of Britain and America, which are two countries that prior to the 2008 financial crisis combined rapid deindustrialisation with a strong overall economic performance. The paper considers both the domestic situation and foreign trade performance of manufacturing industry in these countries. It concludes by examining in detail the British balance of payments, and documenting how improvements in the non-manufacturing sphere have helped offset a worsening performance in manufacturing trade.

WP454 Re-industrialisation – a commentary Dec

13 *Coutts, Ken and Rowthorn, R.*

The share of manufacturing in UK employment and value-added at current prices ("value-added" for short) has fallen dramatically in recent years. This commentary investigates the feasibility of reversing this decline. The paper explores the implications of four scenarios over the next twenty-five years. These scenarios generate very different trajectories for the share of manufacturing in

value-added. A stronger manufacturing sector would grow faster and generate more net exports. However, the share of manufacturing in employment or value-added would be unlikely to increase. Rapid labour-saving productivity growth in the manufacturing sector would limit the growth of employment in this sector despite rising output. It would also drive down the relative price of manufactured goods, thereby holding down the share of the fastgrowing manufacturing sector in value-added.

WP455 Industrial Policy for the Medium to Long-term Dec

13 Crafts, N. and Hughes, A.

This paper reviews the market failure and systems failure rationales for industrial policy and assesses the evidence on past experience of industrial policy in the UK. In the light of this, it reviews options for reshaping the design and delivery of industrial policy towards UK manufacturing. These options are intended to encourage a medium- to long-term perspective across government departments and to integrate science, innovation and industrial policy.

WP456 Almost Steady East Asian Rise: Implications For Labour Markets And Income Distribution Mar

14 Singh, A. and Singh, G.

The extraordinary growth of the East Asian economies during the last fifty years has drawn attention of the economists worldwide. This paper provides a commentary on this epic story. This paper explores the reasons for the extraordinary growth and analysis specific changes which have occurred in income inequality and labour market institutions during this time span. One main conclusion of the paper that contrary to commonly held belief that the globalization and nature of technological progress has been the main cause of increased income inequality in the period after East Asian crises. We conclude that country specific factors were at least as important, if not more so, in this respect. Analysis shows that in addition to varying pattern of income inequality which has not been observed by other commentators have also been major changes in labour market indicators, including unionization and collective bargaining, employment protection, and minimum and real wages. Last part of the paper discusses policy implications.

WP457 Short-Termism, Impatient Capital and Finance for Manufacturing Innovation in the UK Mar

14 Hughes, A.

This report analyses the links between financial market structures, governance systems and investment behaviour in the UK focusing in particular on investment in R&D. It assesses the extent to which business decision taking in the UK is as a consequence affected by 'shorttermism'. Taken together, the qualitative and quantitative literature reviewed in this report provide substantial evidence for both absolute short-termism in UK financial markets and relatively higher short-termist attitudes compared to other countries. This would imply a bias against longterm innovation intensive investment in manufacturing in the UK liberal market economy.

WP458 Labour Law and Inclusive Development Mar

14 Deakin, S.

This paper, based on the V.V. Giri Memorial Lecture for 2013, argues that labour law should be seen as a developmental institution, capable of promoting both equality and efficiency, and hence inclusive development. Labour law rules, precisely because they redress the inequality of bargaining power inherent in the employment relationship, may promote economic efficiency, since they counteract the effects of contractual incompleteness, while mitigating labour market risks. The World Bank view that laws designed to help workers often harm them is neither theoretically well informed nor empirically supported. There is a need for new thinking to escape the intellectual rigidities currently afflicting labour law.

WP459 The Deindustrial Revolution: The Rise and Fall of UK Manufacturing, 1870-2010 Jun

14 Kitson, M and Michie J

This paper considers the evolution of the manufacturing sector in the UK since 1870. It analyses the contribution of manufacturing to national income, employment and trade. From 1870 to 1960, manufacturing played a key role in the development of the economy, undergirding success in other sectors of the economy and securing rising living standards. The subsequent fifty years, from 1960, have witnessed a relative decline of the UK manufacturing sector – relative to other sectors of the economy, and relative to the manufacturing sectors in other countries. The paper considers the thesis that the relative decline of manufacturing is a natural outcome of the development of advanced economies, and the counter-arguments suggesting that decline of UK manufacturing reflected economic weaknesses and structural imbalances. We argue that in the case of the UK, the relative decline of manufacturing has indeed reflected deep-rooted structural problems. In particular there has been a chronic failure to invest in manufacturing, with the UK economy and investment being instead skewed towards short-term returns and the interests of the 'City'. A stronger manufacturing sector would help to rebalance the UK economy away from an over-reliance on the banking sector and would help rebalance the UK economy and society in regional terms. To achieve such a rebalancing requires active government policies to help increase investment in education, skills and innovation.

WP460 Competition, Competition Policy, Competitiveness, Globalisation and Development Jun

14 Singh, A

This paper explores the relationship between globalization, competition, competition policy and competitiveness. It is important to note that although these notions are related, they are conceptually different. This paper contributes by providing a theoretical framework for the main issues which arise in the modern discussion of competition and competition policies in economic development. It also contributes by its extensive treatment of the international dimensions of the subject. Importantly, this paper puts economic development at the centre stage for competition and related policies. It provides a proposal for the establishment of a development-oriented international competition authority. This authority would attempt to limit growth by merger by large multinationals under its purview. They would be allowed to merge provided they divest themselves of a subsidiary of equal value. This would mean that multinationals would not be prohibited to grow by mergers, but they could expand through organic growth or greenfield investment. It would also not stop them from taking over other firms subject to divestiture as outlined. A large body of research on mergers indicates that mega-mergers have the potential of increasing market dominance and reducing contestability. Discouraging such mergers would therefore enhance global contestability, competition, and economic efficiency, while at the same time being distributionally more equitable.

WP461 New Developments In The World Economy: A Tough Agenda for MICS? Jun

14 Singh, A

We are living through extraordinary times. During the first twelve years of the new millennium, unusually, developing countries (DCs) expanded faster than advanced countries (ACs). IMF suggests that the improvement in DCs during this crisis is due to their ability to absorb shocks. In the most recent period, there has been a reduction in growth rates in most middle-income countries (MICs) as well as in advanced countries. The paper's second part examines the epic story of South Korean industrialisation. A fundamental argument here is that developing countries have much to learn from each other. This brief presentation ends on an important point that the South-South cooperation is not intended to replace North-South cooperation but rather to supplement it.

WP462 A Note on Piketty's Capital In The Twenty First Century

Jun 14 Rowthorn, R

Thomas Piketty's *Capital* documents long-term trends in income and wealth in advanced economies. It also provides a theoretical framework for analysing the past and projecting the future. Piketty argues that the ratio of wealth to national income is on an upward trend and that this is responsible for the rising income share of wealth-owners. This paper accepts Piketty's main empirical findings, but questions his interpretation. The rising income share of wealth-owners is not due to the over-accumulation of capital, as he claims, but just the opposite. There has been too little real investment. The paper also considers the long-term dynamics of Piketty's model and explores the effect of modifying his assumptions about savings behaviour. Finally, it considers the implications of rising asset prices, which are documented by Piketty but are not adequately taken into account in his theoretical analysis or projection of future trends.

WP463 Institutional Solutions To Precariousness and Inequality In Labour Markets

Sep 14 Adams, A and Deakin, S

It has become widely assumed that the standard employment relationship (SER) is in irreversible decline in industrialised societies. However, non-standard and precarious work relationships often complement the SER via labour market transitions, and are not displacing it as the focal point of labour market regulation. The coordination and risk management functions of the SER continue to be relevant in market economies, and the SER is adjusting to new conditions. The SER has a complex and evolving relationship to gender and to social stratification. In the European context where the SER originated and achieved its clearest legal expression, institutional solutions to precariousness and inequality are being developed, the most innovative of which avoid simple deregulation in favour of integrated policy responses involving a range of complementary regulatory mechanisms.

WP464 On Heaven's Lathe: State, Rule of Law and Economic Development

Sep 14 Chen, D and Deakin, S

We propose a theoretical framework for understanding the evolution of the rule of law state, which is conceived as the equilibrium of a societal game in which actors accept the legitimacy of publicly enunciated legal rules. A meta-norm of respect for the sovereign legal power of the state is not self-forming on the basis of private conduct, but requires the coevolution of impersonal market exchange with effective state capacity to constitute and regulate markets. A functioning legal system must acquire the means not just to control private power but to constrain other organs of government. The emergence of such a 'self-limiting state' is an historical process which, while complementary to a market order, is also contingent and path-dependent, and is not preordained. Illustrating our argument with empirical cases drawn from the contemporary experience of middle income countries, we argue that alternatives to the rule of law state, including interpersonal trust, closed networks and authoritarian political control, can only achieve limited scale and scope effects, and are prone to high deadweight costs arising from corruption and the capture of the public sphere by private interests. We also discuss the potential of transplants of legal rules and institutions to catalyse the transition to impersonal trade based on the rule of law, and present evidence, from time-series econometric analysis, that the diffusion of shareholder protection laws has the potential to support financial development in emerging markets. Evolution towards the rule of law state is, we conclude, one possible developmental path for middle income countries.

WP465 Corporate Governance, Legal Origin and the Persistence of Profits

Dec 14 Chai, D, Deakin, S, Sarkar, P and Singh, A

The persistence of abnormal profits can be interpreted as evidence of the presence of firms which are successful over time in capturing rents from product or process innovation. Using a large sample of manufacturing firms in 18 developed and developing countries, we estimate the impact of laws governing shareholder rights on the persistence of firm-level profits. We find that higher shareholder protection reduces the persistence of profits in common law countries and increases it in civil law countries. Because shareholder protection is higher, on average, in common law countries, this finding is consistent with the view that increases in legally mandated or encouraged shareholder protection beyond a certain point have a negative impact on firm-level innovation.

WP466 Are Litigation and Collective Bargaining Complements or Substitutes for Achieving Gender Equality? A Study of the British Equal Pay Act

Dec 14 Deakin, S, Fraser Butlin, S, McLaughlin, C and Polanska, A

We present a socio-legal case study of the recent equal pay litigation wave in Britain, which saw an unprecedented increase in the number of claims, triggered in part by the entry of no-win, no-fee law firms into this part of the legal services market. Although the rise in litigation led to greater adversarialism in pay bargaining, litigation and collective bargaining mostly operated as complementary mechanisms in advancing an equality agenda. Litigation may be a more potent agent for social change than some recent analyses, which stress the limits of the law in the face of organisational pressures to canalise and diffuse human rights, have suggested.

WP467 Disappearing Paradigms In Shareholder Protection: Leximetric Evidence for 30 Countries, 1990-2013 Mar

15 Katelouzou, D and Siems M

Scholars frequently claim that path dependency of the law, the influence of the US model of corporate governance, and the role of legal origin and the stage of legal development are key for a comparative understanding of shareholder protection. This article, however, suggests that these paradigms of comparative company law gradually seem to disappear. The basis for our assessment is an original leximetric dataset that measures the development of shareholder protection for 30 countries over the last 24 years. Using tools of descriptive statistics, time series and cluster analysis, our main findings are that all legal origins have now in average about the same level of shareholder protection, that paternalistic tools have overtaken enabling tools of protection, and that after the global financial crisis this area has become a less frequent object of law reforms.

WP468 Legal Institutionalism: Capitalism and the Constitutive Role of Law

Mar 15 Deakin, S, Gindis, D, Hodgson, G, Huang, K and Pistor, K

Social scientists have paid insufficient attention to the role of law in constituting the economic institutions of capitalism. Part of this neglect emanates from inadequate conceptions of the nature of law itself. Spontaneous conceptions of law and property rights that downplay the role of the state are criticized here, because they typically assume relatively small numbers of agents and underplay the complexity and uncertainty in developed capitalist systems. In developed capitalist economies, law is sustained through interaction between private agents, courts and the legislative apparatus. Law is also a key institution for overcoming contracting uncertainties. It is furthermore a part of the power structure of society, and a major means by which power is exercised. This argument is illustrated by considering institutions such as property and the firm. Complex systems of law have played a crucial role in capitalist development and are also vital for developing economies.

WP469 How Should India Reform Its Labour Laws?

Mar 15 Deakin, S and Haldar, A

We examine the current policy debate around the reform of labour laws in India, which has been stimulated in part by the success of the Gujarat model of economic development. Gujarat's deregulatory reforms have included changes to the legal regime governing employment terminations, which could form a basis for a change in national-level labour laws. Evidence linking labour law deregulation to growth, however, is weak, whether the focus is on India or the experience of other countries. Building labour market institutions is a long-term process which requires investment in state capacity for the management of risks associated with the transition to a formal economy.

WP470 Law as Evolution, Evolution As Social Order: Common Law Method Reconsidered Jun

15 Deakin, S

Building on systems theory and the economics of law, this paper argues that evolutionary models can explain certain features of common law reasoning, in particular the way that the doctrine of precedent operates to combine stability with change. The common law can be modelled as an adaptive system which coevolves with its environment, which in this context consists of the political and economic systems of a given society. The common law responds to signals from the economy and from politics ('cognitive openness'), while retaining its distinct mode of operation ('operative closure'). A version of the variation, selection, retention algorithm operates at the level of legal decision-making. Theories of legal evolution which stress selection and variation at the expense of inheritance describe only part of the process of legal change and are prone to teleological accounts of evolution to efficiency. Focusing on inheritance or retention helps us to see that the common law can only be qualifiedly adaptive, at best, and that many inefficient rules will persist and survive even in the face of selective pressures. The relevance of this approach is illustrated by an examination of the leading decision in the English (and Scottish) law of tort (or delict), *Donoghue v. Stevenson*, and its implications for some influential accounts of legal evolution, including legal origin theory, are explored.

WP471 Russia's Legal Transitions: Marxist Theory, Neoclassical Economics and the Rule of Law

Jun 15 Hamilton, J and Deakin, S

We review the role of economic theory in shaping the process of legal change in Russia during the two transitions it experienced during the course of the twentieth century: the transition to a socialist economy organised along the lines of state ownership of the means of production in the 1920s, and the transition to a market economy which occurred after the fall of the Soviet Union in the 1990s. Despite differences in methodology and in policy implications, Marxist theory, dominant in the 1920s, and neoclassical economics, dominant in the 1990s, offered a similarly reductive account of law as subservient to wider economic forces. In both cases, the subordinate place accorded to law undermined the transition process. Although path dependence and history are frequently invoked to explain the limited development of the rule of law in Russia during the 1990s, policy choices driven by a deterministic conception of law and economics also played a role.

WP472 The CBR Macro-Economic Model Of The UK Economy (UKMOD)

Sep 15 Gudgin, G, Coutts, K and Gibson, N

This working paper provides a detailed exposition of the assumptions, structure and statistical evidence that support a new macroeconomic forecasting and simulation model of the UK Economy. The model is based on an annual dataset that produces conditional forecasts or simulations over a five to ten year horizon. The model enables us to discuss issues of policy in quantitative terms so that the orders of magnitude of the economic consequences can be assessed. Readers of our forecast reports will find in this paper the information that justifies the modelling methodology and the empirical evidence supporting the key behavioural relationships of the model.

WP473 Varieties of Creditor Protection: Insolvency Law Reform and Credit Expansion In Developed Market Economies

Sep 15 Deakin, S, Mollica V and Sarkar, P

We examine the relationship between creditor protection, law reform and credit expansion using longitudinal data for four developed market economies between 1970 and 2005. By decomposing the different elements of creditor protection, we show that civil law countries (France and Germany) have developed a high level of protection for creditors in the form of controls over the management of debtor firms, while common law countries (UK and USA) have arrived at a high degree of protection in relation to secured creditors' contractual rights over firms' assets. Using panel causality tests and dynamic panel data modelling, we show that laws strengthening creditors' control over debtor firms in these four countries had a long-term positive effect on credit expansion, while reforms increasing secured creditors' rights had a negative effect. We explore the implications of our findings for legal origin theory and the varieties of capitalism approach.

WP474 STRONG STATE, WEAK MANAGERS: HOW HUNGARIAN FIRMS COPE WITH AUTOCRACY

Dec 15 Sallai, D and Schnyder, G

This paper investigates how companies manage risk associated with political ties in the context of the 'return of state capitalism'. We show that findings from previous studies of firms' coping strategies under autocratic regimes are of limited relevance in the context of Hungary, because they lack a sophisticated, theoretically underpinned conceptualisation of 'the state'. We develop a more fine-grained analysis of the role of the state in emerging markets. We then show that the type of 'state capitalism' that is emerging in Hungary poses unique challenges to companies with implications for existing theories of companies' political 'buffering strategies'. Based on interviews with business leaders in Hungary, we identify two coping strategies: responsiveness – whereby firms accommodate state pressures by giving in to them – and a non-responsive strategy of 'dormancy', which consists in firms putting forward-looking activities on hold and focussing on survival. We discuss implications for theories of corporate political risk management.

WP475 TWENTY CHALLENGES FOR INNOVATION STUDIES

Dec 15 Martin, B

With the field of innovation studies now half a century old, the occasion has been marked by several studies looking back to identify the main advances made over its lifetime. Starting from a list of 20 advances over the field's history, this discussion paper sets out 20 challenges for coming decades. The intention is to prompt a debate within the innovation studies community on what are, or should be, the key challenges for us to take up, **and** more generally on what sort of field we aspire to be. It is argued that the empirical focus of our studies has failed to keep pace with the fast changing world and economy, especially the shift from manufacturing to services and the increasingly urgent need for sustainability. Moreover, the very way we conceptualise, define, operationalise and analyse 'innovation' seems somewhat rooted in the past, leaving us less able to grapple with other less visible or 'dark' forms of innovation.

WP476 R&D POLICY INSTRUMENTS – A CRITICAL REVIEW OF WHAT WE DO AND DON'T KNOW

Dec 15 Martin, B

In recent years, the term 'policy instrument' has been used more frequently with regard to R&D policy and innovation policy. What does this term mean? Where did it come from? What do we know about it, both with regard to the general field of policy studies but also in the specific context of R&D policy? This article examines the development of the notion of policy instruments as part

of a body of research known as 'policy design'. Over the last 50 years, there has been substantial progress in setting policy design on a more systematic basis, with the development of established concepts and analytical frameworks, including various taxonomies of policy instruments. However, with just a few exceptions, this body of research seems to have had little impact in the world of R&D policy. The paper reviews the literature on R&D policy instruments. It identifies a number of challenges for R&D policy instruments in the light of four transitions – the shift from linear to systemic thinking about R&D and innovation, the shift from national governments to multi-level governance, the shift from individual actors to collaborations and networks, and the shift from individual policies to policy mixes. It sets out a research agenda for the study of R&D policy instruments, before ending with a number of conclusions.

WP477 What's Happening To Our Universities?

Mar 16 Martin, B

In recent decades, many universities have been moving in the direction of a more hierarchical and centralised structure, with topdown planning and reduced local autonomy for departments. Yet the management literature over this period has stressed the numerous benefits of flatter organisational structures, decentralisation and local autonomy for sections or departments. What might explain this paradox? And why have academics remained strangely quiet about this, meekly accepting their fate? The paper critically examines the dangers of centralised top-down management, increasingly bureaucratic procedures, teaching to a prescribed formula, and research driven by assessment and performance targets, illustrating these with a number of specific examples. It discusses a number of possible driving forces of these worrying developments, and concludes by asking whether academics may be in danger of suffering the fate of the boiled frog.

WP478 THE CONTRIBUTION OF LABOUR LAW TO ECONOMIC DEVELOPMENT AND GROWTH

Mar 16 Deakin, S

A review of theoretical, historical and quantitative empirical research on the economic effects of labour laws suggests that workerprotective labour regulation generates net positive outcomes for development and growth. Labour law should be seen as a developmental institution which has a symbiotic relationship to the rise of capitalism in the global north and is part of the transition to a market economy being experienced by today's low- and middle-income countries. Claims made for the desuetude of labour law's core mechanisms, including the standard employment relationship, are not borne about by recent evidence. The complex role played by labour regulation in the dynamics of capitalism would repay further investigation.

WP479 PRICING LABOUR CAPACITY: THE UNEXPECTED EFFECTS OF FORMALIZING EMPLOYMENT CONTRACTS IN CHINA

Jun 16 Zheng, E and Deakin, S

This paper analyzes the effects of recent laws formalizing employment contracts in China, part of a wider policy to normalize features of an emerging market economy. Using a unique hand-collected dataset of 294 industrial injury claims handled by a labour dispute arbitration commission in 2010, we study the impact of having a formal contract on the amount of compensation paid to victims of workplace accidents. An inherent feature of the employment contract under a market economy is its incompleteness: because work-effort bargain and labour capacity cannot be accurately specified *ex ante*, the employer can expropriate the surplus from production *ex post*. The legally-driven formalization of employment contracts is intended to redress this effect by holding the employer to the terms of the parties' agreement and proving for third party enforcement. Our empirical analysis shows that having a written employment contract makes an injury claim more than twice likely to be arbitrated than mediated, in line with the intended effect of the law, but that it also leads to a reduction of around half in the amount of compensation awarded. Formalization of employment contracts may reduce employer discretion during the course of the employment relationship, but it also makes it difficult for workers to invoke actual or customary wage levels for the purposes of putting a value on an accident compensation claim, in the face of the formal wage stated in the contract. Formalization ends up reinforcing the hierarchical power of the employer which is a feature of capitalist work relations.

WP480 STATE AND KNOWLEDGE PRODUCTION: INDUSTRIAL RELATIONS SCHOLARSHIP UNDER CHINESE CAPITALISM

Jun 16 Zheng, E and Deakin, S

We use the evolution of industrial relations scholarship in China to study the role of the state in the process of knowledge production. In the course of the last decade the policy of the Chinese state has shifted from promoting a flexible labour market as part of an export-led growth strategy, to addressing problems of growing labour unrest. This shift has, however, yet to be reflected in research and teaching of industrial relations. Drawing on an archive of over 7,000 articles published in Chineselanguage journals, we show that the industrial relations field has failed to cohere in China as it did in North America and Western Europe in response to similar pressures in the middle decades of the twentieth century. Chinese research on labour issues is divided between a practice-orientated human resource management literature and a sociological approach which is isolated from practice and policy. We explain this pattern in terms of the distinctive nature of Chinese capitalism, which manages to be simultaneously state-encompassed yet individualistic, leaving little space for the collective institutions of civil society which have been the focus of industrial relations research in the west.

WP481 CO-OPERATION IN PRODUCTION, THE ORGANIZATION OF INDUSTRY AND PRODUCTIVE SYSTEMS: A CRITICAL SURVEY OF THE 'DISTRICT' FORM OF INDUSTRIAL ORGANISATION AND DEVELOPMENT

Sep 16 Konzelmann, S and Wilkinson, F

Liberal economics has traditionally put strong emphasis on individualisation and specialisation – and has struggled with the notion of co-operation. Thus, Alfred Marshall's pioneering work on the English industrial districts of his day posed a significant challenge to the conventional wisdom, which embraced laissez-faire markets and Adam Smith's claim that improvements in efficiency depend upon the increased division of labour within firms competing in them. Marshall found that an important determinant of the competitive success of industrial districts was effective co-operation within and between firms, supported by a dense network of institutions, and markets regulated by agreed rules, norms and standards. He theorised that these generate external economies of scale and scope that enable the district and its constituent small firms to successfully compete with large, vertically integrated firms. From the mid-1920s, however, with the emergence and growth of very large, highly successful firms, the conventional wisdom shifted to suppose that the historical tendency in capitalist development was towards large firm dominance; and the small firm sector was progressively reduced to a residuum. However, the rediscovery of the industrial district by Italian scholars during the 1960s revived interest in Marshall's notion of localised productive systems and attracted considerable attention to this form of industrial organisation. This paper traces themes within this literature, from the earliest theorising by the Classical Political Economists to the present, focusing on the role of co-operation in production, the relationship between the organisation of production and markets, and the nature and functioning of productive systems.

WP 482 HOW UK BANKS ARE CHANGING THEIR CORPORATE CULTURE AND PRACTICE FOLLOWING THE FINANCIAL CRISIS OF 2007-08

Sep 16 Jones, I and Pollitt, M

This paper looks at positive case studies of organisational change at significant UK banks in response to the financial crisis. We present examples of good practice, which specifically address the identified need to change the culture and practice of UK banking. Our aim is to identify cases that can be of value in teaching. Our research complements the existing research on ethical banking and on culture change in UK banking. We begin by reviewing some of the literature on the crisis as it relates to the culture of banking in the UK. We go on to document three case studies from each of five banks with a significant retail business in the UK – Barclays, Lloyds, TSB, Santander and Hoare. We finish with a conclusion that draws out some over-arching lessons on culture change in UK banking from our case studies.

WP 483 THE MACRO-ECONOMIC IMPACT OF BREXIT: USING THE CBR MACRO-ECONOMIC MODEL OF THE UK ECONOMY (UKMOD)

Dec 16 Gudgin, G, Coutts, K and Gibson, N

This working paper uses the new CBR macro-economic model of the UK economy to investigate possible futures following the referendum decision to leave the EU. The paper briefly explains why we felt the necessity to build a new model and describes some of its key features. Since Brexit is a unique event with no precedent it is not possible to do a normal forecast in which a few assumptions are made about a limited range of exogenous variables. The best that can be done is to construct scenarios and two are presented here. The difficult part is to decide what scale of adjustment is needed to reflect the likely realities of Brexit. Gravity model analysis by HM Treasury of the potential impact of various outcomes for trade outside the EU is examined and found wanting. The gravity model approach is replicated and shows that the impact of EU membership on the level of exports to the EU is much smaller for the UK than for other EU members. The implication is that the impact of EU membership on UK trade is much less than suggested by the Treasury. In addition the actual experience of UK export performance is examined for a long period including both pre- and post- accession years. This augments the gravity model results in suggesting a more limited impact of EU membership. While we include a scenario based on Treasury assumptions, a more realistic, although in our view still pessimistic, scenario assumes a much lower level of the trade loss than that of the Treasury. The results are presented through comparing these scenarios with a pre-referendum forecast. In the milder Brexit scenario there is a minor loss of GDP by 2025 (around 1%) but no loss of per capita GDP, and also less unemployment but more inflation. In the more severe, Treasury-based scenario the loss of GDP is nearer 4% (2.5% for per capita GDP), inflation is higher and the advantage in unemployment less.

WP 484 OWNERSHIP, INSTITUTIONS AND FIRM VALUE: CROSS-PROVINCIAL EVIDENCE FROM CHINA Dec

16 Wang, B

The distinctive political-economic setups of emerging markets engender special corporate governance issues that warrant added attention to the broader institutional environment. Using a unique provincial firm-level dataset, we investigate how control natures, ownership concentration, and provincial differences in government quality and financial deregulation jointly affect the market value of Chinese listed companies. Firstly, the presence of a central government controller is generally associated with higher Tobin's Q, while a negative premium is found for firms ultimately controlled by local governments. We then use alternative concentration measures and an instrumental variable approach to confirm a nonlinear relationship between blockholder ownership and Tobin's Q, implying that firm value first decreases and then increases as blockholders own more shares. Further analysis reveals that government quality has a significant, positive moderating effect on the relationship between different control natures and firm value, while the valuation effect of ownership concentration also depends on regional financial development.

WP 485 LAW, TRUST AND INSTITUTIONAL CHANGE IN CHINA: EVIDENCE FROM QUALITATIVE FIELDWORK Dec

16 Chen, D, Deakin, S, Siems, M and Wang, B

China's rapid growth in the absence of autonomous legal institutions of the kind found in the west appears to pose a problem for theories which stress the importance of law for economic development. In this paper we draw on interviews with lawyers,

entrepreneurs and financial market actors to illustrate the complexity of attitudes to law and economic growth in contemporary China. In the case of product markets, business relations are increasingly characterised by a mix of trust-based transacting and legal formality which is not fundamentally different from practice in the west. Financial markets are less like their western counterparts, thanks to the preponderant role of government in asset allocation, and a lack of transparency in market pricing. However, in both sets of markets we find evidence of a transition from inter-personal trust (*guanxi*) to impersonal transacting, and of growing demands from business and legal groups for the impartial application of legal rules and market regulations. China's experience does not suggest that law is irrelevant or unrelated to growth, but that legal and economic institutions coevolve in the transition from central planning to a market economy.

WP 486 TAKEOVER LAW TO PROTECT SHAREHOLDERS: INCREASING EFFICIENCY OR MERELY REDISTRIBUTING GAINS?

Dec 16 Wang, Y and Lahr, H

We construct a dynamic takeover law index using hand-collected data on legal provisions and empirically examine the effect of takeover regulation to protect shareholders on shareholder wealth for bidders and targets in a multi-country setting. We find that a stricter takeover law increases combined wealth for bidders and targets, which suggests that stronger shareholder protection in the takeover bid process increases the efficiency of the takeover market. Contrary to our hypothesis, results show that stricter takeover law does not hurt bidders. Its effect on target announcement returns and takeover premiums is significantly positive and economically large. Our findings suggest that the mandatory bid rule and ownership disclosure increase synergistic gains in takeovers, whilst the fair-price rule and squeeze-out rights may reduce combined gains. Further results show that increased overall gains can be explained by greater competition in the market for corporate control and a shorter time to successful completion of a takeover under stricter takeover law.

WP 487 VOTES AT WORK IN BRITAIN: SHAREHOLDER MONOPOLISATION AND THE 'SINGLE CHANNEL'

Mar 17 McGaughey, E

Why do shareholders monopolise voting rights in UK companies, and are trade unions the only way to get meaningful workplace representation? In 1967 a Labour Party policy document first coined the phrase that collective bargaining was – and should be – the 'single channel' of representation. Since then, it has been said the labour movement embraced an 'adversarial' rather than a 'constitutional' conception of corporations, neglecting legal rights to worker voice in enterprise governance. This article shows that matters were not so simple. It explains the substantial history of legal rights to vote in British workplaces, and the competition from the rival constitutional conception: employee share schemes. The UK has the oldest corporations – namely universities – which have consistently embedded worker participation rights in law. Britain has among the world's most sophisticated 'second channel' participation rights in pension board governance. Developing with collective bargaining, it had the world's first private corporations with legal participation rights. Although major plans in the 1920s for codetermination in rail and coal fell through, it maintained a 'third channel' of worker representatives on boards during the 20th century in numerous sectors, including ports, gas, post, steel, and buses. At different points every major political party had general proposals for votes at work. The narrative of the 'single channel' of workplace representation, and an 'adversarial' conception of the company contains some truth, but there has never been one size of regulation for all forms of enterprise.

WP 488 TIME TO STOP PLAYING GAMES WITH INDUSTRIAL POLICY? WHAT GOVERNMENT AND BUSINESS MIGHT LEARN FROM TEAM GB

Mar 17 Konzelmann, S and Fovargue-Davies, M

This paper investigates the degree to which the British elite sport policy model might inform a strategy for building international competitiveness in UK industry. The methodology is qualitative, based on in-depth interviews with key figures in the British elite sport system, including UK Sport's CEO, Performance Directors of National Sport Governing Bodies whose athletes competed in London 2012 and Rio 2016 and Olympic athletes. The analysis also draws upon detailed case studies of sectors that are currently competing successfully in international markets – despite decades of ill-informed industrial policy, if not neglect. Areas standing out as key to the UK elite sport policy model's success include: an institutional structure to provide strategic leadership, identify talent and support the development of internationally competitive athletes and teams, whilst at the same time insulating them from interference by short-term political (and sporting) interests; an enabling competitive environment with access to a reliable source of finance; and an institutional system that encourages learning, innovation and responsiveness to opportunities and constraints. Taken together, these – if available to British businesses, clusters and sectors – would likely facilitate improvement in the UK's industrial performance. The significance of the elite sport case is that not only was it developed and successfully implemented in the British cultural, institutional and political context, in many respects elite sport can be considered a high performance industrial sector. It therefore offers a starting point for evolving strategy for building international competitiveness in comparable sectors of British industry.

WP 489 THE CBR-LRI DATASET: METHODS, PROPERTIES AND POTENTIAL OF LEXIMETRIC CODING OF LABOUR LAWS

Mar 17 Adams, Z, Bastani, P, Bishop, L and Deakin, S

Leximetric data coding techniques aim to measure cross-national and inter-temporal variations in the content of legal rules, thereby facilitating statistical analysis of legal systems and their social and economic impacts. In this paper we explain how leximetric methods were used to create the CBR Labour Index (CBR-LRI), an index and related dataset of labour laws from

around the world spanning the period from 1970 to 2013. Datasets of this kind must, we suggest, observe certain conventions of transparency and validity if they are to be usable in statistical analysis. The theoretical framework informing the construction of the dataset and the types of questions which it is designed to answer should be made explicit. Then the choices involved in the selection of indicators, the definition of coding algorithms, and the aggregation and weighting of data to create composite measures, must be spelled out. In addition, primary legal sources should be referenced, and it should be clear how they were used to generate reported values. With these points in mind we provide an overview of the CBR-LRI dataset's main features and structure, discuss issues of weighting, and present some initial findings on what it reveals of global trends in labour regulation.

WP 490 THE ROLE OF GRAVITY MODELS IN ESTIMATING THE ECONOMIC IMPACT OF BREXIT

Jun 17 Gudgin, G, Coutts, K, Gibson, N and Buchanan, J

The predictions of the Treasury, OECD and IMF for the long-term impact of Brexit remain influential. They provide an important context for the Brexit negotiations and underpin the belief of Scottish and Irish nationalists that Brexit strengthens their case for independence or Irish unity. Because these predictions have received limited scrutiny they are examined in detail in this paper. The bases of the predictions are similar for each of the three organisations. In each case estimates are made of the impact of Brexit on trade and on foreign direct investment. This is followed by an estimate of the knock-on effect on productivity. The OECD and IMF also include an assessment of the impact of lower migration. The aggregate impact of these factors is then fed into a macro-economic model to obtain a forecast for GDP. Much of the final impact depends on the estimate for trade which, in each case, is assessed using a 'gravity model'. Because gravity models are inaccessible to the general public, they are explained here in comprehensible terms. In addition the Treasury's gravity model results are replicated and examined in detail. Our conclusion is that different versions of the model give a range of results and that most versions give a smaller trade impact than that reported by the Treasury, OECD or IMF. In particular, equations which estimate the average impact of EU membership on exports of goods tend to over-predict UK exports to the EU. This implies that the average impact of EU membership applies less to the UK than to the other EU member states. The further implication is that these official predictions of the impact of Brexit are overly pessimistic.

WP 491 TONY LAWSON'S THEORY OF THE CORPORATION: TOWARDS A SOCIAL ONTOLOGY OF LAW

Jun 17 Deakin, S

In his account of the corporation as a 'community', Tony Lawson advances a materialist theory of social reality to argue for the existence of emergent social structures based on collective practices and behaviours, distinguishing his position from John

Searle's theory of social reality as consisting of declarative speech acts. Lawson's and Searle's accounts are examined for what they imply about the relationship between social structures and legal concepts. It is argued that legal concepts are themselves a feature of social reality and that a consequence of the law's recognition of the 'reality' of the corporation is to open up the activities of business firm to a distinct form of normative ordering.

WP 492 IS THERE A RELATIONSHIP BETWEEN SHAREHOLDER PROTECTION AND STOCK MARKET DEVELOPMENT?

Sep 17 Deakin, S, Sarkar, P. and Siems, M

We use recently created datasets measuring legal change over time in a sample of 28 developed and emerging economies to test whether the strengthening of shareholder rights in the course of the mid-1990s and 2000s promoted stock market development in those countries. We find only weak and equivocal evidence of a positive effect of shareholder protection on market capitalisation, the value of stock trading, and the turnover ratio, and a negative impact on the number of listed companies. There is stronger evidence of reverse causality, in the sense of stock market development at country level generating changes in shareholder protection law. We conclude, firstly, that legal reforms were at least in part an endogenous response to stock market development and not simply a reaction to the generation of global standards; but, secondly, that the laws passed in response to the demand for shareholder empowerment did not consistently have the expected impact on financial markets, and may have had some negative and perverse results.

WP 493 HOW THE ECONOMICS PROFESSION GOT IT WRONG ON BREXIT

Jan 18 Coutts, K, Gudgin, G and Buchanan, J.

A wide range of reports from official bodies and academics have estimated the impact of Brexit. These influenced the outcome of the Brexit referendum and remain influential in informing views on the potential long-term consequences of a range of Brexit trade arrangements. This paper builds on a previous CBR working paper ([link](#)) in examining the most influential of these reports, from H M Treasury, and the OECD. In this paper the work of the LSE's Centre for Economic Performance is also included. Each of these reports base their analyses either on gravity models or a computable general equilibrium models. The addition in this paper a review of the link between trade and productivity, which plays an important role in these reports. We also examine three reports which take a direct approach to measuring the impact by assessing the likely price increases across a large range of commodities due to the imposition of tariff and non-tariff barriers, and using elasticities to estimate the potential changes in the volume of trade. We find important flaws in both the application of gravity model results to a Brexit context, and in the knock-on impacts from trade to productivity. The flaws always have the result of exaggerating the negative impact of Brexit. The direct approaches involve partial rather than full equilibrium models but provide an important check on results from more complex models. However, the

choice of elasticities can result in widely different results from ostensibly similar approaches. The paper starts by looking at the view, supported in the academic literature and widely repeated in the financial media, that accession to the EEC/in 1973 improved the economic growth performance of the UK. The evidence suggests that this view is incorrect

WP 494 UNEXPECTED CORPORATE OUTCOMES FROM HEDGE FUND ACTIVISM IN JAPAN

Mar 18 Buchanan, J, Chai, D and Deakin, S.

Hedge fund activism has been identified in the USA as a driver of enduring corporate governance change and market perception. We investigate this claim in an empirical study to see whether activism produced similar results in Japan in four representative areas: management effectiveness, managerial decisions, labour management, and market perception. Experience from the USA would predict positive changes at Japanese target companies in these four areas. However, analysis of financial data shows that no enduring changes were apparent in the first three areas, and that market perception was consistently unfavourable. Our findings demonstrate that the same pressures need not produce the same results in different markets. Moreover, while the effects of the global financial crisis should not be ignored, we conclude that the country-level differences in corporate governance identified in the varieties of capitalism literature are robust, at least in the short term.

WP 495 THE USE OF QUANTITATIVE METHODS IN LABOUR LAW RESEARCH: AN ASSESSMENT AND REFORMULATION

Mar 18 Deakin, S.

This paper considers the potential and limits of quantitative approaches to labour law research. It explores the methods used to construct and validate indicators of labour regulation ('leximetrics') and those used in the econometric analysis of the effects of labour law rules on employment, productivity and inequality. It is argued that while there is a risk of the misuse and misappropriation of legal indicators, they can provide new evidence on the nature and effects of labour law rules, and thereby contribute to labour law theory as well as to the resolution of some practical issues of regulatory policy.

WP 496 WILL ROBOTS AUTOMATE YOUR JOB AWAY? FULL EMPLOYMENT, BASIC INCOME, AND ECONOMIC DEMOCRACY

Mar 18 McGaughey, E.

Will the internet, robotics and artificial intelligence mean a 'jobless future'? A recent narrative says tomorrow's technology will fundamentally differ from cotton mills, steam engines, or washing machines. Automation will be less like post-WW2 demobilisation for soldiers, and more like the car for horses. Driverless vehicles will oust truckers and taxi drivers. Hyper-intelligent clouds will oust financial advisers, doctors, and journalists. We face more 'natural' or 'technological' unemployment than ever. Government, it is said, must enact a basic income, because so many jobs will vanish. Also, maybe robots should become 'electronic persons', the subjects of rights and duties, so they can be taxed. This narrative is endorsed by prominent tech-billionaires, but it is flawed. Everything depends on social policy. Instead of mass unemployment and a basic income, the law can achieve full employment and fair incomes. This article explains three views of the causes of unemployment: as 'natural', as stemming from irrationality or technology, or as caused by laws that let people restrict the supply of capital to the job market. Only the third view has any credible evidence to support it. After WW2, 42% of UK jobs were redundant (actually, not hypothetically) but social policy maintained full employment, and it can be done again. Unemployment is driven by inequality of wealth and of votes in the economy. Democratic governments should reprogramme the law: for full employment and universal fair incomes. The owners of the robots will not automate your job away, if we defend economic democracy.

WP 497 A HUMAN IS NOT A RESOURCE Mar 18 McGaughey, E. The language of 'human resource management' treats people as a means to an end. Three core tenets of human resource literature are that it is desirable to have (1) labour 'flexibility' and 'mobility' in a peripheral workforce, (2) individual (not social) responsibility for employment searching, and (3) a manager's right to manage, without collective accountability. This article explores the cutting edge evidence, which show human resource theory harms productivity and human development. It explores the effects of 'HR' in the UK, EU and international regulation on atypical work, full employment, and union voice. Where human resource beliefs have pervaded the most, the outcomes are the worst: lower productivity, higher unemployment, more inequality, less growth. To advance prosperity, economic risks must be distributed to the organisations best placed to bear them, people must have security to plan for the future, and people must have real votes at work through collective bargaining and corporate governance. Many people who themselves work in 'HR' strongly disagree with the essential elements of their discipline. They support equality, security and democracy at work. Just as international law once affirmed that 'labour is not a commodity', for social justice in the 21st century there must be a conviction that a human is not a resource. 'HR' must change in name and substance, to advance human development and human rights.

WP 498 A COMMENT ON OULTON, 'THE UK PRODUCTIVITY PUZZLE: DOES ARTHUR LEWIS HOLD THE KEY?'

Mar 18 Martin, B

In Version 1 of his new paper, Oulton merges supply-side and demand-side theoretical models as a means better to understand why, since the financial crisis that broke in 2007, the UK's productivity growth has not only been negligible but also a very poor outlier judged by international experience. Drawing on Arthur Lewis's famous model of development, Oulton concludes, 'rapid rates of immigration in conjunction with low rates of growth of export demand in the aftermath of the Great Recession can explain

the UK productivity puzzle'. According to Oulton, the UK's relatively poor productivity performance is attributable to a combination of the export demand constraint and of the continued growth of labour supply, which led to capital shallowing – a reduction in the rate of growth of capital services per hour worked. I conclude, alas, that Arthur Lewis does not hold the key. The dominant, proximate 'explanation' of the UK's relatively poor performance is relatively weak Total Factor Productivity (TFP), not relatively weak capital intensity. Moreover, the UK was not relatively more exposed to export demand shocks but delivered relatively worse output growth outcomes. Oulton nevertheless articulates the profound idea that full-employment capacity has adjusted to weak effective demand arising from adverse global developments. If this deep insight is correct, TFP would be a 'measure of our ignorance' of the mechanisms that drove productive capacity to align with low aggregate demand.

WP 499 'WAGE', 'SALARY' AND 'REMUNERATION': A GENEALOGICAL EXPLORATION OF JURIDICAL TERMS AND THEIR SIGNIFICANCE FOR THE EMPLOYER'S POWER TO MAKE DEDUCTIONS FROM WAGES

Mar 18 Adams, Z

The Supreme Court in *Hartley v King Edwards VI College* (2017) has confirmed that an employee who refuses to work in accordance with his contract forfeits his right to be paid for the duration of the breach. The decision extends to professional employees paid a periodic salary the principle established in *Miles v Wakefield MDC* (1987). The present article sheds new light on these decisions by situating them within a broader debate concerning the function of the wage and the proper relationship between work and payment. Drawing on insights from economic theory, and engaging in a genealogical analysis of legal concepts, the article shows how this debate has, over time, conditioned the use of concepts such as the 'wage', 'the salary' and 'remuneration' in legislation and case law concerning deductions. It shows that the legal concept of the 'wage' is closely related to the economic idea of the wage as the price of a commodity, while the legal concepts of 'salary' and 'remuneration' are more closely analogous to the economic idea of the wage as the cost of subsistence. The courts' tendency to confuse these concepts, and to analyse the employer's power to deduct as a right to withhold wages for non-performance of the contract, tells us much about the implicit assumptions underpinning cases such as *Miles* and *Hartley*, and how they have shaped the path of the law.

WP 500 THE ECONOMIC SIGNIFICANCE OF LAWS RELATING TO EMPLOYMENT PROTECTION AND DIFFERENT FORMS OF EMPLOYMENT: ANALYSIS OF A PANEL OF 117 COUNTRIES, 1990-2013

Mar 18 Adams, Z, Bishop, L, Deakin, S, Fenwick, C, Martinsson, S and Rusconi, G

This paper presents findings from analysis of a dataset of labour laws, based on the Centre for Business Research Labour Regulation Index (CBR-LRI), which has recently been extended to cover 117 countries and the period from 1970 to 2013. The dataset shows that laws regulating different forms of employment (DFE), including part-time work, fixed-term employment and agency work, have become significantly more protective over time, in particular since the late 1990s. Employment protection laws in general (EPL) have become steadily more protective since the 1970s. Europe has seen a decline in the level of EPL since the onset of the sovereign debt crisis in 2008, but this trend is small, on average, by comparison to earlier increases in protection beginning in the 1970s, and has not been replicated in other regions. Time-series econometric analysis using non-stationary panel data methods suggests that strengthening worker protection in relation to DFE and EPL is associated with an increase in labour's share of national income, rising labour force participation, rising employment, and falling unemployment, although the observed magnitudes are small when set against wider economic trends.

WP501 TWENTY YEARS OF 'LAW AND FINANCE': TIME TO TAKE LAW SERIOUSLY

Mar 18 Schnyder, G, Siems, M and Augilera, R

The Law and Finance School (LFS) has become an important stream of research in management and socio-economic studies. This paper provides the first comprehensive discussion of the first twenty years of LFS literature. Drawing on legal theory, we show that, despite the centrality of law to the LFS, the LFS is based on a surprisingly 'thin' theory of law. It does not provide a coherent definition of what primary function law plays in the economy, what criterion makes law 'valid' law, and what mechanism links law to actors' behaviours. Therefore, contrary to existing criticisms of the LFS, we argue that the main issue is not that the LFS overstates the importance of law, but rather that it does not take law seriously enough. We propose ways in which future research could develop a more solid conceptual framework to empirically investigate the impact of law on economic and social outcomes.

WP502 INVESTIGATING NEW TYPES OF "DECOUPLING": MINORITY SHAREHOLDER PROTECTION IN THE LAW AND CORPORATE PRACTICE

Mar 18 Schnyder, G.

The study of decoupling – i.e. the discrepancies between formal policies and actual practices and outcomes – has seen a remarkable revival. Importantly, a distinction between policy–practice and means–ends decoupling has become widely-used. We argue that the decoupling literature still neglects a key feature of decoupling, namely that it is inherently a multi-level concept. Distinguishing explicitly the macro- (country) and the micro- (organisation) levels, we develop a more fine-grained typology of

policy–practice and means–ends decoupling. We hypothesise that differences in the macro-environment may influence the type and extent of decoupling that prevails in a given country. We test our hypotheses in the context of the adoption of legal minority shareholder protection in four European countries. We go beyond previous studies that have investigated policy–practice and means–end decoupling in the same context by using a unique dataset for firm-level corporate governance practices that allows us to investigate the multi-level nature of decoupling more directly. Our findings suggest that that decoupling is context specific and the extent to which policy–practice decoupling occurs may depend on a country's legal style.

WP 503 THE WORLD SYSTEM AND THE HOLLOWING-OUT OF STATE CAPACITY: HOW STRUCTURAL

ADJUSTMENT PROGRAMS IMPACT BUREAUCRATIC QUALITY IN DEVELOPING COUNTRIES

Mar 18 Reinsberg, B, Kentikelenis, A, Stubbs, T and King, L

The administrative ability of the state to deliver effective policy is essential for economic development. While sociologists have long devoted attention to domestic forces underpinning state capacity, we focus on world system pressures from Western-dominated international organizations. Scrutinizing policy reforms mandated by the International Monetary Fund (IMF), we argue that 'structural conditions' exert deleterious effects on bureaucratic quality by increasing the risk of bureaucrats falling prey to special interests and narrowing potential policy instruments available to them. We test these arguments using a new dataset on IMF conditionality from 1985-2014. Our analysis shows that structural conditions—especially conditions on privatization, price deregulation, and public sector employment—reduce bureaucratic quality. Using instrumentation techniques, we also discount the possibility that the relationship is driven by the IMF imposing structural conditions precisely in countries with low bureaucratic quality. A careful reconsideration of IMF policy reforms is therefore required to avoid undermining local institutions.

WP 504 THE LAW-TECHNOLOGY CYCLE AND THE FUTURE OF WORK

Mar 18 Deakin, S and Markou, C

Features of the 'fourth industrial revolution', such as platforms, AI and machine learning, pose challenges for the application of regulatory rules, in the area of labour law as elsewhere. However, today's digital technologies have their origins in earlier phases of industrialisation, and do not, in themselves, mark a step change in the evolution of capitalism, which was, and is, characterised by successive waves of creative destruction. The law does not simply respond to technological change; it also facilitates and mediates it. Digitalisation, by permitting the appropriation of collective knowledge, has the capacity to undermine existing forms of regulation, while creating the space for new ones. It may erode the position of some professions while enabling others, complementary to new technologies, to emerge. It is unlikely to bring about the redundancy of forms of labour law regulation centred on the employment relationship. We appear to be reaching a point in the law-technology cycle where push-back against regulatory arbitrage can be expected.

WP 505 BLOCKCHAIN TECHNOLOGY AND THE GOVERNANCE OF FOREIGN AID

Jun 18 Reinsberg, B

Blockchain technology has been considered a vehicle to foster development in poor countries by promoting applications such as secure delivery of humanitarian aid, digital identity services, and proof of provenance. This article examines whether (and if so how) blockchain technology—if appropriately designed—can enhance the effectiveness (and efficiency) of foreign aid governance, thereby moving beyond completely anonymous contexts. Foreign aid governance is plagued by lack of credible commitments among states which are further exacerbated by information asymmetries and which often undermine aid effectiveness. In this context, blockchain technology holds two promises. First, through guaranteed enforcement of smart contracts, it can strengthen the credibility of state commitments, for example collective burden-sharing rules among a group of donors or recipient-country compliance with policy conditionality in return for aid. Second, through leveraging prediction markets, blockchain technology can allay information problems related to the verification of real-world events along the entire aid delivery chain. Overall, the article shows that blockchain technology can be understood as a mechanism with institution-like features, with significant potential to complement real-existing institutions. The article also suggests that deploying blockchain technology in semi-trusted environments and at the international level avoids many of its well-known disadvantages.

WP 506 INSTITUTIONAL COMPLEMENTARITIES BETWEEN LABOUR LAWS AND INNOVATION

Jun 18 Belloc, F

We analyse how institutional complementarities between employee representation laws and dismissal restrictions influence aggregate innovation outcomes. We argue that greater employee voice, due to improved employee representation legislations, may spur innovative effort by employees only when shareholders cannot renegotiate ex-ante agreements with workers over revenue sharing, by threatening dismissal. We perform a panel regression analysis, exploiting country-sector panel data over the 1977-2005 period, and find that stronger employee representation laws in the presence of stricter firing restrictions are in fact associated with higher patenting activity. Consistently with our theoretical argument, the magnitude of this empirical relationship

is seen to be relatively larger in those sectors where the human capital contribution to production is higher. Implications for the analysis of economic institutions and for legal policy-making are proposed.

WP 507 THE DOUBLE CRISIS: IN WHAT SENSE A REGIONAL PROBLEM?

Sep 18 Donald, B and Gray, M

We are now facing Sayer's 'diabolical double crisis'— which encompasses both a deep financial crisis and an environmental one. The scale, scope and nature of this double-crisis is downplayed in the regional studies literature, much of which still focuses on innovative growth models often divorced from broader social and ecological contexts. To help solve both crises we call for regional studies to explore new models that allow us to focus on the most important issues of our time. We illustrate this by focusing on the contradictions in the waste produced by contemporary regional economies – waste of abundance, labour, and resources.

WP 508 BLOCKCHAIN TECHNOLOGY AND INTERNATIONAL RELATIONS: DECENTRALIZED SOLUTIONS TO FOSTER COOPERATION IN AN ANARCHIC WORLD?

Sep 18 Reinsberg, B.

Blockchain technology enables 'trustless' interactions among individuals by replacing centralized enforcement with distributed consensus. It therefore has been used for commercial applications, including transfer of cryptocurrency, digital file storage, digital identity services, and supply-chain management. This article probes the potential of blockchain technology to foster international cooperation among states—given the lack of a world government to enforce their mutual commitments. The article outlines four facilitators of blockchain-based global governance systems, including the need for credible commitment, the availability of resourceful non-state actors, verification needs that can be addressed through 'oracles', and routine interactions. These facilitators are further illustrated for the case of climate governance. Overall, the discussion suggests that blockchains—if appropriately designed to address the underlying cooperation problems—hold significant promise. Their key strength is to enable states to design 'smart contracts' that execute automatically when agreed conditions are fulfilled. To some extent, blockchain technology thus challenges the primacy of international organizations. However, even with blockchain technology, international organizations continue to play a role with regard to pre-agreement policy deliberation, validating real-world events, and providing technical assistance for policy implementation.

WP 509 Shareholder protection, stock markets and cross-border mergers

Sep 18 Ahiabor, F, James, G, Kwabi, F & Siems, M

This paper is the first one that uses a panel data of different types of shareholder protection in order to examine (i) the effect of such laws on stock market development and (ii) the convergence of shareholder protection laws through cross-border mergers and acquisitions. We find significant results for enabling laws but less so for paternalistic ones.

WP 510 THE DEPTHS OF THE CUTS: THE UNEVEN GEOGRAPHY OF LOCAL GOVERNMENT AUSTERITY

Dec 18 Gray, M and Barford, A

Austerity, the sustained and widespread cuts to government budgets, has characterised Britain's public policy since 2010. The local state has undergone substantial restructuring, driven by major budget reductions from central government. Hitherto, few studies of austerity in the UK have considered the interplay of national and local policies. We contribute a fine-grained spatial analysis of local authority budgets, highlighting their socioeconomically- and geographically-uneven impacts. We identify substantial variations between authorities in terms of funding, local tax-base, fiscal resources, assets, political control, serviceneed and demographics. We argue that austerity has actively reshaped the relationship between central and local government in Britain, shrinking the capacity of the local state, increasing inequality between local governments, and exacerbating territorial injustice.

WP 511 FIDUCIARY – ASYMMETRICAL POWER, ASYMMETRICAL CARE

Mar 19 Mussell, H

The legal concept of fiduciary plays a fundamental role in all financial and business organisations. It acts as a moral safeguard of the relationship between trustee and beneficiary, ensuring that the beneficiaries' best interests are met. It is often referred to as a duty of care. Originally formulated within familial law to protect property put into Trust, beneficiaries were women and children, allocated passive and subordinated roles. This paper investigates two aspects of the asymmetrical power relations central to the fiduciary. Firstly it reveals the gendered presuppositions regarding male and female agential capabilities on which the fiduciary is premised, drawing out the origins of the authority differential in the trustee-beneficiary relationship. Secondly, the paper engages with the ethical nature of the fiduciary relationship, arguing that Care Ethics offers a robust framework for explicating the history of the relationship, alongside delivering a morally-enhanced and future-fit fiduciary free of damaging gendered stereotypes.

WP 512 “KEYNESIAN ECONOMICS– BACK FROM THE DEAD?” THE GODLEY-TOBIN LECTURE

Jun 19 Rowthorn, R.

This paper surveys some of the main developments in macroeconomics since the anti-Keynesian counter-revolution forty years ago. It covers both mainstream and heterodox economics. Amongst the topics discussed are: New Keynesian economics, Modern Monetary Theory (MMT), expansionary fiscal contraction, unconventional monetary policy, the Phillips curve, and hysteresis. The conclusion is that Keynesian economics is alive and well, and that there has been a degree of convergence between heterodox and mainstream economics.

WP 513 FISCAL POLICY IN A DEPRESSED ECONOMY: A COMMENT

Jun 19 Rowthorn, R.

In an influential article, Delong and Summers (2012) consider the implications of hysteresis for government debt. They derive an upper limit for the after-tax real interest rate. If the interest rate is below this limit, the debt incurred during a one-off fiscal stimulus will be automatically repaid without the need for higher taxes. Their analysis assumes that a one-off stimulus leaves an infinite legacy of future benefits (hysteresis effects) that increase through time. This note extends their analysis to situations where hysteresis effects remain constant or decay in the course of time. By highlighting the hysteresis time profile, it provides a more transparent treatment of debt dynamics.

WP 514 RESURRECTING THE UK SECTOR NATIONAL ACCOUNTS AFTER 1945

Jun 19 Martin, W.

Building on the methodology explained in Martin (2009), this paper sets itself the task of backcasting the UK national sectoral accounts before 1987, the date prior to which fully comprehensive data are not provided by the Office for National Statistics. Backcast data cover the private, government and overseas sectors. Innovations compared with the earlier paper include the extension of the dataset to begin in 1946 rather than 1948, and, more importantly, an attempt to backcast financial balances for the household and corporate sectors. This attempt involves the backcasting of pension saving before 1963 and of major components of the household and corporate capital account before 1987. The household and corporate sector data are likely subject to greater measurement error than estimates for more aggregate sector balances, as shown in Martin (2009) and provisionally upheld in this paper by simple tests of stability across different data vintages. Subject to further verification and improvements, now in prospect, in official historic data, the derived postwar sectoral estimates may nevertheless enable more robust testing of a variety of long-run macroeconomic hypotheses.

WP 515 DO CORPORATE GOVERNANCE RATINGS CHANGE INVESTOR EXPECTATIONS? EVIDENCE FROM ANNOUNCEMENTS BY INSTITUTIONAL SHAREHOLDER SERVICES

Dec 19, Guest, P and Nerino, M.

This paper examines empirically the announcement effect of commercial corporate governance ratings on share returns. Rating downgrades by Institutional Shareholder Services (ISS) are associated with negative returns of -1.14% over a 3-day announcement window. The returns are highly correlated with the proprietary analysis of ISS and are decreasing in agency costs, consistent with ratings providing independent information on underlying corporate governance quality. We thus show that the influence and impact of ISS extends beyond proxy recommendations and subsequent voting outcomes. Our findings contrast with the insignificant price impact of Daines, Gow, and Larcker (2010), whose analysis we replicate and successfully reconcile to ours by pooling upgrades and downgrades together.

WP 516 ELUCIDATING LIMITED SHAREHOLDER ENGAGEMENT: IDENTIFYING ETHICAL & EPISTEMOLOGICAL FACTORS IN THE FIDUCIARY

Dec 19 Mussell, H.

The legal concept of fiduciary, from the Latin *fiducia* meaning trust, plays a fundamental role in all financial and business organisations: it acts as a moral safeguard of the relationship between trustee and beneficiary, ensuring that the beneficiaries' best interests are met. It is often referred to as a duty of care. This paper focuses on the ethics of the fiduciary, but from a unique and historical perspective, going back to the original formulation of the fiduciary within a familial context, to reveal not only why care plays a central role in the fiduciary, but to also uncover key foundational presuppositions regarding agential capabilities embedded in the trustee-beneficiary relationship. In doing so, the paper uncovers ethical issues of an *epistemological kind* at the core of the fiduciary. By using Miranda Fricker's theory of pre-emptive testimonial injustice, the analysis helps shed light on shareholder activism and explains limited engagement to date.

WP 517 TAKING A HORSE TO WATER? PROSPECTS FOR THE JAPANESE CORPORATE GOVERNANCE CODE

Mar 20 Buchanan, J., Chai, D.H and Deakin, S.

In 2014-15 Japan implemented a series of reforms to its corporate governance regime. The principal measures adopted were the country's first Corporate Governance Code, revisions to its Companies Law, and a Stewardship Code, together with a report (the Itô Review) on corporate competitiveness and incentives for growth. In this paper we analyse the objectives of these reforms and make an assessment of their likely success, drawing on interviews with key actors in Japanese government, finance and industry. We firstly frame our analysis by a consideration of what institutional theory has to say about the relationship between formal and informal norms and practices, and about the feasibility of using regulatory mechanisms of different types to alter embedded routines. We then consider the historical evolution of Japanese corporate governance since the early 20th Century and explore the causes of its current embeddedness and apparent resistance to change, noting pressures in the past which in some cases have changed it greatly while in others have had little effect. We then examine the manner in which the current

reforms were devised and implemented, their content, and the influences that shaped them. We then discuss the methods used to conduct our primary interview research, which was carried out in 2016-17 with policy makers, corporate managers, investors, and other interested parties. We use our interviews to identify how the reforms were formulated and how they have been received. We then present our assessment. We suggest that despite a pattern of embedded institutions resisting regulatory pressures for change in recent years, Japanese corporate governance may now have reached one of its historical turning points. The introduction into Japan of the 'comply or explain' approach, the major innovation that distinguishes this reform exercise, is a significant moment. The existence of a corporate 'compliance machine' of administrative officers below board level, whose role is to interpret regulation and present it in executable form to their boards of directors, improves the Code's chances of implementation at large, listed companies. The Stewardship Code, meanwhile, has the potential to co-opt institutional investors' interests to the economic reform agenda of the political class. These politicians have shown an unusual degree of commitment to the reform process and continue to give it their strong support. At the same time, there are potential obstacles to unqualified adoption of the Corporate Governance Code, especially for smaller companies that lack administrative resources, and the 2018 revision of the Code has introduced some doctrinaire elements which seem at odds with the realities of governance in most Japanese companies. Moreover, some doubt remains regarding the ability of corporate governance reforms to deliver the kind of economic revival that politicians are seeking, at least in the short to medium term. Thus the question of whether the Corporate Governance Code will bring about lasting change in Japanese corporate practice remains an open one. The Code has clear advantages over previous attempts at reform but we compare this process to the proverbial 'taking a horse to water', because no amount of formal exhortation will succeed if the horse chooses not to drink.

WP 518 LABOUR LAWS, INFORMALITY, AND DEVELOPMENT: COMPARING INDIA AND CHINA

Mar 20 Deakin, S. Marshall, S. and Pinto, S.

This paper explores trends in the formalisation and informalisation of work, focusing on the world's two largest labour markets, India and China. A first task is to define what is meant by informal work. The definitions used by international agencies are not uniform and different countries have distinct approaches. There are numerous dimensions to informality that are not fully captured in statistical data. There is a trend towards formal employment and away from own-account work and selfemployment in many regions of the world, particularly in East Asia where the proportion of the labour force in waged employment has doubled over the past three decades. The paper will look more closely at the contrasting cases of India (where formal work has increased recently, but to a very small extent) and China (where a variant of the standard employment contract may be emerging), discuss reasons for the divergence between them, and consider the relationship between formality and developmental outcomes in the two countries.

WP 519 RESURRECTING THE UK CORPORATE SECTOR ACCOUNTS

Jun 20 Martin, B.

This paper develops what is believed to be a novel method of resurrecting UK national accounts corporate sector data before 1987, the date prior to which fully comprehensive sectoral data are not provided by the Office for National Statistics. A distinction is drawn between the sectors comprising private non-financial corporations (PNFC), on the one hand, and financial corporations, which include some state-controlled enterprises, on the other hand. The resurrected PNFC dataset runs in detail from 1960. A much more limited set of reconstructed data is available for financial corporations. The resurrected data include the savings – broadly speaking, the “retained profits” – and the financial balances – the difference between retained profits and capital spending – of both corporate sectors. Economists collaborating with the UK Economic Statistics Centre of Excellence describe an exercise of this kind as “especially difficult”. My method of reconstruction relies on archived, out-of-date, too frequently unreliable national accounts datasets, the scrutiny of those data to remove mistakes, and a detailed examination of a subset of an otherwise overwhelming number of national accounts revisions confined to those having a material and enduring impact in the historic period before 1987. This “bottom-up” method of data reconstruction differs from the “top-down” method of resurrecting the accounts of the public, the rest-of-the-world and the “private” sector, and the separation of the household sector from the aggregate corporate sector, described in a previous paper: Martin (2019). The combination of the two methods, one bottom-up, the other largely top-down, risks the creation of a dustbin into which data inconsistencies are unwittingly poured. A number of robustness tests provides reassurance that the differently derived historic data for sectoral saving make sense. Comparable tests of household and corporate sectors' financial balance data are not possible, but the hypothesis that different vintages of PNFC financial balance data are isomorphic representations of the same economic variable is not rejected. The combination of the two methods has allowed improvements to be made to the resurrected household sector series that begins in 1946. Subject to the resolution of outstanding problems with official national accounts data, notably for gross fixed capital formation before 1960, and additional scrutiny and comment, it is the intention to make the complete resurrected sectoral dataset publicly available.

WP 520 SHAREHOLDER VALUE OR PUBLIC PURPOSE? FROM JOHN MAYNARD KEYNES AND ADOLF BERLE TO THE MODERN DEBATE

Jun 20 Konzelmann, S, Chick, V. and Fovargue-Davies, M

The debate about corporate purpose is a recurring one that has re-emerged today. What should be the guiding principles of business: the pursuit of profit or a contribution to public well-being? We trace key elements in this debate in the UK and the US from the interwar years, when John Maynard Keynes and Adolf Berle made important contributions, to the present. Both the earlier and the current debates are centred around whether we see business institutions as strictly private entities, transacting with their suppliers, workers and customers on terms agreed with or imposed upon these groups, or as part of society at large and therefore expected to contribute to what society deems to be its interests. Whether current developments will ultimately produce a shift in corporate purpose akin to the one that followed the Second World War remains to be seen. But the parallels to the interwar debates, and the uncertain economic, political and social environment in which they took place, are striking. Our objective is to see what might be learned from the past to inform the current direction of thought concerning capitalism and corporate purpose.

WP 521 CUT HOURS, NOT PEOPLE: NO WORK, FURLOUGH, SHORT HOURS AND MENTAL HEALTH DURING COVID-19 PANDEMIC IN THE UK

Jun 20 Burchell, B, Wang, S, Kameråde, D, Ioulia Bessa and Rubery, J

The unprecedented shock to the UK economy inflicted by government measures to contain the Coronavirus (COVID-19) risked plunging millions of workers into unemployment as businesses were forced to close or scale back activity. To avoid that cliff edge, and the predictable damage to both workers mental health and to the viability of the closed down businesses, the government also introduced the Coronavirus Job Retention Scheme (CJRS) that allowed for the furloughing of workers. Even so the number of people claiming benefits as unemployed has soared above 2 million for the first time since 1996 and others have been working significantly reduced working hours. The first and second waves of Understanding Society COVID-19 Study provide an early opportunity to examine how far these changes in employment status, work hours and involvement in furlough job retention scheme are related to the likelihood of having mental health problems, measured by 12-item General Health Questionnaire. Our findings confirm that leaving paid work is significantly related to poorer mental health, even after controlling for the household income and other factors. In contrast having some paid work and/or some continued connection to a job is better for mental health than not having any work at all. Those who remain part-time employed before and during the COVID-19, those who are involved in furlough job retention scheme or transition from full-time to part-time employment are all found to have similar levels of mental health as those who continued to work full-time. Results also show that overall women's mental health has deteriorated much more than men's especially when compared to Wave 9 (2017-2019) of Understanding Society.

Both short working hours and furlough job retention schemes can thus be seen to be effective protective factors against worsening mental health. However, the key issue is now how to move beyond the furlough scheme. A v-shaped bounce back is not on the horizon and many sectors will at most move into partial activity. So, the need to avoid a huge further leap in unemployment is just as vital with all the risk to mental health that that would entail. These findings point to the need to move towards sharing work around more equitably, including introducing a shorter working week for all (except in those sectors under extreme pressure) in order to minimize the risk to mental health and well-being if those on furlough are now pushed into unemployment.

WP 522 SHORTER WORKING WEEK AND WORKERS' WELL-BEING AND MENTAL HEALTH

Sep 20 Kameråde, D, Balderson, U, Burchell, B, and Coutts, A

In this working paper we discuss the implication of working shorter hours for workers' well-being and mental health, drawing on the findings from the '[Employment Dosage Project](#)'. Using longitudinal data, we found that even one day a week generates significant mental health and well-being benefits for previously unemployed or economically inactive individuals. There is no single optimum number of working hours at which well-being and mental health are at their highest. What matters most for mental health once individuals are employed is not the number of hours worked, but job quality especially intrinsically meaningful work, lower intensity work and favourable social environment. We also found that unemployed women derive similar mental health benefits from participating in active labour market policies (ALMPs) as in employment. Unemployed men also benefit from ALMPs but obtain significantly more health benefits from formal employment. Moreover, during interviews with 40 people who chose to work considerably less than full-time (but not mainly for child care), we found that decisions to work shorter hours were influenced by both negative work experiences pushing people away from work and positive experiences outside work pulling people towards other activities. These people use their time out of work in a way that boosts productivity and promotes social cohesion, including voluntary work, exercise, caring for friends and relatives and rest and recovery. The desire for more freedom and autonomy was a key framing device in explanations and justifications of short hours working. These findings provide important and timely empirical evidence for future of work planning, shorter working week policies and beyond. We conclude by discussing the implication of the findings for the debates about the future of work, public health, climate change and gender equality.

WP 523 THE IMPACT OF INTELLECTUAL PROPERTY TYPES ON THE PERFORMANCE OF BUSINESS START-UPS IN THE USA

Apr 21 Power, B. and Reid, G.C

Using a large, longitudinal panel (2004-2011) of USA start-ups this paper shows the extent to which IP types (e.g. trademarks, patents, copyrights, outward licensing) enhance multidimensional performance. An ordered probit analysis (with random effects), corrected for sample selection bias, estimates performance to derive the following conclusions. First, trademarks and out-licensing IP types increase a firm's chances of being a high performer, confirming the importance of certain forms of IP protection for start-ups. Second, patenting significantly reduces the chances of being a high performer, suggesting patenting has limited performance benefits for start-ups. Third, few performance synergies exist in the *joint* use of IP types, suggesting that strong complementarities among IP types are limited. While out-licensing patents *and* out-licensing copyrights certainly increase performance, out-licensing patents *and* out-licensing trademarks actually diminish it. Further, registering more trademarks *and* outlicensing more trademarks also diminishes performance, suggesting start-up firms should keep trademarks in-house.

WP 524 THE GOVERNANCE OF COVID-19: ANTHROPOGENIC RISK, EVOLUTIONARY LEARNING, AND THE FUTURE OF THE SOCIAL STATE

Apr 21 Deakin, S. and Meng, G

We consider the implications of the Covid-19 crisis for the theory and practice of governance. We define 'governance' as the process through which, in the case of a given entity or polity, resources are allocated, decisions made and policies implemented, with a view to ensuring the effectiveness of its operations in the face of risks in its environment. Core to this, we argue, is the organisation of knowledge through public institutions, including the legal system. Covid-19 poses a particular type of 'Anthropogenic' risk which arises when organised human activity triggers feedback effects from the natural environment. As such it requires the concerted mobilisation of knowledge and a directed response from governments and international agencies. In this context, neoliberal theories and practices, which emphasise the self-adjusting properties of systems of governance in response to external shocks, are going to be put to the test. In states' varied responses to Covid-19 to date it is already possible to observe some trends. One of them is the widespread mischaracterisation of the measures taken to address the epidemic at the point of its emergence in the Chinese city of Wuhan in January and February 2020. Public health measures of this kind, rather than constituting a 'state of exception' in which legality is set aside, are informed by practices which originated in the welfare or social states of industrialised countries, and which were successful in achieving a 'mortality revolution' in the course of the nineteenth and twentieth centuries. Relearning this history would seem to be essential for the future control of pandemics and other Anthropogenic risks.

WP 525 DECODING EMPLOYMENT STATUS

Apr 21 Deakin, S

There is much at stake in the classification of work relations: on the one hand, the stability of the tax base and the capacity of the state to deliver public goods; on the other, the structure of enterprise and the rights of workers in the 'gig' economy and beyond. Classification decisions, however, are made using legal concepts which many view as artificial and manipulable, to the point where it is hard to discern the considerations which are actually guiding decisions. Decomposing the 'employment' concept reveals something of the implicit 'weighting' of tests and indicators which underlies judicial and administrative determinations. Viewed in this light, statutory reformulations such as the 'ABC' test can play a role in 'reweighting' the classification process, extending the protective coverage of labour laws and resisting fiscal erosion.

WP 526 FROM 'CAPITAL AND IDEOLOGY' TO 'DEMOCRACY AND EVIDENCE': A REVIEW OF THOMAS PIKETTY

Apr 21 McGaughey, E

Thomas Piketty's *Capital and Ideology* (2020) is a major, encyclopaedic and data-driven contribution to the effort of constructing a better human civilization. This review summarises the main argument: a positive thesis that in every society, ideology feeds laws and institutions that create inequality, and inequality then bolsters ideology; a normative thesis that we need a better ideology, including 'participatory socialism', to solve our biggest challenges. The review then complements and critiques three central issues in the argument, that (1) the true concentration of economic power, the votes in the economy, is even more extreme than inequality of wealth and income, (2) the legal construction of markets, through property, contract, corporate, or human rights law, can 'pre-distribute' income and wealth to a vast extent before tax, and (3) social justice means expanding (not merely correcting or re-distributing) everyone's opportunity, creative capacity, and human potential, and helps everyone to develop their personality to the fullest. Social justice is an unparalleled force, and is still the best answer to far-right, authoritarian or other failed ideologies, which have escalated inequality and driven climate damage. Perhaps the greatest achievement of Piketty's work could be to bring economics firmly back to the values in the Universal Declaration of Human Rights.

WP 527 THE FUTURE OF DEMOCRACY AND WORK: THE VOTE IN OUR ECONOMIC CONSTITUTION

Apr 21 McGaughey, E

What should be the future of democracy? Covid-19 has exposed a desperate need, not just for a green recovery, and a social recovery, but a political recovery, to remake our institutions for the future, for justice on living planet. Today we are seeing that the vote, 'a most transcendent thing', is becoming an essential part of our economic constitution: votes at work, votes in capital and votes in public services. This is already practised, however imperfectly, however forgotten, in universities like Toronto, Cambridge, Oxford or Harvard, and the movement is growing, as it should. The evidence shows we are more productive, innovative, happy, and less unequal, when we have voice. Having moved 'from status to contract' in the industrial revolution, the future of work involves a move 'from contract to membership'. The 'right to take part in the government' of our societies is depending less and less on holding money, or 'other people's money', but is becoming universal. The days where shareholders monopolize the votes in the economy, and asset managers or banks monopolize votes on shares, are numbered. The true investors in the wealth of nations, people at work, savers for retirement, and all members of our society, are the future of democracy.

WP 528 A SOCIAL RECOVERY, WORKPLACE DEMOCRACY AND SECURITY: COVID-19 AND LABOUR LAW

Apr 21 McGaughey, E

The Covid-19 pandemic has shown the painful consequences of poor job security and workplace democracy. The UK government's initial flirt with 'herd immunity', the delay in lockdown, and the absence of a work strategy that prioritised safety after the summer of 2020, caused among the most appalling death rates in the world, worse than Trump's America. However, a swift change in the job security policy stemmed mass unemployment, after initial reports of 2.1 million people claiming unemployment benefits. The 'Coronavirus Job Retention Scheme' eventually meant that the unemployment statistics (as opposed to claimant count) showed only a modest jobless rise. Comparison with the US where there are effectively no rights, and other countries with strong rights, shows that universal social security and workplace democracy are at the core of successful economic performance. This paper explains the UK's health and safety rights, how the job retention scheme was unfurled with extension to employed and self-employed, and the connection between votes at work and employment. It shows how reality discredits the minority views of economic theorists who oppose labour rights, and suggests the legal reforms we can undertake to achieve a social recovery.

WP 529 A TWO-STAGE MODEL OF DECISION-MAKING OVER FINANCIAL REPORTING REGIMES AND TECHNIQUES: ANALYSIS AND UK CASE STUDIES

Apr 21 Hsu, Y, and Reid, G.C

This paper develops a new two-stage decision model to explain the choices of financial reporting *regimes* (e.g. IFRS or UK GAAP) and *techniques* (e.g. valuing intangibles, by cost, income, or market methods) for UK companies. The theoretical framework is based on the choice theory of orderings (*Lex* and *CoLex*) and is expressed in decision trees which capture firms' actions, based on calibrated benefits and costs. The decision-making processes are examined through three UK empirical case studies (one private and two public firms), that expound their decision trees, and explain their decisions. We probe the rationale of their decisions using field-work investigation methods, through which we develop a 'stated preference' metric of choice, which allows us to interpret how decisions are made, and how they differ: over time (notably when regime changes are being implemented e.g. the emergence of New UK GAAP post-2015); and across firms (where factors like ease of execution and the quality and quantity of information needed for decisions, are shown to play a large part).

WP 530 PREMATURE DEINDUSTRIALIZATION, INTER-SECTORAL EMPLOYMENT SHIFTS, AND ACCELERATED SERVICIZATION

Jun 21 Fujimoto, K and Whittaker, H

Concern about the implications of "premature deindustrialization" for economic growth of developing countries has evolved into investigation over whether parts of the service sector can play a propulsive role similar to that played by manufacturing previously. Such investigation is hampered by coarse and changing service sector classifications, but it does appear that some service sectors play such a role. In this paper we take the incremental but important step of identifying whether employment growth in certain service sectors corresponds with employment loss in manufacturing through "premature deindustrialization," deploying the counter-concept of "accelerated servicization." Investigating employment growth in key service sectors which are more finely classified than those used in the previous studies, we find that: (1) of five broadly classified service sectors, only that encompassing 'FIRE (finance, insurance and real estate) and business services' demonstrates accelerated servicization, and (2) this is attributable to the component sectors of 'information services' and 'business support,' but not FIRE. In fact FIRE exhibits a distinctive pattern, warranting the label 'quasi service.'

WP 531 WHAT IS A FIRM? A REPLY TO JEAN-PHILIPPE ROBÉ

Jul 21 Deakin, S, Gindis, D and Hodgson, G.M

In his recent book on *Property, Power and Politics*, Jean-Philippe Robé makes a strong case for the need to understand the legal foundations of modern capitalism. He also insists that it is important to distinguish between firms and corporations. We agree. But Robé criticizes our definition of firms in terms of legally recognized capacities on the grounds that it does not take the distinction seriously enough. He argues that firms are not legally recognized as such, as the law only knows corporations. This argument, which is capable of different interpretations, leads to the bizarre result that corporations are not firms. Using etymological and other evidence, we show that firms are treated as legally constituted business entities in both common parlance and legal discourse. The way the law defines firms and corporations, while the product of a discourse which is in many ways distinct from everyday language, has such profound implications for the way firms operate in practice that no institutional theory of the firm worthy of the name can afford to ignore it.

WP 532 LEGAL PERCEPTION AND FINANCE: THE CASE OF IPO FIRM VALUE

Jul 21 Schnyder, G., Grosman, A., Fu, K., Siems, M. and Aguilera, R.V

In this paper, we contribute to the literature on institutional determinants of IPO valuation. We introduce the concept of 'legal signaling,' which focuses on the perception of the quality of law and thus complements the existing institutional approaches to IPO valuation which consider the quality of the positive law ('standard view') and firm-level corporate governance practices ('firm signaling view'). Our approach explicitly models the difference between the effect of the positive law and the effect of the *perception* of law on IPO value. Based on a worldwide longitudinal dataset of IPO performance across a large number of countries, we find strong support for the claim that the perception of the quality of law is more important than its actual quality to explain post-IPO firm value. This effect holds regardless of whether the law's quality is correctly perceived or misperceived. Overall, our findings underscore the need for a more sophisticated theorization of the ways in which law affects entrepreneurial finance.

WP 533 EXPLORING EPISTEMIC VICES IN THE FIDUCIARY: INJUSTICE AND BEYOND

Dec 21 Mussell, H

The paper investigates epistemic vices in the fiduciary. Building on existing work exploring the presence of epistemic injustice embedded in the fiduciary, the paper examines the presence of another vice - epistemic hubris - and suggests how epistemic injustice acts as a capital vice within the context of the fiduciary, facilitating hubris to flourish. Three interrelated arguments are advanced. The first focuses on how the asymmetrical leader-follower dynamic within the fiduciary results in hubris. The second builds on this exploring how the lack of consultation with the beneficiary *alongside* deployment of specific economic epistemic goods to interpret the fiduciary results in additional hubris. The third draws the two together, arguing that as epistemic injustice creates conditions for both examples of hubris to flourish, it serves as a *capital* vice within the context of the fiduciary. Finally, safeguarding suggestions are outlined for how these epistemic vices could be avoided.

WP 534 RECLAIMING THE RELATIONAL ONTOLOGY OF THE FIDUCIARY AND EXPLORING RELATIONAL ETHICS

Dec 21 Mussell, H

Despite the omnipresence of the fiduciary in organisations, there is an omission of contemporary theorizations of this legal concept within the organisational theory literature. This is particularly surprising given the situation that the presence of ethics within the fiduciary is increasingly contested ground, with clear implications for managerial practice. This article addresses the lacuna by theorizing the fiduciary using an original ontological analysis, alongside identifying a suitable ethical framework. It argues on two grounds that the ontology of the fiduciary is inherently relational. The fiduciary's process-oriented focus is shown to indicate an open, emergent, and relational ontology at work. Secondly, historical investigation of the development of the fiduciary highlights its core relationship structure, and the interdependency and power dynamic embedded in the fiduciary are revealed. The argument is advanced that by bringing this inherent relational ontology to the fore, we can see how a relational ethical framework -the Ethics of Care -is best placed to explicate the ethics at work. The article concludes with a discussion outlining how the ontological theorization offers utility in steering future practice of the fiduciary.

WP 535 RUDIMENTARY INFLATION CONFLICT MODELS: A NOTE

Sep 22, Martin, B.

Using the most rudimentary models, this note explains how the pursuit by workers and firms of collectively unobtainable goals for real wages and real profits can lead not simply to a higher rate of inflation but to an explosive inflation. The rudimentary nature of the models allows a clear link to be forged between these conflicting aspirations and the distribution of national income. The models exclude any notion that workers or firms form, or act upon, expectations about future inflation but can generate the equivalent of a non-accelerating inflation rate of unemployment, a concept absent from many complex conflict models. Out of academic fashion since the 'defeat of inflation', conflict models may now enjoy a revival of interest from policy makers should the British economy suffer a period of 'stagflation'. If so, solutions proposed by British academics who developed the inflation conflict approach in the 1970s and 1980s would warrant their own revival.

WP 536 PARTIAL OBSERVABILITY ESTIMATES OF SUPPLY AND DEMAND FOR TRADEMARKS OF START-UPS

Sep 22, Power, B. and Reid, G.C.

This paper estimates simultaneously the supply and the demand determinants of the trademark adoption decision made by start-ups. We use a partial observability econometric model, as non-adoption is unobserved. Estimation is by maximum likelihood using the partial observability bivariate probit (POBP) model. This is run on a large ($N > 13k$) representative unbalanced longitudinal panel of surviving start-ups, derived from the Kauffman Foundation start-up dataset (2004-2011) for the USA. Our model is shown to provide a good explanation of supply and demand determinants of trademark adoption, in terms of signs of key variables, and statistical significance. For example, size, incorporation, and expenditure on R&D are important on the supply-side; and copyrights, licensing out, and being in a high knowledge information sector, are important on the demand-side. Policy implications are considered, focusing on marginal and elasticity effects.

WP 537 INVESTIGATING THE FIDUCIARY USING SOCIAL POSITIONING THEORY: AN IN-DEPTH ANALYSIS

Jan 23, Mussell, H.

The legal concept of the fiduciary is used extensively in both financial and non-financial organizational contexts. It refers to the situation where one party - the Trustee - is entrusted with serving the best interests of another party – the beneficiary. Because of its wide-ranging use, studies of this concept feature in diverse literature, including legal studies, finance, business ethics, healthcare ethics, and social care. This paper delivers a novel analysis of this concept using social ontological theory – specifically Tony Lawson's social positioning theory (SPT) – to examine the organizational structure and power embedded in fiduciary relations. It does so for two reasons. Firstly, by theorizing the fiduciary from a social ontological perspective we can better understand its structure, the effect of structure on agency, how and why it has evolved, and be clearer on potential for future development. Secondly, equipped with this social ontological analysis, we can explain identified contemporary phenomena which seemingly challenges and contests the power relations embedded in the fiduciary's organizational structure within the context of financial fiduciary relations. The paper concludes by drawing on the emancipatory potential of SPT as outlined by Lawson, but by applying this potential to considering how financial fiduciary relations can be developed in light of the findings of the SPT analysis.

WP 538 A BRIEF NOTE ON SOCIAL MOBILITY AND INCOME DISTRIBUTION

Jun 23 Rowthorn, B

Using a simple model based on Gibrat's Law of Proportionate Effect, this note demonstrates formally how, in a dynamic setting, earnings inequality is generated. The distribution of earnings in each generation is determined by parental earnings in the previous generation and by random effects uncorrelated with parental earnings. The asymptotic distribution of earnings is log-normal. The paper concludes with a comparison of Sweden and the USA. This comparison suggests that random effects are more important than intergenerational transmission in explaining why earnings inequality is much greater in the USA than in Sweden.

WP 539 ECONOMIC DEMOCRACY: A BRIEF HISTORY AND THE LAWS THAT MAKE IT

Sep 24 McGaughey, E

How has our economic constitutional order developed, and which laws make our economy democratic? Democracy in politics is familiar and starts with 'one person, one vote', but economic democracy is less familiar. In its ideal, it means 'three stakeholders, one voice'. Workers, investors, and service-users make different contribution types in the economy, so rules to give them voice differ and are still evolving. This paper gives a brief history of how economic democracy developed, the evolving theories, and practices for democratic workplaces, capital, and public enterprise. It then unpacks the laws that make it. First, a board of directors will answer to an enterprise's stakeholders, not simply appointing itself via so called 'independent' directors. Second, workers elect at least one-third or properly one-half of a board of directors, rather than shareholders monopolising all votes, and worker cooperatives are encouraged. Third, all capital fund directors, whether pensions or mutuals, are majority-elected by beneficiaries, and they set the shareholder voting policies, not allowing asset managers or banks to vote on other people's money in what they deem to be the interests of the ultimate investor. Fourth, in public enterprises, where private competition fails and consumers cannot truly 'vote with their feet', service-users hold voting rights for representatives on the board, rather than appointments being monopolised by the state or board incumbents. These norms are spreading, and overcoming evidence-free theories that excuse illegitimate corporate power.

WP 540 CAPITALISM, AUSTERITY AND FASCISM

Sep 24 Konzelmann, S

There is a strong resonance between events of the inter-war years and today. These include a questioning of laissez-faire capitalism and austerity, and the rise of so-called "populist" parties on both the left and right. Clara Mattei's (2022) *The Capital Order: How Economists Invented Austerity and Paved the Way to Fascism* thus makes an interesting contribution, by locating the key argument of her book in the febrile period of European history between the wars. According to Mattei, the First World War disrupted the pre-war capitalist system to such an extent that it created a crisis of capitalism, itself. As a result, following the end of hostilities, there was a conscious effort to restore the pre-war "capital order" by means of a technocratic "austerity strategy"; and this was strongly linked to the rise of fascism. We argue that the inter-relationship between capitalism, austerity and fascism during the 1920s and 1930s was rather more complex, and that to make sense of this, it is necessary to broaden the focus beyond Italy and Great Britain and the international financial conferences at Brussels (1920) and Genoa (1922). Otherwise, we risk misunderstanding and mis-diagnosing our own times, as those inter-war politicians, financiers and economists discovered to their cost. We therefore also include Germany and the United States and base our analysis on the events of the entire inter-war period.

WP 541 YOU REALLY NEVER HAD IT SO GOOD, OR WHY BRITAIN'S POST-WAR NATIONAL ACCOUNTS COULD LEAD YOU ASTRAY

Sep 24 Martin, B

Ten years ago, Britain's main statistics agency revised the figures describing the history of the nation's capital investment with results that, before 1997 and for many decades after the second world war, lack a coherent rationale and look wrong. The impact is still embedded in today's official national accounts. The effects of the revision can be seen, for example, in an implausible uplift to Britain's investment and growth record in the 1950s, the shifted scale and timing of the Barber Boom and Bust in the first half of the 1970s and in the improbable erasure of the post-war, thirty-year decline in company profit share. A deep investigation of the official figures is attempted and estimates made, but the task is hampered by incomplete documentation. It is regrettable that the Office for National Statistics decided some time ago not to correct the suspect capital investment figures. Those wishing to draw lessons from Britain's economic past are advised not to rely on the 'historic' national accounts.

WP 542 ENTERPRISE LAW AND THE ECLIPSE OF CORPORATE LAW

Sep 24 McGaughey, E.

The corporation is among the most important institutions of our age, and yet it is eclipsed by the enterprise. Corporate law theories have asserted that a corporation is a 'person', a 'nexus of contracts', that it has 'proprietary foundations', or is a 'concession of the state'. These theories wander across every Roman law category – persons, obligations, property, and public body. None work, because corporations combine elements of each category, but are more. A better tradition sees the corporation as a 'social institution', and as one legal form of 'enterprise'. Corporate law, traditionally confined, is not enough to understand corporations. We must integrate labour, competition, tax, tort, human rights, and public law, because this full body of enterprise law decisively changes corporate finance and governance. It also changes the rights that corporations distribute to investors, workers or service-users. In law, the concept of the 'enterprise' (or 'undertaking' or 'group') has become a dominant legal tool, because it adopts a functional understanding of firms that matches economic reality, eclipsing legal form. In that reality, most major listed corporations are under sector-specific regulation, including in banking, telecoms, big tech, or energy, as are corporations without shareholders such as hospitals or universities. Broadening our horizon enables us to teach how businesses, regulated industries, and public services – all major corporations – actually work. It lays the foundation for accurate empirical research. By shifting our vision to enterprise law, we may contemplate our entire economic constitution as it truly is.

WP 543 HOW NOT TO BACKCAST TIME SERIES DATA, OR WHY BRITAIN'S POST-WAR NATIONAL ACCOUNTS COULD STILL LEAD YOU ASTRAY

Jun 25 Martin, B

Eleven years ago, the Office for National Statistics, Britain's main statistics agency, attempted to merge two sets of time series data in order to backcast a long history of the country's capital investment. The restored investment figures became the series for total investment in the official 'historic' national accounts between 1948 and 1996. The ONS chose to merge old investment data with new national accounts data using splicing, a common technique, and did so 'bottom up': by adding up detailed backcast figures to derive the total. This paper, a sequel to one published in September 2024, argues that the ONS methodology was a mistake. Extraordinary differences between some of the old and new data series should have alerted the ONS to the deficiency of its approach. And the agency failed comprehensively to sense check its results. The implausible re-write of Britain's economic past that resulted is still embedded in the national accounts, but might be corrected as a result of a new ONS investigation begun in response to the earlier paper. Official correction is not assured, however. As matters stand, those wishing to draw lessons from Britain's economic past are still advised not to rely on the 'historic' national accounts.

WP 544 SOCIAL INFRASTRUCTURE LAW IN THE UK, EU AND US

Jul 25 McGaughey, E

What should be the goals of social infrastructure, and the best means to achieve them? Social infrastructure is a new term to describe the welfare state, whose conceptual foundations were laid in Lord Beveridge's Report, *Social Insurance and Allied Services* (1942). A good government, said Beveridge, should tackle five evil 'giants', namely disease, ignorance, squalor, idleness, and want. These could be overcome with a universal free health service, public education, public housing, full employment, and income insurance (especially old age pensions, unemployment, and disability protection). Today, nearly every country has policies related to these goals, but with widely varying degrees of success. This chapter focuses on the unequal fulfilment of the rights to universal free higher education, health care, and the central bank's operations in monetary policy as it affects the rights to social security, full employment with fair pay, and housing. It focuses on the UK, EU and US for comparisons. It contends that public education and health, free at the point of use, with democratic governance, produce the best outcomes: found more in Europe, not the US. It contends that central bank goals that place full employment and inflation on equal levels are superior: found more in the US than in Europe. Much is still to be desired in all systems to fulfil universal human rights.

WP 545 IS PUBLIC OWNERSHIP OR PRIVATISATION BETTER? LAW, ECONOMIC THEORIES, AND HOW DATA HELPS

Jul 25 McGaughey, E

Is public ownership or privatisation better, and when? Two 20th century narratives are that, from World Bank chiefs, there 'are virtually no limits on what can be privatized', or that, from followers of Lenin, we must abolish private ownership in the means of production. In contrast, this paper shows that outcomes improve and costs decrease when enterprises are publicly owned if property 'non-accessible', but otherwise in private ownership is better. Property is 'non-accessible' if there are skill-based, natural, or network monopolies. Property is 'accessible' if people can buy land or capital, source materials or vehicles, get skills and knowledge to start up a business. If many do, then competition channels private greed into the public good. This paper contends that data lets us move beyond ideological clash, and gives answers that practically assist policy, to fill the gaps in human rights and market failure frames. For example, in wealthier countries water is 90% publicly owned, with lower bills and better outcomes. For rail, fares are lower with greater electrification if tracks and operating companies are public. For electricity, bills are lower with more renewables if grids and a retail option are public. For telecoms, public ownership tends to reduce bills and raise internet speed. In sum, most wealthy countries hold non-accessible property in public hands, and do better for it. Three further principles are important for changing circumstances. First, technology can change what is accessible property, such as renewables making electricity generation competitive, or big tech data creating new monopolies. So, law must be responsive. Second, there may be good non-economic reasons, such as protecting democracy and the environment, to change the public/private balance. Third, good governance is distinct from wise ownership choices, and generally supports voice for workers, as well as investors, and service-users where competition fails. Policymakers should base decisions on the evidence of what works, and this theory helps make those decisions.