06culpepper (ds) 8/4/02 1:21 pm Page 217

European Journal of Industrial Relations

ISSN 0959-6801 Volume 8 Number 2 pp 217–235

Pepper D. Culpepper
John F. Kennedy School of Government, Harvard University, USA

Associations and Non-Market Coordination in Banking: France and Eastern Germany Compared

ABSTRACT ▪ Research on employer coordination in the advanced capitalist countries has focused almost exclusively on the manufacturing sector, even though the service sector is responsible for most employment growth. This article considers organizational change in the service sector, comparing structurally similar networks of public savings banks in France and eastern Germany. It finds that the capacities of peak associations to circulate information widely among members, and to develop strategies that allow associational expertise to be combined with local knowledge, help overcome managerial uncertainty about new organizational strategies.

Introduction

Problems of employment creation in continental welfare states result from sluggish job growth in private-sector services (Iversen and Wren, 1998), but there is little empirical work on the organizational mechanisms of the service sector. The 'varieties of capitalism' approach stresses the central role of problems of coordination in the advanced capitalist economies in determining the possible strategies of adjustment that companies can follow (Hall and Soskice, 2001). Yet the empirical cases adduced to support this approach come from the manufacturing sector, even though most employment is in services. What is the role of non-market coordination in conditioning firm-level strategies of adjustment in the service sector?

This article considers one of the most prominent sectors in the service economy: banking. There is already a substantial amount of research on the challenges faced by the banking sector in Europe over the past decade (Hildebrandt, 2000; Mayer et al., 2001; Regini et al., 1999; Thornley et al., 1997). This literature has generated two robust findings. First, despite

0959-6801[2002/07]8:2;217–235;024650

sizeable competitive pressures on the sector in different European countries, the predicted convergence has failed to materialize. Given very different institutional arrangements governing labour markets, banks (like manufacturing firms) respond differently to common stimuli (Hall and Soskice, 2001; Mayer et al., 2001). Yet existing institutions provide limited explanatory power in interpreting developments. As these institutions themselves change, it becomes hard to explain the dynamics of company policy, as much of what takes place is a learning process by managers themselves. Summarizing the findings of a recent edited volume on the transformation of the banking sector in the OECD countries, Regini (1999: 329–30) observes that 'the old pattern of employment relations is everywhere being abandoned. However, the widespread variations among countries—and to some extent among banks in the same country . . . do not simply reflect different stages in a uniform process of change. They are the outcome of trial-and-error processes, led more by uncertainty than by strategy.'

Can organizational mechanisms for employer coordination facilitate the learning process of banks during times of corporate restructuring? This article addresses this question by comparing networks of savings banks in France and eastern Germany.[1] In a process of organizational learning, what hypotheses might we expect to have cross-national, cross-sectoral validity? If, as is often argued, market liberalization (which is particularly marked in the financial sector) is the driver of how European banks respond to change, coordinating capacity should have no effect. Managers in individual banks will take their cues about the appropriate level of investment from the market, and the learning process should be relatively transparent: a trial-and-error response to market signals. A second sort of finding might allow for what we could call a 'thin' coordinating capacity: the ability to provide individual banks with collective services such as marketing research and advertising strategies. These banks would still be expected to rely on the market to provide signals about the appropriate investments in capital and human resources, and their responses might differ depending on their particular markets; the information provided through 'thin coordination' would give banks additional information on which to base their market-determined strategies. Lastly, we could imagine a 'thick' coordinating capacity, in which a sectoral association serves as the central mechanism for information circulation among its member banks, with the goal of promoting collective discussion of the appropriate strategies to pursue; that is to say, a form of non-market coordination.

Even at this level of abstraction, an obvious and difficult methodological problem arises: in cross-national comparison, how can we distinguish the causal effect of the individual coordinating capacity of a bank organization from the effects of the labour market and other societal institutions within which it is embedded (Maurice et al., 1986)? While not all the controls of an ideal experimental design are achievable in real-world quasi-experiments, certain choices of case selection can attenuate the problems of drawing valid causal inferences. First, we can examine cases of organizational restructuring in a context in which the legal institutions for investing in skill formation are themselves changing radically. While even in such situations we can expect 'embeddedness' effects to be present, they will be relatively less important than where organizational change takes place in a context of wider institutional stability. Second, we would want to compare banking networks that undertake simultaneous organizational restructuring plans; that are of a similar size, both in terms of establishments and in terms of employment; and that face a similar human-resources challenge.

Lastly, we would want to construct measures that track variation not only cross-nationally, but also within each country. There are many differences between France and Germany, as there are between any two countries which are objects of comparative research. No amount of careful research design can control for all these differences. One important way to strengthen cross-national findings further is, therefore, to show a relationship between explanatory and dependent variables *within* countries that is consistent with the cross-national findings.

In what area of organizational change might we expect to observe a prominent role for coordination? If the literature on varieties of capitalism is any guide, one such area must be vocational training. Coordinated market economies that operate apprenticeship systems, such as Germany, have elaborate institutional frameworks managed by the social partners that convince companies to invest in the provision of general skills through workplace training (Soskice, 1994). The greater the investment a company must make, the more challenging is the task of convincing companies to invest in trainees that they may lose to poaching. Because of the high costs of training in the banking sector, problems of cooperation will be especially daunting here. Banks in western Germany, for example, have to spend more per apprentice than employers in industry, and a higher proportion of their apprentices pass the *Abitur* than in any other German apprenticeship qualification. Both the average cost of training an apprentice and the rate at which banks retain trained apprentices in western Germany are consequently higher than in manufacturing. The investments required by private actors, and the attractiveness of choosing not to cooperate by poaching, are especially high in this sector, and creating cooperation here should be especially difficult.

These methodological considerations structured the research into French and eastern German networks of public savings banks presented in this article. In 1990, both networks pursued internal reorganization in response to drastic changes in the demands of competition. The size of the two networks was virtually identical at the time: in France, there were 186 establishments with 35,600 employees; in eastern Germany, 196 establishments and 34,700 employees (Mamou, 1990; OSGV, 1991). Both networks attempted to use youth-training contracts to promote the upskilling of a largely semi-skilled workforce. In addition, both were acting in a legal and institutional environment in which the laws governing the sector had changed (increasing the scope of tasks performed by the banks) and in which new instruments for youth training and its governance were simultaneously being established. In other words, organizational restructuring plans were devised and implemented in a situation characterized by considerable uncertainty about how new institutions would function. This is very close to an ideal comparative setting for assessing what role mechanisms for employer coordination might play in the service economy.

Savings Banks in France and Eastern Germany and the Challenge of Skill Creation

The conversion of the new federal states (*Länder*) to a market economy required eastern German savings banks to acquire an entirely new set of skill competences. The workforce of the former eastern German savings banks had few skills, and opportunities for further training were limited (Rogas, 1996). At the end of 1989, the proportion of apprentices to employees in public savings banks (*Sparkassen*) was less than 2 percent, compared with a ratio of 12 percent in the West (Backhaus and Wagner, 1997: 358; DSGV, 1991: 79). It became clear as the movement toward German unification gained momentum that the eastern banks would have to be re-engineered to compete in a united German market, but it was not at all self-evident that youth-training contracts would constitute the major avenue for this reform. At the time of this transition, leaders of western German banks were complaining that the outmoded requirements of the certification for *Bankkaufmann/frau* were increasingly unsuited to the demands of modern, technology-intensive banking, and that training regulations were too inflexible to respond to these changes (Hildebrandt, 2000).

The French *caisses d'épargne* were accustomed to functioning in a market economy, but theirs had always been a closed market. The central competitive advantage of the French *caisses* historically lay in their duopoly (with the post office) on the use of the *Livret A*, a savings account that earns tax-free interest for consumers. Two laws passed in 1983 and 1984 revised the structure of the *caisses* and permitted them for the first time to offer the full range of credit instruments. A 1987 law widened this ambit to include services for small and medium-sized enterprises, a favoured market of the German *Sparkassen*. This sudden increase in the scope of services coincided with a general push in the French banking sector to increase the skill level of workers in the face of intensifying competition and a greater use of technology (Cossalter, 1990; Hildebrandt and Quack, 1996). These increased skill demands hit the network of public savings banks particularly hard, as their workforce had a low general skill level, with a very low rate of employee turnover. While the change forced the savings banks to introduce some basic further training programmes for their core employees, their predominant strategy for meeting personnel needs in the 1980s was to hire employees from outside the organization.

Thus, at the end of the 1980s, the *caisses* remained disadvantaged in comparison to their competitors in France and in the European market, both organizationally and in the skill level of their workforce. In this respect, they faced a challenge quite similar to that of their eastern German counterparts: how to overcome the competitive handicap imposed by a poorly trained, older labour force and an organization unsuited to the competitive demands of the European banking market. For both groups, the human capital challenge was to upgrade the skills of the existing workforce while simultaneously attracting highly qualified younger employees to professions that had not traditionally been prestigious.

To make matters more difficult, they were attempting to use youth-training contracts whose regulatory framework had been recently overhauled by the government. Although eastern Germany shared with the West a long history of apprenticeship, its managers possessed no experience of investing in apprenticeship in a market context; the allocation of apprentices to firms had been determined by a central plan, not by individual managers. Managers of the eastern *Sparkassen* faced for the first time in 1990 the decision of whether to invest in the general skills of trainees or, instead, to attempt to poach them from other firms. In France, a 1984 law had established qualification contracts (modelled on West German apprenticeship contracts (Culpepper, 1999)) and a 1993 law passed shortly after the restructuring of the *caisses d'épargne* created new incentives for firms to use these as their major instrument of investment in youth training.

Three key common features thus connected the challenges facing the French and eastern German public savings banks. The first was the existence of a largely semi-skilled workforce, whose base in general skills and in the specific skills for sales and marketing were underdeveloped relative to those organizations with which they were competing. Second, their peak associations attempted to devise collective responses to this challenge, making calculations of rational strategies for the individual member banks to meet these skill deficits. Third, the skill contracts through which these associations attempted to promote investment had only been recently introduced by their respective governments. There was, therefore, substantial uncertainty concerning how the contracts and the institutions governing their use would function. These commonalities justify a comparison of the impact of organizational coordination in the two skills offensives, despite other dissimilarities in the two contexts.[2] In the next section, we examine the structure of these peak associations and the different strategies they adopted to realize their common aims.

Associational Strategies

The *Sparkassen* banking group is the largest single employer in the German banking sector. The peak association is the *Deutscher Sparkasse- und Giroverband* (DSGV), and is responsible for representing the banks politically, circulating information among members, and determining the strategic direction of the group. Compared to employers' association in the industrial sectors, whose central responsibility from the company perspective is wage bargaining, the DSGV fulfils a more technical role.

In the spring of 1990, before monetary union and German unification later that year, the eastern *Sparkassen* adopted a partnership arrangement with the DSGV that would be the centrepiece of the strategy for integrating the eastern banks into the western network of public savings banks. The major tasks of the *Sparkassen* in the DDR had been to hold the savings accounts of private households and to finance home loans. The holding and provision of credit for the commercial sectors was a minor part of their business, one limited to the circumscribed small-business sector of the eastern economy (Ashauer, 1990). To compete with the western banks, the eastern *Sparkassen* would have to extend the range of savings instruments offered and become familiar with bonds and securities; put in place a new electronic system to manage the complex interbank payments typical of the West German economy; and rationalize their structure so that they resembled their western counterparts (DSGV, 1991; OSGV, 1991).

To this end, the DSGV in 1990 devised a plan by which all eastern *Sparkassen* would have one or more western savings banks designated as partners. Employees moved in both directions between the partner banks in order to exchange advice and develop new personnel and organizational strategies.[3] The partnership was extended to the area of management: all eastern banks were to have at least one member of the *Vorstand* (management board) who had come up through its own ranks, and was thus assumed to be familiar with local conditions, as well as one from a western bank, familiar with the competitive functioning of a market economy.

Just as in Germany, the task of devising a strategy to overcome new challenges fell to the peak association of French public savings banks, the *Centre national des caisses d'épargne et de prévoyance* (CENCEP).[4] CENCEP was responsible, like the DSGV, for representing the banks to public policy-makers and for designing their strategic goals. To devise its modernization strategy, CENCEP turned in 1989 to outside expertise: the McKinsey Consulting Group. The McKinsey report in 1990 established the blueprint for the organizational and personnel restructuring, recommending a reduced number of establishments, with each tied to a well-defined local region. Each member bank would then develop its own base of qualified service personnel in order to compete successfully with other banks catering to local industries. In response, CENCEP reduced the number of independent establishments from 186 to 35 by the end of 1991.

Following this organizational change, one of the foremost tasks on the CENCEP agenda was to overcome skill deficiencies in the regional savings banks, particularly in the commercial and sales area. The new strategy for the public savings banks was similar to that observed by Hildebrandt and Quack (1996) in French private banks, and comprised two elements: first, to develop and invest heavily in further training measures for recruits with a high level of general education; second, using the *alternance* training contracts (especially the qualification contract), to develop younger skilled employees with already high levels of general education.

Training Practices in Eastern Germany and France

As already noted, the training patterns of the West German savings banks provided the model for both sets of reforms. The West German apprenticeship system is perplexing to economists, because through it employers invest in the provision of general skills, while being unable to guarantee a return on their investment (Acemoglu and Pischke, 1998; Soskice, 1994). The problem of how to convince companies to make this investment, when there is no way to prevent poaching of their trainees, lies at the centre of upskilling strategies that use youth-training contracts. It is extremely difficult to account correctly for the benefits and costs of apprenticeship training (Wagner, 1999), so to assess the success of upskilling strategies one must rely on indirect indicators.

One such indicator is the training ratio (proportion of trainees to employees), which shows how important youth-training contracts are in the skill-provision strategy of a company. Average training ratios for the western German *Sparkassen* are not published by the DSGV, so as an indicator of western German standards, I gathered data from one western German *Land*.[5] The average training ratio in this sample was 9.5 percent. In order to construct a 'target range' for classifying banks as investing in training at the western German level, allowing for a normal distribution and also a margin of error to take account of idiosyncratic variables that could affect the training ratio, I define bank training ratios as similar to western German practice if they fall between 6.4 and 12.6 percent.

While the training ratio is a useful indicator because it provides information on a company's investment in youth training, high training ratios could also mean rapid growth in total employment or the use of apprentices as cheap labour. The eastern German credit sector did grow rapidly after German unification, because it was underdeveloped before the introduction of the market economy. It is thus necessary to have an indicator of the quality of training. This can be found in the retention rate (proportion hired after being trained). This is a good proxy for the level of investment per trainee: the more a company invests per trainee, other things being equal, the greater its incentive to hire that trainee after the training period.

The German credit sector has among the highest costs of training and the apprentices with the highest level of educational qualifications in western Germany (Von Bardeleben et al., 1995). Not surprisingly, establishments in the western German credit industry (banks and insurance companies) have a retention rate of 71 percent, higher than the average for manufacturing (Pfeiffer, 1997: 15). I thus take this figure as the retention rate necessary to match the western German quality of training.

The research reported below compares the two ratios in public savings banks in eastern Germany and France with the western German pattern. These indicators are supplemented with information from interviews with managers at 19 public savings banks in France and Germany. It emerges that the DSGV has been far more successful in persuading member banks to invest in skill provision than has CENCEP.

While the eastern German network has succeeded in persuading most of its members to adopt high-skill training practices, I do observe some interesting interbank variation within the German sample. If, in fact, the partnership strategy adopted were to be causally significant in the choice of training contracts, we would expect this variation to run between banks that maintained ties to their partners over the long term and those that did not. And, indeed, eastern German banks that maintained their partnership links retain a higher proportion of the apprentices they train, and a larger proportion of this set of banks trains in the target range, than is true among the banks that discontinued their partnership links or never found them useful.

Eastern Germany

While eastern German industry haemorrhaged jobs after unification, the credit sector (which had been underdeveloped in the DDR and which was directly involved in rebuilding the eastern market economy) increased employment dramatically after 1990. Taking on a host of new functions in the capitalist economy, the eastern *Sparkassen* almost doubled their employment from the beginning of 1990 to the end of 1992 (Rogas, 1996). Yet this expansion had stopped by 1994, falling below the level of employment growth observed in western German savings banks. Similarly, the torrid early growth of apprenticeship was reversed, with the average training ratio falling to 10.6 percent in 1994.

The data I collected begin in 1995, picking up where these averages leave off. They allow me to flesh out the evidence of eastern German bank training with more comprehensive data than an average training ratio across all the eastern *Sparkassen*. If this average figure were to hide wide variation in actual ratios and low retention rates, then the inference of successful transition for the *Sparkassen* would not be valid. I draw on two sets of data from eastern Germany. The first comprises basic information provided for April 1995 by the eastern association of banks (OSGV) about its 91 members. The second, richer set comes from individual case studies of 14 *Sparkassen* in the states of Sachsen and Sachsen-Anhalt, conducted between November 1995 and February 1996; it includes information about retention rates, the importance of partnership with western savings banks, and other questions about training practices.[6]

Both sets of data confirm that the majority of eastern *Sparkassen* have adopted training practices characteristic of their western counterparts. Of the 91 member banks of the OSGV in 1995, 52 had training ratios that fell within the target range. Only nine had lower ratios, while 30 were above the target range. Similarly, in the Sachsen and Sachsen-Anhalt sample, nine out of 14 trained within the target range; only one fell below, and four trained above the target. Although retention rates for the full OSGV group are not publicly available, the average in my sample of 14 banks was 93 percent, far above the average of 71 percent in the whole western credit sector.

Just as the eastern *Sparkassen* appear to invest heavily in the training of their apprentices, so too do they succeed in attracting the highest-level secondary school graduates, those holding an *Abitur*. The 14 banks in my sample had an astonishing 87 percent of *Abiturienten* among their apprentices, compared with an average of 57 percent in all German *Sparkassen* (Backhaus and Wagner, 1997: 342); none of my sample fell below this figure. A high-skill equilibrium is established when a substantial portion of firms within a sector invest heavily in the training of their apprentices, and when they are able to attract young people who have invested in their own general skills so as to be highly 'trainable' (Soskice, 1994). By any yardstick, the eastern German public savings banks are operating in a high-skill equilibrium.

While the headline finding is one of success, there are some minor differences that merit comment, as they underline the important role played by the partnership programme of the DSGV. If this programme was instrumental in convincing local banks to adopt high-skill training practices, then those banks that maintained the partnership for the shortest period of time should also be the ones least convinced of the value of investing in apprenticeship. To assess the difference between these banks, I constructed a measure of the durability and intensity of the partnership ties between banks. In every bank interview I asked my interlocutors to identify their western partners, to describe if and how this partnership had helped them, and to say whether they continued to maintain the link to the partner bank(s) in western Germany.

Representatives of 10 banks referred to ongoing and 'very intensive cooperation', and one pointed out explicitly that in this cooperation their western partner bank had been 'more useful [for their training] than had the OSGV'. By contrast, four banks downplayed or had discontinued their partnership links, or both. All in the first group maintained a training ratio in the target range or above, but only three of the four in the second group; the retention ratio in the first group averaged 96 percent, as against 85 percent in the second. None of the first group had sought state aid to offset the costs of training, while two of the four in the second group had done so.

Representatives at three of the four banks that had cut off links with their western partners emphasized that they would like to increase the role of further training, which is more firm-specific in its content—and thus less susceptible to the collective action dilemmas generated by the general skill content of apprenticeship. The two banks that had requested subsidies for apprenticeship are of particular interest in this regard. Both are in the same region, and other local banks expressed concern about their aggressive pursuit of further training courses, in preference to apprenticeship. Another local bank was especially critical of one of the two: 'I have tried to set up cooperation with that bank in the area of apprenticeship training, but I have not had a good experience with them (and this is not only in the case of training).' Another respondent in the same area noted that this bank frequently recruited their employees for the portfolio of continuing training courses that it was developing. In a network of intensive information exchange, the presence of an actor viewed as likely to defect from collective good provision is especially troublesome because of the possibility that this behaviour might spread. While the other banks in the region seemed convinced of the value of training apprentices when others were doing so, they also showed a keen awareness of the problems of contagion of non-cooperative behaviour.

France

My sample of French banks is smaller than the eastern German one, comprising five of the 35 members of the network.[7] The limited number of observations in the French banks suggests that caution is in order about the robustness of the findings. However, the available aggregate numbers for all French public savings banks confirm the results from my sample, that youth-training contracts are used only marginally: in 1996, there were only 269 youths on qualification contracts and 87 in apprenticeship contracts, equivalent to an average training ratio of 1 percent.

The most important result of the interviews is that none of these banks shows signs (either in its training ratio or in its retention rate) of significant investment in youth-training contracts as a means of procuring future skilled labour. None of the banks in my sample maintains a training ratio above 2 percent (let alone close to the 6.4 percent western German threshold) and the two banks whose ratios did exceed 1 percent retained none of the youth trainees who had finished their certifications the previous year. My interlocutor at one of these banks remarked: 'there is no promise at the time of hiring [the trainee] about having the position lead to a permanent job. . . . Of course, it would be completely positive if it were to lead to a job, [but] that is not the case.' Procuring skilled labour for these banks means poaching specialists from other banks, rather than investing in their own trainees.

The other three French banks train at minuscule levels or not at all. Representatives of these banks spoke of their management's hesitancy to use the qualification contract, because they believed it implied a promise of long-term employment. In this group of banks, the attractiveness of these training contracts had nothing to do with the *skills* they provided, but the *flexibility* they offered human resource managers. For the banks that train hardly at all, as for those that train at a slightly higher proportion of workforce but do not retain their trainees, the notion of the training contract as a way to craft a future skilled labour force is foreign. None of the individual banks is anywhere close to high-skill youth-training behaviour, and there is no suggestion from any of them that they will move in that direction in the future.

The general lack of interest exhibited by these *caisses d'épargne* with respect to the youth-training contracts is not explained by the availability of more appropriate further training measures (compare Regini, 1997). More generally, the expenditure of French savings banks on training as a proportion of the payroll has declined (CENCEP, 1996). If they were indeed responding to the push for upskilling by using further training measures, rather than the *alternance* contracts, then we would expect that spending on further training would be greatest in those banks with the lowest training ratios, and we would also expect expenditures on further training (as a proportion of payroll expenditures) to have risen since the organizational reform in 1991. Neither trend appears in the data: the two banks with the highest youth-training ratios also have the highest expenditures on further training, averaging 8.3 percent of total payroll costs as against 5.8 percent among the three banks with the lowest ratios. The only bank that provided me with complete data on its training expenditures between 1992 and 1995 showed a decline from 6.0 percent of total payroll costs in 1992 to 5.2 percent in 1995, consistent with the overall decline in French savings banks. Based on the data from these five banks, those that spend more on youth training also spend more on further training, and these further training expenditures have declined in proportional terms at all banks since the organizational reform was completed at the end of 1991.

The fates of the two types of training at the *caisses d'épargne* are linked by their joint roots in the 'thin' coordinating capacity of CENCEP and its strategy for convincing its member banks to increase their investments in human capital. CENCEP's plan, to preach (centrally) the virtues of a new, modularized further training system in combination with increased use of youth-training contracts, was inadequate for convincing regional member banks to invest heavily in such contracts. The hierarchical dissemination of a central plan, the hallmark of CENCEP's strategy, left no place for individual banks to use information about the local labour market to influence its implementation.

The weakness of CENCEP was manifest in its inability to enable the exchange and circulation of information among its members. In the majority of the banks interviewed by the author, personnel representatives dismissed the information circulation attempted by CENCEP since 1990. One noted that there were no formal mechanisms for exchanging information with personnel staff at other savings banks, while another contrasted the assistance and information exchanges of CENCEP unfavourably with those of her previous employer, also in the French credit sector:

> CENCEP really does very little. . . . There is a meeting every three months, and it is 30 minutes of exchanges with others, but one learns relatively few interesting things this way. CENCEP itself gives us information, but it is not helpful. One thing it should do is to enable us to share information about interesting things going on within the network of other public savings banks, but we do not do that very much.

Without having developed an effective conduit for circulating information among member banks, CENCEP has not been able to serve as a centre for discussion over the means for achieving its upskilling strategy: 'CENCEP *should* be more of a body which allows for reflection among the banks, but it is not there yet.'

Without the capability to facilitate collective problem solving on the basis of information exchange, CENCEP has used the increase in its formal power to seize control of planning for personnel needs, developing its strategy without reference to the problems of local banks (and thus, without the insight their local information could provide). 'CENCEP remains too technocratic, its studies have little resonance with what's going on here on the ground. . . . There is not a common training plan, and CENCEP needs to take more of a role [in coordinating one].' A representative of another regional bank noted how this approach had led CENCEP to concentrate exclusively on the content of the new training certifications, without adequately taking account of the incentives that drive individual employees to pursue these qualifications. Not having canvassed intensively the demands of individual banks, CENCEP was not able to tailor its curriculum to the demands of the member banks or their employees.[8]

Although the reorganization of public savings banks in France nominally strengthened the power of CENCEP relative to that of its member banks, its increased formal leverage did not result in a corresponding increase in coordinating capacity in the area of professional training. The strategy it adopted for upskilling the workforce in the wake of reorganization did not emerge from discussions among the representatives of regional banks about what they and their employees most needed from the new qualifications, but instead from an attempt to mimic the curricula of the private banking sector. Not surprisingly, this failed to overcome the uncertainty of member banks about the value of youth-training contracts as tools for investing in the long-term provision of skilled labour.

Discussion

Why did CENCEP fail in convincing regional banks to begin using youth-training contracts to upgrade the skills of their workforce, whereas the DSGV largely succeeded? The evidence presented in this article points directly to the coordinating capacities of the two groups, and the alternative strategies that they were able to pursue. The DSGV recognized uncertainty as a central problem of new managers in eastern Germany; its partnership programme provided a mechanism to facilitate the transfer of information at the level of the individual banks, while simultaneously leaving room for the incorporation of local information into the development of training plans. CENCEP, by contrast, possessed stronger organizational authority, but a much weaker legitimacy with member banks. Its strategy, relying on outside expertise (McKinsey), reflected the fact that it had not developed strong informational conduits to these local banks. This grassroots weakness was reinforced by the inability of its plan to take account of local information; bank managers at regional level rejected the plan as technocratic and out of touch with their personnel needs.

Yet we should also consider alternative hypotheses that would account for the differences in training behaviour. Looking back at the experiences of French and eastern German savings banks since 1990, some might be tempted by the culturalist argument that the French failed and the eastern Germans succeeded because of their respective historical affinities for apprenticeship (compare d'Iribarne, 1989). Such an interpretation cannot account for the differences observed *within* the German banking sector by those banks that maintained their partnership links with western banks and those that had abandoned them. The claim also ignores the striking similarities between the two national cases in 1990 and the plausibility of their following similar trajectories. Both were weak, inefficient banking networks trying to integrate into highly competitive markets with personnel with generally low skills and very long tenure. The German banking network could have concentrated on using further training measures alone; in 1990, eastern Germany represented a greenfield where new personnel policies could be developed without relying heavily on apprenticeship training, so there was no presumption that apprenticeship was the only possible model. In France, the availability of the *alternance* youth-training contracts (in which training providers were willing to bend over backwards to meet the demands of employers) combined upskilling with great flexibility, and the peak association of the savings banks advocated greater use of this training option. There is no evidence that cultural affinity for either model influenced the decisions of managers.

An alternative explanation is associated with the landmark work of Maurice, Sellier and Silvestre (1986), that labour markets and labour mobility are tightly integrated with educational tracks pursued by individuals and the training strategies adopted by companies. It is doubtless true that this 'societal effect' has clear implications for even a radically changed labour market such as that in eastern Germany. For example, the attractiveness of high-paying service-sector apprenticeships, such as those in banking, was due to the relatively good employment prospects these certifications offered young recruits. The high demand for these positions among young people meant that those who passed the selective hiring process in eastern Germany were very likely to have invested heavily in their own general education, thus protecting the banks from investment in 'lemons' (compare Soskice, 1994). The French banks were relatively less certain of the quality of their recruits, because the traditional employment path of the French public savings banks was access to a largely internal labour market, where mobility had not been the norm in the past. Compared to eastern Germany, a lower quality of the average trainee raised the uncertainty of a return on investment in the general skills of these young workers.

However, the fact that the institutional rules of the game were being changed by governments limits the ability of the societal effect to account for the divergence in outcomes, both intra- and cross-nationally. The French government changed the economic calculus of companies by offering substantial subsidies for the hiring of young trainees, as a form of insurance against the greater risk they faced in pursuing such an investment (eastern German savings banks were not eligible for such subsidies). Moreover, as we have seen, the variation in the eastern German case is likewise consistent with the claim that partnership links were a crucial mechanism for facilitating the implementation of a centrally adopted strategy in the face of local uncertainty. Eastern banks, too, were uncertain of the value of investing in youth-training contracts, and that fact shows up in the difference in training behaviour between banks that maintained their partnership links and those that did not. While labour market possibilities certainly varied among the countries, it is clear that in both cases the uncertainty of managers was a major impediment to making training investments. The strategy of the DSGV proved more successful in addressing this uncertainty than did that of CENCEP.

The evidence presented in this article locates the primary cause of the different outcomes observed in France and eastern Germany in the respective coordinating capacities of CENCEP and the DSGV, and in the ability of their strategies to convince individual member banks of the value of this training investment. To return to the distinctions in coordinating capacity designated in the introduction, the DSGV clearly exercised ‘thick’ coordinating capacity, in developing a detailed strategy to persuade local managers in eastern Germany of the value of an investment in youth-training contracts, in spite of the impossibility of guaranteeing a return on that investment. Without this capacity, it is difficult to imagine that eastern German managers would have chosen to invest in youth training as their growth stagnated in the mid-1990s. There were cheaper available ways to acquire the competences required, including the hiring of university and *Fachhochschulen* graduates. Only by virtue of the partnership strategy of the DSGV were managers persuaded of the long-run returns to such an investment.

The experience of the French savings banks demonstrates that the formal trappings of coordination among employers (embodied through the organizationally reinforced CENCEP) are insufficient on their own to solve collective action problems in the provision of human capital. CENCEP exercised a ‘thin’ coordinating capacity, in that it was able to provide collective services to its member banks. Despite the nominally greater authority it acquired with the 1991 reorganization, it has been ineffectual thus far in serving as a successful conduit for intensive information exchange and discussion among its member banks. Not having developed informational linkages, it was dependent on outside expertise to formulate its own reorganization plan. As a result, it developed and advocated a strategy of upskilling through the combination of further training and youth-training contracts, but it provided no means of convincing its uncertain member banks of the merits of high-level investments in youth-training contracts for meeting their future skill needs. The failure to articulate a central strategy with the insights of local managers proved to be a fatal weakness in the plan of CENCEP.[9]

It is difficult to generalize too broadly on the basis of a single, subsectoral comparison, however careful its controls. Yet this research demonstrates the promise of examining mechanisms of employer coordination elsewhere in the banking sector, as well as in the service sector more broadly. To be sure, legal and labour market frameworks structure the process of organizational change. It seems plausible, though, that a variety of different mechanisms of coordination may be possible within any given constellation of labour market regulations and institutions. Under conditions of organizational change, a focus on coordination provides a useful complement to work that analyses the more static features of market economies. Mechanisms of coordination can provide alternative signals to those provided by the market for shaping the expectations of economic actors, and, indeed, we can hypothesize that some of the variation in outcomes in different national banking sectors may result from their different organizational capacities for coordination. This is an important insight from the varieties of capitalism approach, and one that needs to be tested further in other sectors of the service economy. Such differences are likely, at least in part, to be responsible for different strategies of adjustment that will be pursued in the coming years in the coordinated market economies.

ACKNOWLEDGEMENT

The author thanks Richard Hyman and two anonymous referees for their comments and Jonathan Laurence for research assistance.

NOTES

1 Throughout this article, I use ‘network’ as a shorthand reference for formal associational networks of business firms, which attempt to use their peak associations to devise and execute collective strategies. The configuration and density of network linkages, which are at the centre of many forms of

network analysis, are not of central concern here. Rather, it is the collective capacity that these associations confer on individual member firms belonging to the network that is the principal subject of theoretical interest.

2 An argument to the contrary would have to show that these dissimilarities were, in fact, important determinants of the variation observed in skills investment. One such argument would be that labour markets and educational systems were more strongly institutionalized in Germany than in France. Such an argument, however, mistakenly transposes the stability of labour markets in western Germany to the far more chaotic conditions in eastern Germany. Moreover, savings banks in France possessed strong internal labour markets. The common features of the labour markets in France and eastern German banks are striking, especially by comparison to the western German market from which they both differ.

3 Almost 600 employees of western banks were sent to their eastern partners to assist with the transition in 1990 (DSGV, 1990: 73).

4 The structure of collective interest representation of the French savings banks was altered by a law of 1999, effective in January 2000, which changed their status to cooperative banks. The newly created *Fédération nationale des caisses d'épargne* (FNCE) took over the strategic and political functions of CENCEP.

5 I gathered data in Rheinland-Pfalz for January 1995. Since it was important to establish criteria based on roughly the same time period, the data I use from all the OSGV savings banks are for April 1995, and the case studies of banks in Sachsen and Sachsen-Anhalt were conducted between November 1995 and February 1996.

6 This information was provided in a semi-structured interview using a standardized questionnaire format. In each bank, either the personnel manager or the leader of the apprenticeship training programme was interviewed; half the interviews involved multiple interlocutors (other members of the personnel staff or members of the *Vorstand*). Subsequent information and clarification were often provided through follow-up telephone calls or written correspondence.

7 The format for the French interviews was identical to that in Germany.

8 A parliamentary report on the functioning of CENCEP arrived at similar conclusions, underscoring its 'lack of legitimacy [among member banks], which has affected its authority on the entire network. The [parliamentary inquiry] was able to observe that its decisions are regularly criticized and even not applied [by member banks]' (Douyère, 1998: 2).

9 As noted above, CENCEP was eliminated in the reorganization of the French savings banks in 2000, and the new governance institutions established by law were designed to overcome some of the weaknesses it had demonstrated.

REFERENCES

Acemoglu, D. and Pischke, J-S. (1998) 'Why Do Firms Train? Theory and Evidence', *Quarterly Journal of Economics* 113(1): 79–119.

Ashauer, G. (1990) 'Das Bankwesen in der Deutschen Demokratischen Republik: Struktur, Funktionen, Perspektiven', *Sparkasse* 107(1): 8–26.

Backhaus, J. and Wagner, R. (1997) *Ausbilder-Taschenbuch* 1998. Stuttgart: Deutscher Sparkassen Verlag.

CENCEP (1996) *Bilan social 1995*. Paris: CENCEP.

Cossalter, C. (1990) *Renouvellement des qualifications et de la gestion des ressources humaines dans les banques et les assurances*. Paris: CEREQ.

Culpepper, P.D. (1999) 'Individual Choice, Collective Action, and the Problem of Training Reform: Insights from France and Eastern Germany', in P.D. Culpepper and D. Finegold (eds) *The German Skills Machine: Sustaining Comparative Advantage in a Global Economy*, pp. 269–325. New York: Berghahn.

D'Iribarne, P. (1989) *La logique de l'honneur*. Paris: Seuil.

Douyère, R. (1998) 'Statut des caisses d'épargne: le fonctionnement du réseau', Parliamentary Report, French National Assembly.

DSGV (1990) *Jahresbericht*. Frankfurt: DSGV.

Hall, P. and Soskice, D., eds (2001) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press.

Hildebrandt, S. (2000) *Jenseits globaler Managementkonzepte: Betriebliche Reorganisationen von Banken und Sparkassen im deutsch-franzˆsischen Vergleich*. Berlin: Edition Sigma.

Hildebrandt, S. and Quack, S. (1996) 'La gestion des ressources humaines dans le secteur bancaire', *Formation-Emploi* 54: 55–72.

Iversen, T. and Wren, A. (1998) 'Equality, Employment, and Budgetary Restraint: The Trilemma of the Service Economy', *World Politics* 50(4): 507–46.

Mamou, Y. (1990) 'Les caisses d'épargne devraient regrouper autour de cinquante établissements', *Le Monde*, 8 June 1990.

Maurice, M., Sellier, F. and Silvestre, J. (1986) *The Social Foundations of Industrial Power*. Cambridge: Cambridge University Press.

Mayer, G., Andersen, T. and Muller, M. (2001) 'Employment Restructuring and Flexibility in Austrian and Danish Banking', *European Journal of Industrial Relations* 7(1): 71–87.

OSGV (1991) *Jahresbericht*. Berlin: OSGV.

Pfeiffer, B. (1997) 'Das Ausbildungsangebot der westdeutschen Betriebe 1995: Ergebnisse des IAB-Betribspanels', *BWP* 26(2): 10–16.

Regini, M. (1997) 'Different Responses to Common Demands: Firms, Institutions, and Training in Europe', *European Sociological Review* 13(3): 267–82.

Regini, M. (1999) 'Comparing Banks in Advanced Economies', in M. Regini, J. Kitay and M. Baethge (eds) *From Tellers to Sellers: Changing Employment Relations in Banks*, pp. 319–30. Cambridge: MIT Press.

Regini, M., Kitay, J. and Baethge, M., eds (1999) *From Tellers to Sellers: Changing Employment Relations in Banks*. Cambridge: MIT Press.

Rogas, K. (1996) 'Personalentwicklung ostdeutscher Sparkassen: Implikationen des Institutiontransfers für die Organisations- und Personalentwicklung ostdeutscher Sparkassen', in H. Hünig and H. Nickel (eds) *Dienstleistungsbeschäftigung in den neuen Bundesländern 1989/90–1995:*

Eine Zwischenbilanz, pp. 36–44. Berlin: Berliner Arbeitshefte und Berichte zur Sozialwissenschaftlicher Forschung 101.

Soskice, D. (1994) 'Reconciling Markets and Institutions: The German Apprenticeship System', in L. Lynch (ed) *Training and the Private Sector: International Comparisons*, pp. 25–60. Chicago: University of Chicago Press.

Thornley, C., Contrepois, S. and Jefferys, S. (1997) 'Trade Unions, Restructuring and Individualization in French and British Banks', *European Journal of Industrial Relations* 3(1): 83–105.

Von Bardeleben, R., Beicht, U. and Fehér, K. (1995) *Cost and Benefit of In-House Professional and Vocational Training*. Berlin: BiBB.

Wagner, K. (1999) 'The German Apprenticeship System under Strain', in P.D. Culpepper and D. Finegold (eds) *The German Skills Machine: Sustaining Comparative Advantage in a Global Economy*, pp. 37–76. New York: Berghahn.

PEPPER D. CULPEPPER is Assistant Professor of Public Policy at the John F. Kennedy School of Government, Harvard University. He is the author of *Creating Cooperation: How States Develop Human Capital in Europe* and co-editor (with David Finegold) of *The German Skills Machine: Sustaining Comparative Advantage in a Global Economy*.

ADDRESS: Kennedy School of Government, Harvard University, 79 JFK St., Cambridge, MA 02138, USA. [e-mail: Pepper_Culpepper@harvard.edu]