Takeovers and the Evolution of the Electricity Sector in Britain and Spain: the Insights and Limits of the Varieties of Capitalism Perspective

Rocío Valdivielso del Real

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Email: R.Valdivielso@warwick.ac.uk

ABSTRACT

Privatisation, liberalisation and re-regulation have become major forces shaping societies and economies the world over. These developments have brought along major changes in the ownership and regulated environment of utility industries. However, the presence of substantial change on these issues has not led to convergence on important issues across national business systems. This paper highlights the importance of the continuing relevance of national institutions of corporate governance and employment relations in the evolution of the electricity sector. The central question deals with the importance of the market for corporate control (i.e. takeovers) in the evolution of the electricity sector in Britain and Spain. Two contributions are provided. First, we show how national-based explanations such as those presented in the Varieties of Capitalism (VoC) theoretical framework constitute a key variable to understand cross-national differences in the impact of the market for corporate control on the evolution of the electricity sector. Second, we demonstrate how the institutionally-based VoC perspective does not fully capture the political origins of the institutional frameworks of the two countries – it is best complemented by incorporating notions of state activism in contemporary capitalism.

Key Words: Globalisation, Liberalisation, Corporate Governance, State Activism, Electricity Sector, Britain and Spain.

Contact Details: Centre for the Study of Globalisation and Regionalisation (CSGR), Warwick, Coventry, CV4 7AL, England. E-mail: R.Valdivielso@warwick.ac.uk

Introduction

Privatisation, liberalisation, and deregulation have brought major changes in the legal and industry structure of utility companies in the European Union.[1] These developments have altered both the processes of policy-making and the extent and forms of public control over suppliers. Traditionally, public sector dominance of network industries derived its legitimacy from performing public tasks. These networks industries underwent profound transformations in the last twenty years: from state-owned to privatised companies, from regulated monopoly to re-regulated entities – all of which in a new context of increased competition at the European level. For the specific case of the electricity sector, two main EU directives (96/92/EC and 2003/54/EC) have forced member states to open their domestic markets to foreign producers. These EU directives have removed restrictions on the ability of firms to sell electricity in foreign markets. At the same time, however, the establishment of a full level playing field has not taken place since the Commission has not tackle issues related to the regulation of plant opening that is still under the jurisdiction of member states. For instance, Spanish policy-makers have used at times their power of administrative authorisation of new plants to impose delays in approving the building of new generation capacities – especially in regard to foreign producers (Arocena, *et al.*, 1999: 393; Beato Blanco, 2005: 269). The resulting uncertainties meant that domestic producers have accounted for the bulk of the new investment projects in generation plants (Crampes and Fabra, 2004: 15-16; Fraser, 1999: 36-37).

We analyse in this paper the importance of takeovers in the evolution of the electricity sector in Britain and Spain. The above developments raised the potential prominence of takeovers as a mode of entry in foreign markets. EU directives have provided firms with the opportunities to sell electricity in other European markets but member state's control over the approval of new plants entails that acquiring an already operating local firm constitutes the best option to develop a presence in foreign markets. How important have been takeovers as a restructuring mechanism in the evolution of

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the electricity sector in Britain and Spain? The empirical evidence presented in this paper highlights the absence of convergence despite the introduction of many liberalising measures. The transformation of electricity sector in Britain was characterised by the prominence of takeovers as a restructuring mechanism in a transition process from a fragmented structure dominated by domestic firms to one where a few foreign firms are the key players. The evolution of the structure of the Spanish electricity sector, in contrast, was marked by the consolidation of the market power of the established companies with a substantial control by domestic players. Takeovers have often been imposed on English electricity companies; they have been negotiated in Spain.

The argument presented in this paper highlights the importance of the differences in the national institutions of corporate governance (and employment relations) found in the two countries. The adjustment process of electricity companies is best conceptualised as a set of constraints and opportunities faced by managers in the conduct of the business strategy of the firm. The institutions of corporate governance in Britain expose the firm to the pressures of financial markets and force management to seriously pay attention to the interests of minority shareholders. Takeovers have been prominent in the transformation of the sector. The Spanish system of corporate governance, in contrast, does not expose managers to the same extent to the pressures of the financial markets. The prevalence of takeovers as a mechanism of firm adjustment has been rather limited.

This paper incorporates the insights of the institutionally-based Varieties of Capitalism (VoC) to account for the differences in the evolution of the electricity sector in Britain and Spain in regard to the prominence of takeovers. The constellation of domestic institutional frameworks acts as a mediator on the impact of new exogenous (and endogenous) developments. The Varieties of Capitalism theoretical perspective, in particular, has emphasised the critical importance of patterns of institutional complementarities among the various sub-spheres (finance and corporate governance, industrial relations, innovation system, and inter-firm relations) of the economy that lead to diverging forms of behaviour on the part of economic actors (Hall and Soskice 2001a or b; Soskice 1999). The key insight is that the impact of an institution cannot be studied in isolation as it is mediated by its interaction with other features of the national institutional framework, therefore implying that different types of institutional fit are possible (Hall and Franseze 1998). Therefore, the divergence in outcomes in the evolution of the electricity sector of the two countries is best accounted by the presence of institutional diversity in national institutions of corporate governance and, to a smaller extent, employment relations. Nonetheless, the Varieties of Capitalism perspective is incomplete as it underplays the importance of the political origins of institutions. The point is not to deny the importance of institutions in the evolution of national business systems – but to highlight how the choices of policy-makers can contribute to the sets of incentives and constraints faced by firms. The study of the transformation of the electricity sector in Britain and Spain is best served by incorporating the insights of the institutionally-based VoC perspective with notions of state activism.

The rest of this working paper is divided in four sections. First, we provide a literature review of the main components and insights of Varieties of Capitalism perspective with a critique based on the importance of the choices of policy-makers in the origins of institutions. Second, we present the empirical data on the importance of takeovers in the transformation of the electricity sector in Britain and Spain. Third, we we review the contributions of the VoC perspective and of state activism to account for the presence of empirical differences in the evolution of the electricity sector of the two countries. Fourth, the conclusion is presented.

1. Varieties of Capitalism and the Importance of Institutions: A Literature Review

This section reviews the key features of the Varieties of Capitalism literature that theoretically inform the research framework of the paper. The EU directives regarding the liberalisation of the electricity sector present companies with new sets of challenges. Will the liberalisation of the sector entails the convergence in the strategy of companies across EU member states? The occurrence of many developments – globalisation, regional trade integration, mobility of capital across borders – have seriously erodes specific policy instruments that were used by governments to regulate the economy. Nonetheless, substantial divergence remains between national business systems. For institutionally-oriented scholars, the impact of the liberalising measures is mediated by the institutional environment in which companies are embedded. The Varieties of Capitalism perspective has emerged as a powerful theory to analyse issues related to the stability and change in national business systems. It identifies national institutional frameworks as the most important feature to understand the dynamics by which firms coordinate their activities in advanced capitalist economies. The first task of this section consists in a presentation of the key concepts of the Varieties of Capitalism (VoC) theoretical perspective – one of the leading institutionally-based perspectives in social sciences[2] (section 1.1) – followed by an analysis of the insights provided by the theory for undertanding the issue of change in contemporary capitalism especially in regard to the role of takeovers (section 1.2). The last part of this section, in contrast, highlights the importance of the choice of policy-makers as an important aspect of the workings of national business systems (section 1.3). The importance of state activism builds from a fundamental criticism of the Varieties of Capitalism theoretical perspective – namely that it downplays the importance of politics and state action in advanced capitalist economies (Howell, 2003; Morgan, 2005). The actions of policy-makers are largely seen – for the Varieties of Capitalism perspective - within a context of helping domestic firms in the processes by which their activities are coordinated (Schmidt, 2006: 5). The discussion on state activism does not seek to reject the importance of institutions as an explanatory variable – the central focus of VoC – but to bring the political dimension and the importance of the choices of policy-makers into the analysis.

1.1 Varieties of Capitalism and the Sustainability of Cross-National Divergence: An Institutional Approach

A key debate in social sciences concerns the extent to which the various sources of pressure associated with the process of 'globalisation' in the world economy - the liberalisation of international trade, the rise of international integration of production, research, and marketing by the major multinational companies (MNCs), the moves to regional integration in Europe and other major economic regions – are forcing national business systems to convergence on each other (Garrett, 1998). A convergence perspective emphasises that the room for manoeuvre of governments has been sharply reduced given the increasing pressures of global economic competition. The end point seems to lie in the convergence of policies and institutions toward the market friendly end of the spectrum (Friedman, 2000 and 2006). However, this perspective has been challenged by the presentation of overwhelming empirical evidence on the continuing diversity of institutional arrangement across advanced capitalist economies (Crouch,

[2] The key works in the Varieties of Capitalism literature are Hall and Soskice (2001a), Hall and Gingerich (2001, 2004); Hall and Thelen, 2009; Hall, 2007; Hancké et al., 2007 and Soskice, 1999.

1996; Berger and Dore, 1996; Regini, 2000). Nonetheless, and despite the proliferation of studies questioning the elimination of cross-national differences, convergence theorists still cling to their argument by interpreting this empirical evidence as a laggard situation. Thus, a comprehensive refutation of the convergence perspective requires the researcher to supplement existing empirical data with both analytical criticism and an empirically grounded explanation for the observed diversity.

The Varieties of Capitalism theoretical perspective appeared on the scene at that critical juncture. This analytical framework is a "firm-centred political economy that regards companies as the crucial actors in a capitalist economy" (Hall-Soskice, 2001a: 6). It is an institutionally-based theoretical perspective whose main focus "seeks to understand institutional similarities and differences among the developed economies" (ibid: 1) that, in turn, impact on outcomes. The central significance of this approach is that it offers a comprehensive framework for explaining comparative economic performance – differences in national institutional arrangements serving as the basis for the process by which firms coordinate their activities – as greater institutional fit results in superior performance (Hall and Gingerich, 2004). Therefore, from the Varieties of Capitalism perspective, calls for ever greater deregulation of economic activities and reliance upon unconstrained markets cannot be seen as universal propositions. The efficacy of reforms is institutionally contingent. The Varieties of Capitalism perspective is characterised by the importance of four key elements: institutional diversity, institutional interaction, institutional complementarities, and institutionally-driven firm coordination.

First, the Varieties of Capitalism theoretical perspective emphasises broad differences in the strategies of firms in advanced industrialised economies that cannot be accounted by reference to questions of resource endowments. Hall and Soskice (2001a: 15) instead stress the central position of (institutional) structure in conditioning the strategy of the firm, but not in fully determining it. The Varieties of Capitalism perspective focuses on five spheres of the political economy in which firms develop relationships to resolve coordination problems: (1) financial systems or market for corporate governance, (2) industrial relations arena, (3) education and training systems, (4) inter-firm relations and (5) intra-firm relations (Hall and Soskice, 2001a: 27-32). These spheres, in turn, are further divided into sub-spheres. For example, the main institutional arrangements of corporate governance are the ownership structure of listed companies, the legal rights of minority investors, the accounting rules, and the process of approval of Mergers and Acquisitions (M&A).

Second, the specification of the importance of institutions highlights the centrality of interaction between different institutional spheres. The basic analytical starting point is that the impact of a single institution should not be seen in isolation, but as part of a whole interactive process. The effects of an institution are contingent upon the specifics of its interaction with other institutions – its impact varies according to the national institutional configuration in which it is embedded (Hall, 1994). The approach conceptualises the political economy as a set of a highly interdependent arenas where the impact of institutional practices in one sphere – both on the behaviour of firms and on economic performance – depends on the type of institutions present in other spheres. For example, the presence of independent central banks results in lower rates of inflation, but its impact on unemployment is shaped by the internal features of labour organisations is labour organisation or labour market the right expression (Hall and Franzese, 1998). The extent to which trade unions can pursue wage restraint mediates the disciplinary effects of central bank independence on unemployment. In other words, the same institution of independent central banking produces different outcomes according to the configuration of domestic institutions in which it is embedded. Therefore, institutional analyses and policy reforms that focus exclusively on institutions found in a single sphere of the economy are misleading since the impact of a single institution mediated by the overall (i.e. national level) institutional constellation of which it is part.

Third, the interaction between institutions (located in different national institutional frameworks) gives rise to different patterns of institutional complementarities. Institutional complementarities refer to a situation whereby specific institutional arrangements found in one sphere of the economy interact with those prevalent in other spheres and make them more effective than they would otherwise be on their own (Hall and Soskice, 2001a: 18). For example, the ability of companies to succeed in market niches that demand firm-specific skills is significantly enhanced by patterns of ownership concentration and rigid labour markets since they make it harder for outsiders to proceed to hostile takeovers. Conversely, successful strategies in niches of radical innovation are said to be supported by flexible labour markets and patterns of ownership dispersion that make it easier for firms to allocate (high-risk) capital to new areas in a quick and fast manner. The presence of institutional complementarities entail that the contribution of an institution is enhanced as a result of its interaction with others. The purpose of the complementarities identified by the Varieties of Capitalism perspective should be "judged" according to the extent to which institutions in one sphere of the economy enhance the coordinating capacities of actors in it and in other spheres (see also Milgrom and Roberts, 1990 and 1995). A cluster of institutional variables found in the different spheres of the economy serves as the basis by which institutional complementarities form and develop.

Fourth, the importance of complementarities, in turn, lies in their effects on the way in which firms coordinate their activities. The presence of institutional complementarities provides firms with the capacities for market or strategic coordination (Soskice, 1999). The importance of institutional complementarities is highlighted through their capacity for structuring strategic interaction between economic actors – a necessary condition for solving coordination problems facing firms (see Hall and Thelen, 2009). The success of firms on product and service markets require them to solve coordination problems in other spheres of the political economy: to raise finance and govern relations between shareholders and other parties (corporate governance); to regulate wages/working conditions and to secure the involvement of the workforce (industrial relations); to ensure workers to have the requisite skills (education and training); to secure access to inputs and technology (via inter-firm relations); and to successfully compete for customers (product markets). Thus, the purpose of the complementarities identified by the Varieties of Capitalism perspective should be assess according to the extent to which institutions in one sphere of the economy enhance the coordinating capacities of actors in it and in other spheres.

Drawing from the concepts associated with the new economics of organisation (Milgrom and Roberts, 1990 and 1995), the Varieties of Capitalism literature develops a distinction between two modes of coordination: one based on competitive markets and the other on strategic interaction, each of them associated with specific types of institutional complementarities. The argument is that in order for institutions to effectively support strategic (or market) coordination in one sphere of the economy, the presence of institutions supporting analogous coordination in other spheres is required (Hall and Gingerich, 2004). In other words, the impact of a single institution is contingent upon the presence of others in the various spheres of the economy (Hall, 1994). The approach suggests that successful economies cluster into identifiable groups based on their reliance on market or strategic coordination.

The specification of two ideal-types - each with a distinctive set of institutions that solve the coordination problems of firms in quite different ways -- is central to the Varieties of Capitalism theoretical perspective. The first mode of coordination, which is associated with liberal market economies, is characterised by firms coordinating their activities with other actors through competitive markets, arms-length relations and formal contracting. Important outcomes are accounted by the presence of clear market signals and the primacy of prices. The second mode of coordination, associated with Germany, Japan, and some northern European countries, is characterised by firms coordinating their activities with other actors through numerous processes of strategic interaction. [3] The outcomes are shaped by the extent to which institutions enable firms to issue credible commitments to other actors. These commitments are generated by an institutional framework that provides effective support for information-sharing, monitoring, sanctioning, and deliberation (Culpepper, 2001). From this follow many important contentions about variations in economic performance and national responses to globalisation (Hall and Soskice, 2001a: 21-33).

Finally, Hall and Soskice also note that several OECD countries, including France, Italy, Spain, Portugal, Greece and Turkey, do not fit into either of the two ideal-types. The presence of institutional hybridisation in these “Mediterranean” or mixed market economies (MMEs) reflects the presence of recent histories of extensive state intervention. The assessment of the Varieties of Capitalism on the nature of coordination in MMEs is characterised by two potential scenarios. First, the presence of institutional hybridisation in these economies entails that either CME or LME type of coordination are not available since patterns of institutional complementarities at the national level are not tight (Hall and Gingerich, 2004). These economies are missing out on a fundamental aspect of coordination – namely that institutions that supports market-type or strategic-type coordination in one sphere of the economy are unable to count on the presence of institutions in other spheres that support analogous coordination.

[3] Several countries - Austria, Japan, Sweden, Norway, Finland, Denmark, Belgium, Switzerland, and the Netherlands are usually also identified as coordinated market economies despite some variation in their domestic institutional framework. The key point is that economic activities are coordinated through non-market mechanisms, not the specific institutions present in one country.

Moreover, the reliance of MMEs on state intervention for the coordination of their activities has rendered them vulnerable to the advent of liberalisation in the 1990s (Hall and Thelen, 2005: 34-35). Second, an alternative scenario highlights the development of coordination in specific niches of MMEs (Hall and Soskice, 2001: 35). The institutional arrangements of MMEs – such as Italy, and Spain – tend to resemble those found in CMEs in the areas of corporate governance, but less so in the areas of industrial relations (Hall and Soskice 2001: 21; Molina and Rhodes, 2007). The implication is that strategic coordination can develop for activities where the contribution of institutions found in the area of corporate governance is greatest – but cannot spread to the rest of the economy.

1.2 Varieties of Capitalism and Institutional Change

The study of the transformation of the electricity sector requires the use of theoretical tools that can illuminate the process of change. The competitive environment in which EU electricity companies found themselves in the last ten years is one of change inspired and directed by the Commission. Therefore, the theoretical foundations of the Varieties of Capitalism perspective, if they remain a necessary condition to account for the evolution of the English and Spanish electricity sector, must provide insights that will enable us to account for the consequences of institutional change. The theoretical contribution of the Varieties of Capitalism perspective would be seriously weakened if it was less successful in explaining change. Thus, an account of divergence across national business systems requires an explanation of change.

The literature review presented in this section highlight the relevance of the key concepts of the Varieties of Capitalism perspective – institutional interaction, institutional complementarities, and institutionally-driven coordination – to account and assess the occurrence of institutional change. The divergence between business systems is not contingent upon the exclusive presence of institutional stability within national economies – the absence of convergence also results from countries internally changing in different ways. The EU driven processes of liberalisation of the electricity sector entails that firms must adapt to a new competitive environment. The legal framework that sustained the pre-liberalisation competition regime has been seriously eroded. How firms will adjust to this exogenous shock? The Varieties of Capitalism perspective is well suited to analyse this major economic event. After all, the analysis of institutional diversity of Hall and Soskice (2001) is precisely embedded in a context of Europeanization and globalisation policies. Their argument is that national economies react in different ways to economic shocks and, moreover, national institutional arrangements are critical in the differences observed in adjustment processes. The Varieties of Capitalism perspective provides important insights on how national economies are changing - that is in different ways and without strategic process of convergence (Hall, 2007; Hall and Thelen, 2009).

The rest of section 1.2 is organised in the following manner. First, we review the insights provided by the Varieties of Capitalism perspective in order to account for the adjustment process of firms in subsection 1.2.1. Second, the liberalisation of the electricity sector has been often accompanied by many other market enhancing developments – most notably privatisation and the loss of monopoly status of national companies. Domestic markets are open to foreign competition. As a result, takeovers are becoming a new and important development in the analysis of the evolution of the electricity sector. The Varieties of Capitalism perspective is also well suited to assess the importance of this new development. The presence of variation on institutional arrangements of corporate governance (and employment relations) impacts on the importance of takeovers across national business systems. Therefore, we examine in subsection 1.2.2 the insights provided by the Varieties of Capitalism perspective to account for the diverging importance of takeovers for English versus Spanish electricity companies.

1.2.1 Varieties of Capitalism and Varieties of Adjustment: Institutional Change in Advanced Capitalist Economies

A central element of the Varieties of Capitalism theoretical framework is the notion of cross-national divergence due to the presence of varieties of adjustment across advanced capitalist economies (Hall, 2007; Hall and Thelen, 2009). The Varieties of Capitalism theoretical perspective focuses on firms as the main actors in the process of coordination of economic activities. The development of the core competencies of the firm in the process of economic coordination depends on the nature of the interactions they develop with other actors, namely employees, business associations, suppliers, and other firms. The institutional aspect of the Varieties of Capitalism theoretical perspective manifests itself at this juncture – the nature of the relations they established with other actors is largely shaped by the institutional support in which they are embedded. National institutional frameworks in advanced capitalist economies enable firms to coordinate their activities mainly in two ways. As mentioned previously, the main distinction established by Hall and Soskice (2001a) is between liberal market economies, where firms rely heavily on competitive markets to coordinate their endeavours, and coordinate market economies, where more activities are coordinated strategically. These different modes of coordination – that follows from differences in national institutional frameworks - confer specific comparative advantages that mediate the responses of firms to globalisation. In particular, patterns of institutional complementarities enable arrangements in one institutional sphere of the political economy to enhance the coordination process in others.

The contribution of the Varieties of Capitalism perspective to the study of change builds around the crucial role of institutions in the adjustment process of countries and companies. The importance of national institutional arrangements lies at three levels. First, the character of existing institutional arrangements impact on the process of change since the effects of a single institutional variable is contingent upon the presence of other institutions in the economy (Hall, 1994; Hall and Franseze, 1998). This statement is particularly appropriate in a context where institutional change tends to be limited rather than full scale. Thus, new institutions (even if common across a range of countries) interact with a (different) set of institutional arrangements that were already in place thereby resulting in different interactive effects. Even when developments across advanced capitalist economies refer to identically internal institutional reforms, to conclude that they will have similar effects is misleading since their impact is shaped by location specific institutional interaction effects (Hall and Thelen, 2005: 30).

Second, the nature and speed of adjustment differ across advanced capitalist economies because institutional arrangements provide interest groups with greater/lesser influence over the implementation of changes. In particular, the institutional arrangements of coordinated market economies are characterised by a greater number of actors that are involved in the decision-making process and possess full or suspensive veto powers over the introduction of institutional change (Hall, 2007; Witt, 2006: 55-84).

Third, institutional arrangements matter in the process of adjustment as actors often seek institutional and functional equivalents to pre-existing forms of coordination (Hall and Thelen, 2009). An analysis that focus entirely on the degree to which institutions encourage/delay adjustment would miss the fact that institutional constraints, if imposing too much rigidities and obstacle to change, are likely to create pressures for actors to change them or operate outside their boundaries (Gilson, 2001; Herrigel, 2008). National institutional frameworks preclude specific patters of adjustment, but have the capacity to offer alternative adjustment paths that actors can seize (Hancké and Goyer, 2005). The process of adjustment is also one where actors take into account existing patterns of institutional complementarities and where firms seek to sustain their competitive innovative competences by implementing changes that do not affect the core nature of these complementarities. The implication is that while economic liberalisation indeed entails a reinforcement of the role of markets in the allocation of resources, the impact of these reforms sharply differs across national institutional settings. The presence of variations in the existing coordinating strategies of firms across national business systems is salient to the ways in which they will adjust to new challenges. Firms do indeed seek to adapt to shifts on world markets but, at the same time, would like to preserve their ability to sustain their competitive advantage in the way they coordinate their activities. The implication of the above argument is that one needs to distinguish between the character of coordination from the institutions that support it (Hall and Thelen, 2009; see also Goyer 2006). The key issue is not institutional change per se, but its impact on the coordinating activities of firms. The occurrence of institutional change within countries does not imply the undermining of critical differences across national business systems. For Hall and Thelen (2009), however, the occurrence of institutional change in most cases does not impede on the ways firms coordinate their activities.

Therefore, the Varieties of Capitalism perspective is highly suitable for the study of institutional change. The occurrence of institutional change in coordinated and liberal market economies is undeniable, but these two groups of capitalist economies are changing in terms that are likely to leave them quite different. Hence, this perspective predicts substantial differences in the adjustment path of coordinated and liberal market economies even if they proceed to further ‘liberalisation’. The Varieties of Capitalism framework constitutes a theory of institutional change as “nations with a particular type of coordination in one sphere of the economy should tend to develop complementarities practices in other spheres as well” (Hall and Soskice, 2001a: 18). Thus, one should not expect identical responses from them to globalisation.

1.2.2 Institutional Diversity and Varieties of Takeovers

A central issue of the Varieties of Capitalism perspective is the topic of corporate governance, one aspect of which is the market for corporate control (Vitols, 2001: 337). The issue of the market for corporate control (i.e. takeovers) is best understood in the wider context of national systems of corporate governance (and to a lesser extent of employment relations) whereby advanced capitalist economies differ along several dimensions. The importance of the market for corporate control (i.e. takeovers) constitutes one of the most distinctive features among national systems of corporate governance. For the Varieties of Capitalism perspective, the presence of differences in characteristics of the market for corporate control reflect the institutional variation found within national business systems in the area of corporate governance (and also, although to a smaller extent, employment relations). Four institutional features stand prominently: ownership structure of listed companies, the system of corporate law and its associated voting rights procedures, the degree of independence of regulatory authorities responsible for the approval of takeovers, and the degree of flexibility/rigidity of measures of employment protection (see Jackson and Miyajima, 2007; Rossi and Volpin, 2004). The influence of takeovers over the evolution of the electricity sector can be conceptualized as a series of institutional stages in which managers seek protection from unwanted takeover bids.

The first stage is that of the ownership structure of the company. The presence of ownership concentration implies that takeovers are negotiated. A dispersed ownership structure, in contrast, leaves the firm open to unwanted takeover bids. The second stage is related to the national system of corporate law and its associated rules governing voting rights. National systems of corporate governance that protect the voting rights of minority shareholders are more likely to experience a flurry of takeovers acting as a restructuring mechanism. By contrast, national systems of corporate governance that enable management to implement substantial deviations from the one-share, one-vote standard imply a reduced role for financial market pressures in the process of adjustment of firms. The third stage refers to the degree of independence of regulatory authorities in the process of takeover approval. A diffused ownership structure and a system of equal voting rights for shareholders can be overcome if the relevant authorities veto the acquisition of the firm by a rival – or make it prohibitively difficult to proceed with the acquisition. The vesting of higher degress of independence in regulatory authorities that are less open to influence from elected officials is more likely to increase the prominence of takeovers within a national business system. The fourth and final stage concerns the instituions of employment relations. The type of post-aquisition strategy is shaped by the instittuional arrangements associated with the system of employment relations. The ability to dismiss employees in a quick fashion increases the range of motivations for acquiring firms and, as a result, heightens the prominence of takeovers.

How do the institutional arrangements found in Britain and Spain shape the importance of takeovers as a restructuring mechanism? What are the predictions that flow from the insights of the Varieties of Capitalism perspective? First, the ownership structure of companies still continues to differentiate advanced capitalist economies in regard to the role and importance of takeovers. The dichotomy is best characterised by a contrast between Anglo-Saxon economies where ownership is diffused (i.e. no single or groups of shareholders owning a substantial percentage of equity capital) and the main owners are institutional investors versus that of continental Europe and Japan where ownership is concentrated in the hands of a small number of "strategic" players - family, banks, or non-financial corporations (Shleifer and Vishny, 1997). The ownership structure of English and Spanish electricity companies conform to this dichotomy (see Tables 1-3).

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In countries characterised by ownership concentration, the occurrence of hostile (or unwanted) takeovers has been a rarity (Franks and Mayer 1997). The acquisition of a firm would requite a potential bidder to secure the approval of the largest shareholder – or convince the members of the shareholder group to sell their stakes. By contrast, the absence of ownership concentration has entailed the possibility of unwanted takeover bids. Managers possess serious incentives to pursue strategies that will increase the stock market capitalisation of the firm and, in turn, make it more prohibitive for a potential bidder to acquire the company. [4]

Moreover, the importance of the ownership structures of companies manifests themselves through their influence in shaping the preferences of the key shareholders (Mayer, 1998; Vitols, 2001). Institutional investors in Anglo-Saxon economies take a portfolio approach to risk management that, in turn, translates in their reluctance to become central players in the decision-making process of firms. Instead, their preferences lie in having portfolio companies achieving high rates of returns in their shares. This sometimes led them to become active in pressuring firms to pursue strategies that would result in increased share price, but with a purely shareholder value maximisation concerns. Mutual and pension funds do not seek to substitute themselves as the managers for portfolio companies. By contrast, shareholders in concentrated ownership systems of corporate governance possess strategic and, at times, multiple goals. For one thing, ownership is often embedded in a larger pattern of cross-share holdings whereby firms hold stocks in each other as part of a strategy to protect themselves against unwanted hostile takeover bids that would affect the capacities of managers to develop the strategy of the firm with a long-term perspective. Another motivation of large owners could be to extract private benefits from their control of the corporation at the expense of minority shareholders – the dark side of ownership concentration (Zingales 1998).

[4] It is also interesting to note the links between preferences and takeovers. Empirical research on the effects of takeovers have shown a substantial gains for the shareholders of the targeted firm – the impact on the shareholders of the bidding firm being more ambiguous (Brickley, Jarrell and Netter 1988). Thus, institutional investors are unlikely to constitute serious opponents to takeovers in Anglo-Saxon economies.

The ownership structure of companies in Britain and Spain constitutes the first stage of the institutional arrangements that are influential in the evolution of their respective electricity sector. Ownership diffusion in Britain is conducive to takeover bids and the presence of institutional investors interested in market capitalisation gains reinforced this process. The presence of ownership concentration and of friendly, long-term shareholders in Spain make it more unlikely that a restructuring of the sector would take place through unwanted takeovers. However, the ownership structure of companies only constitutes a first-cut approach. For one thing, managers can enact panoply of anti-takeover measures to protect themselves against unwanted takeover bids in ownership diffused systems of corporate governance. In addition, the degree of ownership concentration in the electricity sector in Spain is important but not insurmountable (see table 3). A committed bidder can focus on the acquisition of the remaining free floats.

Second, institutional arrangements of national systems of corporate law shape the ability of management to use defensive tactics that make it more difficult for bidders to acquire firms – even those with a diffused ownership structure. Entrenched managers can protect themselves against unwanted takeover bids through anti-takeover measures that entail deviations from the one-share, one-vote principle. The issue of voting rights is related to the process by which equity holders, especially institutional investors as minority shareholders, translate their equity stake into voting power. Minority shareholders prefer systems of corporate governance with the fewest deviations from the one-share, one-vote standard (Davis Global Advisors, 2002; Franks and Mayer, 1997). This standard is one of the best means by which minority investors can collectively achieve influence proportional to their stakes. Managers, in contrast, might prefer to stabilise the ownership structure of the company by giving more power to some shareholders, especially long-term owners.

There are two main deviations to the one-share, one-vote principle (Deminor Rating, 2005; European Commission, 2007b). The first one falls under the category of unequal voting rights. The most common form of unequal voting rights is the award of multiple voting rights to certain shares by companies. Multiple voting rights are often justified by the desire of firms to reward long-term investors, thereby cultivating a loyal base of shareholders. But unequal voting rights can also be used by managers as a tool to provide hard core shareholders with a disproportionate voting influence in comparison to their equity stakes. The second deviation to the one-share, one-vote principle is that of voting rights ceiling that caps the amount of votes any investor may cast regardless of the total number of stocks held. Voting rights ceilings may be used by managers to protect themselves against the potential rise of a large investor in firms with no loyal group of hard core shareholders. The expectation is that the use of deviations from the one share-one vote principle is contingent upon the context in which the ownership structure of the firm places management. Ownership ceilings are used when long-term, friendly shareholders individually own a small equity stake. The aim is to limit the power of a potentially threatening large investor. Unequal voting rights, on the other hand, are more likely to be implemented to strengthen long-term, friendly shareholders who already have a significant equity stake.

The use of deviations from the one-share, one-vote standards is permitted in both Spain and the United Kingdom. However, the frequency of their use exhibits sharp divergence. For example, only one of firm part of the UK FT 100 index had ownership ceilings and none of them had unequal voting rights in 2002 (Davis Global Advisors 2002: 68). For the specific case of the electricity sector, golden shares were initially introduced by the government. The golden share scheme acted as an impediment on takeovers since no shareholder was allowed to control to control more than 15% of outstanding shares (Oxera 2005). The first attempted takeover of a privatised electricity company took place in December 1994 shortly before the expiration of the golden share scheme in March 1995. Moreover, it is also worth noting that none of the privatised electricity had any mechanisms of protection in the form of deviations from the one-share, one-vote standard other than the golden share scheme resulting in a surge of takeover activities after March 1995.

By contrast, the use of deviations from the one-share, one-vote standard is widespread in the electricity sector in Spain. First, the three major electricity companies (Endesa, Iberdrola, and Union Fenosa) are issuing two classes of stocks: voting and non-voting shares. The latter are being used to raise capital without affecting the company’s control structure since the holder is entitled to dividends but does not possess any voting rights. Second, the voting rights at the largest two firms exhibit a substantial deviation from the one-share, one-vote standard through the use of voting caps (annual reports of Endesa and Iberdrola, various years). No shareholder may cast a number of votes higher than that corresponding to 10 percent of the total outstanding shares. This deviation significantly increases the influence of loyal, long-term shareholders.

Third, the degree of independence of regulatory authorities in the process of takeover approval represents another institutional arrangement that differentiates CMEs and LMEs in regard to the prominence of the market for corporate control. A diffused ownership structure and a system of equal voting rights for shareholders can be overcome if the relevant authorities veto the acquisition of the firm by a rival – or make it prohibitively difficult to proceed with the acquisition. The degree of independence and the nature of the powers of regulatory agencies (IRAs) responsible for takeover approval are critical for the successful completion of takeover bids. A high degree of independence for regulatory authorities is often seen as necessary given the perceived unpopularity of acquisitions for employment – a concern magnify in the case of cross-border deals. The presence of substantial variation in the degree of independence of regulatory authorities can be observed across different national business systems in the European Union – and also between Britain and Spain. Regulatory authorities in Britain tend to be more independent from elected officials, as well as less discretionary and less procedural in comparison to their Spanish counterparts (Ocaña, 2003; Thatcher, 2005). The relatively underdeveloped degree of importance of regulatory authorities highlights the presence of a trade-off where Spanish policy-makers have chosen to retain flexibility over the actions of agencies – rather than pre-committing themselves to specific policy outcomes (see e.g. Thatcher and Stone Sweet, 2002).

Fourth, the institutional arrangements associated with the system of employment relations in Britain and Spain differ on two key features that, in turn, influence the type of strategy that the acquiring firm could implement in a successful post-acquisition phase of a takeover bid. In the first place, these two economies exhibit substantial differences regarding legislative measures of employment protection (OECD, 1999). There are several barriers to dismissal - regarding both full time and part-time employment - present in Spain: delay to start a notice of dismissal, severance payment after dismissal, definition of unfair dismissal, and the maximum number of allowed successive fixed term contracts. Firms in non-liberal market economies cannot rely on quick restructuring programs via employee dismissals as compared to their counterparts in liberal market economies. In the second place, the distribution of firm-level legal rights shapes the degree of involvement of employees that, in turn, affects that nature of restructuring in the post-acquisition phase. The distribution of legal rights ranges from information, consultation, codetermination, and unilateral worker control over restructuring issues (Knudsen, 1995). In Spain, the distribution of legal rights presents management with serious constraints in the elaboration and implementation of the strategy of the firm. By contrast, the relatively low influence of labour is shaped by the strictness of their legal rights in the case of Britain. These legal differences relative to the strictness of employment protection against involuntary dismissals and the degree of legally entrenched participation translate into different motivations for takeovers. In liberal market economies - where the ability of management to dismiss workers is greater than that find in CMEs and MMEs - takeover gains often result from schemes corporate restructuring and rationalisation costs that involve reduced levels of employment (Deakin, *et al.*, 2002; Jackson and Miyajima, 2007). The high takeover premiums paid to the shareholders of targeted companies in LMEs can be recuperated through economic gains that result from job losses.

1.3 State Intervention and the Political Origins of Institutions: A Critique of the Varieties of Capitalism Perspective

The Varieties of Capitalism perspective has provided us with important insights on why important, externally driven developments do not lead to convergence across national business systems. The institutionally-inspired theory has significantly contributed to our knowledge of change in national business systems – it has raised the prominence of institutions as an independent variable and has highlighted the importance of studying institutions in an interactive process rather than in a piecemeal fashion. Nonetheless, several authors have raised issues with some aspects of the theory. The main line of criticism levelled against this perspective is that it neglects the political dimensions of the origins of institutional arrangements. The focus of the VoC perspective is on the concept of coordination of the activities of firms that, in turn, limits its ability to account for the moment of institutional creation (Howell, 2003; Morgan, 2005). For these critics, the focus on coordination runs the risk of conceptualising the origins of institutions and the occurrence of institutional change as a functional response designed to solve economic coordination problems for firms. The emphasis of the VoC perspective lies in the enhanced value of institutions for actors. They possess strong incentives to maintain/establish/challenge institutional arrangements. The presence of institutional arrangements that serve to enhance the coordination capacities of firms entails that national business systems with tight patterns of institutional complementarities are unlikely to experience systemic transformations even under conditions of Europeanization and globalisation (Hall and Soskice, 2001: 57). Critics of the Varieties of Capitalism perspective, in contrast, analyses the origins of institutions and the occurrence of institutional change as the products of political agenda and purposive actions – the question of solving economic coordination problems playing a minor role in this process (Morgan, 2005: 424). The presence of institutional complementarities do indeed constitutes a source of economic efficiency – but the origins of these institutional arrangements cannot be limited to economically-based functional requirements. The issue is not to deny the importance of institutions on the process by which firms coordinate their activities – but to expand on the range of motivations of actors that have a bearing on this question. Otherwise, institutions become conceptualises as the embodiment of self-(re)enforcing equilibrium whereby change occurs as a result of exogenous shocks. The settings of the rules of the game are important – thereby opening the possibility that actors might prefer an institutional setup in which they are able to project their influence. The willingness of actors to challenge/support the existing/emerging pattern of institutional complementarities cannot be judged solely from the perspective of maximising economic returns (Deeg, 2005).

It is important to insist that the Varieties of Capitalism perspective does not totally neglect the importance of politics in the process of institutional origins and change. For instance, Hall (2005) highlights the need to differentiate between the birth of institutional arrangements and the effects of these institutions once in place – the place assigns to politics being more important for the former. The idea is that the presence of many different types of motivations – including political ones – can be associated with the birth of institutions. Nevertheless, the argument emphasising institutional complementarities soon takes over as institutions act as lock-in mechanisms and constrain possibilities for institutional change once they start to provide increasing return to actors (Pierson, 2000). The concept of increasing returns highlights the uneven developmental trajectories of different national business systems. However, the inclusion of the concept of increasing returns raises two issues (see Deeg 2005). First, increasing returns are primarily defined in economic terms, therefore neglecting the fact that actors are often as concerned with the power and status outcomes of institutions as with their economic consequences. It remains to be proven if actors will give up one set of institutions and replace them with another simply because the economic returns from the former are apparently declining. Second, the beneficiaries of existing patterns of institutional complementarities are assumed to be a constant and single category of actors. The distribution of the payoffs associated with an institutional setting is not necessarily constant over time with changes in the level and locus of returns leading to different groups to evaluate the benefits of broad institutional settlement differently over time.

The above discussion highlights an important issue with the Varieities of Capitalism framework – namely the secondary role played by policy-makers that, according to Howell (2003: 13), presents an "extremely thin notion of politics and state action, in which governments act largely at the behest of employers". The autonomously defined choices of policy-makers constitute a major aspect in the process by which firms coordinate their activities in advanced capitalist economies. The importance of state activism builds from a fundamental criticism of the Varieties of Capitalism theoretical perspective – namely that it downplays the importance of politics and state action in advanced capitalist economies (Howell, 2003; Morgan, 2005). The actions of policy-makers in the VoC perspective are largely seen within a context of helping domestic firms in the processes by which their activities are coordinated (Schmidt, 2006: 5). These critics do not assert that this perspective completely denies the importance of politics. Rather, their argument seek to move beyond a conception whereby state policies reflect the underlying institutional configuration of the political economy that support the coordinating activities of firms, thereby only permitting policies that accentuate the dominant form of coordination. Policy-making constitutes a reflection of the existing mode of coordination with no autonomous role to play for state officials. Therefore, a conceptualisation of state intervention is important to understand the origins and impact of institutional arrangements across national business systems. Institutional frameworks are indeed important – but constitute an intervening variable. The implication is that the prominence of takeovers on the evolution of the electricity sector in Britain and Spain ultimately reflects policy choices.

2. Takeovers and the Evolution of the Electricity Sector in Britain and Spain

This section documents the different patterns of evolution of the electricity sector in Britain and Spain. I summarize the role of takeovers on two indicators -- whether a few firms dominate the industry or not; and the importance of foreign ownership in the structure of private property.

2.1 The Case of Britain

Throughout the 1990s, the sets of policies known variously as privatisation, liberalisation, deregulation, and the 'British Model' dominated the political agenda for electricity utilities (Thomas 2001). The aim of these reforms consisted in a desire to transform the electricity industry from a monopoly into a competitive market: the creation of a spot market as the main price-setting arena for wholesale electricity sales; the creation of retail competition so that all consumers can choose their electricity supplier; and the corporate separation between generation and supply (see Thomas 2006a).

The electricity sector has experienced a huge amount of restructuring in the areas of distribution and retail supply since its privatisation in 1990. Two key features characterize the transformation of the sector: changing industry structure and prominence of takeovers. First, there has been a complete redrawing of the profile of the industry structure. In the wake of the privatisation process, there were three main generators (National Power, Powergen and Nuclear Electric); and 12 regional distribution/retail supply companies. All were initially protected from unwanted takeover bids by the government's Golden Shares scheme. This protection system scheme ran out in 1995. The distribution companies were individually too small to have had an impact outside the UK and were taken over by foreign companies as soon as government protection from takeover was removed. The two more likely candidates to become world players were National Power and Powergen, the two privatised generation companies, which had between them a market share of about 80 per cent in power generation in 1990. These two companies, however, were shadows of the firms created a decade before - their market share in 1998 being about a third of what it had been in 1990. By 2001, National Power had had to split itself into a UK company (Innogy) and an international company (IPG) in order to insure its survival. In March 2002, Innogy was itself taken over by RWE. Powergen, on the other hand, was taken over by E.ON in 2002.

Second, takeovers of English electricity companies by foreign rivals have been both prevalent and paramount (see Table 4). The regulatory system designed by Beesley and Littlechild (1983) was intended to provide a structure that allowed free entry in the market. Takeovers and mergers played a prominent role in this evolution as they were interpreted as the exertion of a healthy sign of market discipline in competitive markets. Takeover and mergers were of little concern as long the entry barriers were low enough to maintain a realistic threat of competition (Thomas 2001).

INSERT HERE 'TABLE 4': (See PAGE 50)

Privatised electricity companies in Britain were initially protected from unwanted takeover bids by a governments' golden share scheme. The principle behind the golden share scheme in each of the electricity companies was to allow time for the companies to adapt to changed circumstances, free from the threat of a hostile takeover. In effect, the golden share was a restriction on any one body from owning more than 15% of the outstanding shares of an electricity company. Its expiration in March 1995, therefore, removed this restriction and opened up the possibility of predators securing control of the companies. This possibility was far from hypothetical since they offered the prospect of secure, if unspectacular monopoly profits, good cash flows and access to what were widely perceived to be substantial capital assets. The Government's attitude towards potential changes in ownership was also crucial (Deakin *et al.,* 2002). Once the first hostile takeover bid was announced there was considerable speculation as to the likelihood of the bid being referred to the Monopolies and Mergers Committee (MMC). The decision of the government not to make such a reference therefore gave an effective green light to the acquiring ambitions of other companies.

Finally, it is important to point out that the ultimate outcome of the transformation of the industrial profile of the electricity sector in Britain diverges substantially from the original vision of Beesley and Littlechild. As noted by Thomas (2003: 393), "the electricity companies in England were victims of the political and regulatory desire to be seen to be creating a competitive industry". The evolution of the UK energy industry is noteworthy for the study of regulation since the centralised electricity incumbent (CEGB) was split up both horizontally and vertically by political design. The political authorities limited its reconfiguration for quite some time through strong policy against vertical integration. However, the ideal industrial structure, a full de-integrated structure with competitive generation and retail services, has only been partially achieved. The combination of structural split and liquid capital markets did render English companies ripe for being the recipients of takeover bids from foreign companies. Takeovers have not been a mean toward an end – they became the end in themselves.

2.2 The Spanish Case

Electricity was first produced for public consumption in Spain in Barcelona in 1875. Numerous small companies centred in the major towns developed from that time until the end of the 19th century. At the beginning of the 1980s, the electricity sector consisted principally of ten vertically integrated (generation, distribution and retailing) regionally based companies with banks as substantial shareholders; and Endesa (*Empresa Nacional de Electricidad)* -- the large state-owned company formed in 1944. Endesa was initially only involved in generation. Private companies were obliged to buy all of the electricity that Endesa generated (Salmon 1995: 153).

The nature of the importance of takeovers over the evolution of the Spanish electricity sector can be observed at three stages. First, reorganisation of the electricity industry became necessary in the 1980s as the result of two factors: the fragmented pattern of production that arose from the historical evolution of the industry and the serious financial problems facing the industry in the early 1980s. Policy-makers sponsored a series of mergers and asset swaps (including interests in power generations) between firms in the sector. For example, the three largest companies (Endesa, Hidrola and Iberduero) agreed in 1984 to take over smaller loss-making companies in exchange for government assistance. Fecsa (*Fuerzas Eléctricas de Cataluña*), one of the companies in most serious financial difficulties, was forced to sell some of its interests in property and minerals as well as in electricity. The process continued through the 1980s and into the 1990s. The explicit support of the government strengthened the incentives of firms to merge with other Spanish companies. Both Endesa – still a public company at that time – and Iberduero (the predecessor of Iberdrola) embarked on an aggressive policy of acquisitions and takeovers of their small competitors. (Crampes and Fabra 2004; Arocena *et al.*, 1999; Régibeau 1999 and Salmon 1995) By the end of

1993, Endesa had acquired a myriad of regional electricity companies (ENHER, Unelco, GESA, ERZ, Electra de Viesgo, Saltos del Nansa, and Sevillana de Electricidad). In 1992 Iberduero merged with Hidrola that, in turn, led to the creation of Iberdrola. By 1994 the only two companies outside these two groups were Hidrocantábrico and Unión Eléctrica-Fenosa. The outcome was that the structure of the electricity sector was fundamentally transformed through a series of mergers and asset consolidation in anticipation of the future liberalisation of the market.

Second, the privatisation of Endesa in the mid 1990s was embedded in a process of building national champions in the energy (oil, natural gas, and electricity) and telecommunications sectors in preparation for the liberalisation of markets. The national champions to be privatised in energy (oil, natural gas, and electricity) and telecommunications sectors were seen as constituting the nucleus of the non-financial Spanish private business sector (Boix, 1998; Etchemendy, 2004; Toral, 2008). As a result, policy-makers privatised companies in successive waves of blocks of approximately 10-20 per cent of total ownership. The long-term, friendly shareholders of Endesa were essentially the large Spanish banks -- such as BBVA and BSCH. The selection of domestically-based long-term oriented shareholders was undertaken with the aim to preserve control by domestic interests in Endesa. Their ultimate equity stake in privatised companies would fluctuate between 10 to 15 per cent of the equity capital. These hard core shareholders were to insulate the management of privatised companies against unwanted takeover bids. Moreover, policy-makers did retain a veto power over future takeovers in the form of golden shares in privatised companies of 'national strategic interest' – in practice, all the national champions. The golden shares mechanism was also followed by the centre-right PP, which took office from 1996 to 2004. For the specific case of Endesa, policy-makers government established a 10 years golden share expiring in June 2007 with the aim of protecting the managerial team from any interference.

Third, the hostile bid placed by E.ON on Endesa constituted the third major event illustrating the specific nature of takeovers in the evolution of the Spanish electricity sector. A first hostile takeover bid had previously taken place in September 2005 when Gas Natural, Spain's largest gas company, launched a takeover bid for Endesa. The launch of this takeover took place despite the market capitalisation of Gas Natural being only about half that of Endesa (CNMV, 2006: 297). But while the ownership structure of Gas Natural was highly concentrated, (La Caixa – a Catalan saving bank - owned

33.06 per cent and Repsol YPF – an international Spanish oil and gas company - owned 33.84 per cent of the equity capital) the only remaining substantial Spanish shareholder of Endesa at this juncture was the saving bank Caja Madrid with a 9 per cent stake since La Caixa sold its 5 per cent stake in the first half of 2005. The launching of an hostile bid for Endesa had been made posible because of two new developments. In the first place, the Zapatero's government decided to abolish the 'protective' golden share scheme in November 2005 – before the expiration date that was June 2007 – in part due to pressures from the European Commission. Secondly, the use of anti-takeover devices in the form of deviations from the one share-one vote principle experienced a significant regression resulting from a new piece of legislation passed in 2003. The new law enables potential acquirers to issue a conditional takeover bid. The offer for the target company can be made conditional upon the removal of deviations from the one share-one vote principle (i.e. ownership ceiling in the Spanish case) at the next general meeting. In other words, the use of deviations from the one share-one vote principle – that had previously been voted as a bylaw at an AGM – could be removed after a conditional takeover bid. Thus, potential acquirers of Spanish companies can now freely bid without the fear of the newly acquired equity stake being limited to a voting rights of ten percent.

In the meantime, a counter bid was placed by E.ON, Germany's largest electricity company, which valued Endesa at € 27bn as compared to the € 22.5bn offer made by Gas Natural. The initial position of the Zapatero government during the gas Natural bid was one of non-intervention in financial markets issues – the offer should be decided by the shareholders of Endesa. However, Spanish officials immediately expressed their disapproval and unwillingness to see a Spanish 'national champion' falling into foreign hands. In fact, the Spanish Socialist government campaigned on behalf of what was widely considered a less attractive bid for Endesa by the Spanish company Gas Natural. The aim was to preserve a Spanish energy company large enough to compete in the global marketplace. The Socialist government also opposed the E.ON bid on the ground that Endesa, the largest Spanish electricity company, is a 'strategic asset' that should remain in Spanish hands to guarantee the nation's energy supply.

Moreover, the immediate context following the bid by E.ON immediately raised the stakes for the Zapatero government. First, the Gas Natural bid was reviewed by the Spanish Competition Tribunal or *Tribunal de Defensa de la Competencia* (TDC), which recommended, in a non-binding opinion in January 2006, that the Spanish government should block the proposed Gas Natural/Endesa merger. The concern of the Competition Tribunal was that the merger would significantly increase the degree of concentration in the energy sector in Spain – Endesa being the dominant electricity company and Gas Natural being the dominant gas company. In the same vein, the same body ruled that the bid by E.ON did not raise competition concerns and should go ahead. Second, the EU Commission also ruled in April 2006 that E.ON's bid should also go ahead on the grounds that it would not significantly impede competition in the EU or any substantial part of it.[5] The European Commission, in turn, also argued that E.ON was not present in Endesa's main market (Spain), and that the merging parties had limited overlapping activities in other European electricity markets, such as Germany, France, Italy and Poland. As a broad rule under EU law, the only grounds on which a merger or acquisition can be blocked are that it would significantly reduce competition in a relevant market in the EU. There are a few exceptions to this rule, but being a 'foreign' company is not one of them (Thomas, 2006c).

These two rulings forced the Spanish administration to act quickly as it was keen on keeping Endesa as a Spanish 'national champion' rather than becoming a subsidiary of a German firm. In February 2006, the Spanish government overruled the Competition Tribunal's recommendation that the Gas Natural bid should be blocked, and conditionally approved it. As for the E.ON bid, Spain's Council of Ministers adopted a new legislative measure designed to increase the supervisory powers of the national energy commission/regulator or *Comisión Nacional de Energía* (CNE) over takeover bids.[6] Any acquisition of over 10 per cent of share capital in a regulated entity in Spain would be subject to approval by the Spanish energy regulator, which would have broad discretion to withhold approval – e.g. whenever an acquisition posed 'risks' in relation to the regulated activities, or where blocking the acquisition was necessary to protect 'the general interest'**.** This legislative measure, somewhat in an ironical manner, was surprising because the main task of this agency was to provide advice to the ministry, but did not have definite regulatory powers – by contrast to the British counterpart. The Spanish government justified its decision to grant broader powers to the national energy regulator with reference to Article 21(3) of the European Union merger regulation which allows member states to block takeovers on the grounds of "public security". The immediate consequence was that the Spanish energy regulator imposed a number of

[5] European Commission decision of April 25th 2006 in Case COMP/M.4110
[6] Royal Decree-Law 4/2006.

conditions on the proposed E.ON takeover. These conditions included among others the obligations to use Spanish-produced coal and retain Endesa's assets outside Spain for at least five years. The effect of the regulator's conditions was the equivalent of a 'poison pill' that reduces the attractiveness of the proposed bid.

In the meantime, Acciona (one of Spain's largest construction company) took the market by surprise when it bought 10 per cent of Endesa's stock for €3.3 billion in late September 2006. Its intention was to raise its stake in the electricity company to 24.9 per cent which under Spanish law 433/2003 would not require it to launch a formal takeover bid for the whole company – the threshold for the latter being 25 per cent of the equity capital. By mid-November 2006, Acciona became the largest shareholder of Endesa with a 20 per cent stake, thus without crossing the 25 per cent ownership threshold. The incursion of Acciona into the capital of Endesa pointed to a concerted effort to disrupt E.ON's bid with "government officials nudging their friends in industry to block foreign firms from dominating Spain's energy sector" (*The Business,* 28 October 2006). The aim was for Acciona to gather just enough voting rights to prevent E.ON persuading other shareholders to overturn a crucial Endesa's by law, namely the imposition of a limitation on one party from voting more than 10 percent of the stock. This was necessary for the completion of E.ON's bid, whose goal was to obtain control of at least 50 percent of the voting rights.

The initial response of E.On's to Acciona's incursion into the capital of Endesa was to increase its bid by 40 percent to €37 billion – an increase of 100% in comparison to its initial bid. However, time was running out on E.ON. In March 2007, Enel the main Italian electricity operator spent almost € 8.4 billion to acquire 24.9 per cent stake in Endesa. This action effectively dashed E.ON's takeover hopes. The final joint offer was €40.16 per share, or more than € 43.7 billion. It is important to note that the actions of Accionna and Enel were coordinated. Their joint bid emerged after the Socialist government sought a 'Spanish solution' to Endesa's ownership and went ahead despite failed court action by the European Commission. Spanish policy-makers thus succeeded in their goal of keeping Endesa in Spanish hands with the involvement of Enel constituting a reasonable compromise (Toral, 2008: 541). The equity holding in Endesa by those two companies was 67 percent for Enel and 25 present for Aciona. However, Endesa was to be run as a holding company for a 10-year period whereby Acciona would hold 50.01% of the voting rights – thereby keeping the former in Spanish hands.

3. Takeovers and the Evolution of the Electricity Sector in Britain and Spain: Insights of the Varieties of Capitalism Theoretical Perspective

The liberalisation of European electricity has been a watershed event in the history of the sector. It has resulted in many legislative and regulatory changes across member states. The legal framework at the core of the previous competitive regime has been seriously eroded. In turn, the liberalisation of the electricity sector at the EU level raises questions about the distinctiveness of national models. In particular, the role of takeovers as a restructuring mechanism has potentially risen in prominence given the EU liberalising directives and the continuing control of member states over the opening of new electricity plants. Takeovers constitute a privileged mode of entry into foreign markets.

The occurrence of institutional change highlights the presence of substantial sources of pressure related to the continuing distinctiveness and relevance of national institutions. In particular, the ability of governments to influence policies has been considerably in the new liberalised environment. Therefore, an account of the (continuing) divergence across national business systems requires an evaluation of change. We first analyse in this section the extent to which the insights of the Varieties of Capitalism perspective provides a full account of the impact of the EU driven liberalisation on the English and Spanish electricity sector in regard to the role of takeovers. The contribution of the Varieties of Capitalism perspective in the analysis of the impact of change in the electricity sector lies in highlighting how the process of change is driven by the character of existing institutional frameworks. The second part of this section presents a critique of the Varieties of Capitalism in the form of state activism. The insights of state activism are connected to the political nature of the origins of institutions.

3.1 VoC and Institutionally-Shaped Trajectories of Change

A fundamental contribution of the Varieties of Capitalism perspective lies in its ability to link institutional frameworks with specific patterns of change. The occurrence of common developments across national business systems does not lead to convergence precisely since it is mediated by the presence of different institutional frameworks.

Otherwise, the relevance of institutional variables would be seriously undermined. The Varieties of Capitalism perspective highlights the presence of institutional differences on the decision-making process in important issue areas as the refractor of new developments. The role of institutional frameworks in shaping the direction and content of change has figured prominently in this paper: the low prominence of takeovers in Spain by foreign companies (section 2.2), and the high prominence of takeovers in Britain (section 2.1).

Market for Corporate Control in Spain

The low prominence of the market of corporate control over the evolution of the Spanish electricity sector has been shaped by key institutional arrangements found in the spheres of corporate governance and employment relations. The first institution that mediates against the prominence of takeovers in Spain is the ownership structure of companies. By contrast to the complete dispersion of ownership that prevailed in Britain, electricity companies in Spain are characterised by overall ownership concentration. The stake of the hard core shareholding group in the three largest companies was the following from 2000 to 2006: Endesa (between 9 and 29 per cent), Iberdrola (between 13 and 27 per cent), and Union Fenosa (between 23 and 62 per cent) (see Table 3). The stake of the individual members of the hard core shareholding group was magnified due to the low attendance at the Annual General Meeting (AGM) of electricity companies. For instance, the quorum at the 2004 was 37.4 percent – thereby increasing the voting power of core shareholders (Endesa, 2007: 82). The magnified voting power of core shareholders, however, is limited to 10 per cent of the voting rights of electricity companies in Spain. The institutional arrangements of corporate law allow companies to implement deviations from the one share-one vote principle. The three largest electricity companies have relied on voting ceilings as a form of protection against takeovers. The use of voting ceilings prevented a full magnification of the powers of hard core shareholders, but also served to protect against the predatory actions of uninvited bidders.

The low prominence of takeovers in the Spanish electricity sector also reflected the institutional arrangements associated with the regulatory approval of M&A. Overall, the process of delegation to NRAs in Spain is characterised by the presence of two regulatory authorities – the Competition Tribunal (Tribunal de Defensa de la Competencia) and the National Energy Commission (Comisión Nacional de Energia) -- that are issuing non-binding recommendations. In other words, regulatory authorities possess some degree of independence, but these institutions act as advisories body for the sponsoring ministry which monopolises most important decision-making functions (Genoud, 2003). A final institutional hurdle in the market for corporate control in the Spanish electricity sector is the rigid regime on dismissals in employment relations (see OECD, 1999). This institutional arrangement impacts on the motivations of bidding companies. The post-acquisition options for successful bidders are limited. The ability to implement restructuring schemes involving important layoffs are difficult to implement and, as a result, cannot be used as a strategy to compensate for takeover premium fees.

These four institutional features – ownership concentration, voting ceilings, lower degrees of independence, and rigid labour markets – strongly militated against the occurrence of takeovers in the evolution of the Spanish electricity sector. These institutional arrangements are complementary – the presence of one improves on the effectiveness of others. For instance, the ability of concentrated pattern of ownership to deter takeover bids is reinforced by the by-law that limits the voting power of potential bidders. Similarly, the E.ON (and Gas Natural) bid for Endesa reflected the growing ownership diffusion at Endesa by 2005 (see Table 3). Otherwise, it would have been extremely difficult for E.ON to even envisage the possibility of a successful takeover bid for Spain's largest electricity firm.

The evolution of the electricity sector in Britain constitutes the paradigmatic case of takeovers exercising a high degree of prominence over its evolution. The entire privatised electricity sector has been the target of successful takeover bids from foreign companies. The bulk of these successful takeover bids, moreover, were unsolicited. Incumbent management either fought these bids or gave up early in the face of insurmountable odds (Deakin *et al*., 2002). The liberalisation of the electricity sector was an important event in the regulation of network industries and constituted an integral part of Thatcher's program to roll back the state and to assign greater prominence to market mechanisms in the allocation of resources (Thomas, 2001 and 2006a). In particular, the Thatcher administration viewed favourably the introduction of competition in the sector via the entry of new players in the market. The market for corporate control, in this context, was interpreted as a source of discipline on the management of electricity companies. However, the ultimate outcome of the transformation of the electricity sector in Britain is one where the industry is currently dominated by a fewer (as compared to 1990) number of firms involved in both generation and distribution and, moreover, with little incentives to compete against each other (Thomas, 2006b). This outcome was not anticipated or initially planned by policy-makers – takeovers were conceptualised as a mean (not an end) for achieving greater competition in the electricity sector (Helm, 2003). Why have takeovers trumped other factors in the evolution of the electricity sector?

The argument presented in this paper highlights the role of institutional frameworks in mediating a new development – namely the preferences of policy-makers for greater competition in the sector. State officials might possess defined preferences for the evolution of the sector, but institutional frameworks shape how those preferences eventually influence the evolution of the sector. In particular, the decision to frame competition as the break-up of the market power of the National Power-Powergen duopoly led to an unintended consequence: the predominance of takeovers over other factors in the evolution of the electricity sector. Two central aspects of the institutional framework in which English electricity companies were embedded militated for the importance of the market for corporate control. First, the decision to frame the notion of competition as the break-up of the market of the duopolistic system was not neutral in regard to the future direction of the sector. It meant that takeovers by foreign firms were not seen as a threat to competition as compared to the duopolistic structure of the sector. This particular framing must be seen in the context of the dispersed ownership structure of companies and the overall respect of the one share-one vote principle. The conceptualisation of competition as the breaking-up of the domestic duopoly at the expense of other factors was conducive to the prominence taken by takeovers, not because of the preferences of policy-makers, but as a result of under-emphasising the consequences associated with ownership dispersion and a system voting rights that is protective of minority shareholders. The process of framing competition as the break-up of the domestic duopoly would have produced different consequences if the ownership structure of companies had been characterised by ownership concentration and/or deviations from the one share-one vote principle would have been more widespread.

Second, several aspects of the regulatory framework of the electricity sector in Britain are largely immune from the influence of elected officials. The institutions associated with the regulatory approval of takeovers possess a life of their own and, therefore, mediate the influence of the choices of policy-makers. Elected officials might possess defined preferences about the nature of competition, but specific aspects of the institutional framework promote certain outcomes over others. For instance, one of the most influential institutions in the area of M&A approval in the United Kingdom is the Panel on Takeovers and Mergers. The raison d'être of the Panel on Takeovers and Mergers is to protect the rights of minority shareholders during takeover bids (Kenyon-Slade, 2004). This mission is enshrined in the principle of equal treatment for minority investors – the price per share offered by the bidding firm must be the same for all categories of shareholders; board members are subject to a fiduciary duty of good faith that limits their ability to support anti-takeover devices; and a bidder must make a formal offer for the entire stock capital of the firm if its stake crosses the 30 per cent threshold. The rights of employees are limited and confined to the area of consultation during takeover bids (Deakin *et al.*, 2002). Moreover, the Panel on Takeovers and Mergers is a self regulatory body that derives its legitimacy from the support it receives from the institutional investors' community – the biggest category of shareholders in the United Kingdom. The implication is that takeover proposals that make their way to the Panel on Takeovers and Mergers stand an excellent chance of being approved provided that the rights of minority shareholders are respected.

3.2 State Activism and the Origins of Institutions

The argument presented in this paper is that while the Varieties of Capitalism perspective is crucial to understand the transformation of the Spanish electricity sector on two new challenges – it needs to be complemented. The insufficient character of this perspective to fully account for the evolution of the English and Spanish electricity sector is analysed through the angle of the origins of institutions.

An important line of criticism directed at the Varieties of Capitalism perspective is that it underplays the importance of politics and conflict in the process by which institutions originate. This shortcoming is important since it impedes on its ability to capture all potential scenarios of change (Howell, 2003; Morgan, 2005). State intervention is conceptualised as an enabling mechanism in the process by which firms coordinate their activities – i.e. the actions of policy-makers perform the role of a supporting actor to the existing mode of coordination. The focus on coordination obscures the issue that efficiency concerns constitute only one potential motivation of policy-makers in the origins of institutional arrangements (Deeg, 2005). State officials possess multiple sets of preferences that range beyond the narrow realm of the coordinating capacities of firms. I analyse in the rest of this section two instances where state intervention took place with aims different than the sustainability of the coordination of firms´ activities: the imposition of constraints on the activities of Spanish firms; and the privatisation and breaking-up of the National Power-Powergen duopoly in Britain.

State Constraints in Spain

The image of state officials intervening with the sole aim to enabling firms to sustain their coordinating activities does not capture the extensive range of motivation of Spanish policy-makers. In particular, policies have often been introduced and implemented against the preferences of domestic companies – thereby, making it extremely difficult to argue that the primary aim of state intervention is to enable firms to better coordinate their activities. State officials have autonomously derived preferences that they have carried out often against the wishes of powerful actors. For instance, the regulation of electricity tariffs is characterised by the imposition of tight upper limits that seriously limits the ability of firms to insure their profitability through prices (Arocena *et al*., 2002; Fraser, 1999: 9-13). Increases in the price of electricity have often been lower than rates of inflation (Arocena *et al*, 2002: 886). Firms have been faced with serious incentives to adjust and save costs in order to compensate for the low tariffs. Moreover, the low electricity tariffs took place in a context of fast rising demand for electricity in Spain – an almost 100 per cent increase between 1994 and 2006 (CNE, 2007: 19). Policy-makers did not try to slow down the increases in demand for electricity via higher prices. The upshot is that large electricity firms have been incentivised to expand their supply capacities via the construction of new plants.[7]

Another set of constraints resulting from state policies has been the imposition of several vetoes on the attempts by domestic firms to merge between themselves. Policy-makers have been highly supportive of the international expansion of domestic firms – but have been at times reluctant to see them merge between themselves for issues of competition in the Spanish market (Crampes and Fabra, 2004: 13-15). Three major attempts of domestic mergers had been blocked: Endesa-Iberdrola (2001), Union Fenosa-Hidrocantabrico (2000), and Gas Natural-Iberdrola (2003). Moreover, policy-makers introduced legislation that limited cross-shareholdings to a threshold of three percent between banks and electricity companies in the late 1990s. The aim was to promote the development of market forces in the sector. These two constraints on the actions of domestic companies highlight the fact that state intervention is not reducible to the coordinating needs of firms. [8]

Privatisation and Breaking-up of the Duopoly Structure in Britain

The nature of state intervention was crucial in the evolution of the electricity sector in Britain – and the prominent place that takeovers did occupy. The policy outputs of the British state cannot be reduced solely in terms of issues related to the processes by

[7] The Spanish state has been helpful at this juncture by making it harder on foreign firms to secure approval for the construction of new plants (Arocena et al, 1999). However, this form of protectionism did not imply the inactivity of domestic firms – new plants were built in order to meet the rising demand.

[8] The constraints on mergers between domestic companies have been recently relaxed – Spanish policy-makers viewed favourably the two domestic bids for Endesa (Gas Natural and Acciona) and the acquisition of Union Fenosa by Gas Natural. Moreover, limits on cross-shareholdings between banks and electricity companies have been lifted. The realistic and growing threat of takeovers by foreign bidders has forced policy-makers to encourage domestic solutions for sustaining ownership concentration of domestic companies. Nonetheless, these examples highlight the willingness of state officials to implement policies that run counter to the preferences of large domestic electricity companies.

which firms coordinate their activities in the new liberalised environment. The complexity of state intervention in the electricity sector was tightly bound to two related questions – namely the choice of a dispersed ownership structure in the privatisation of electricity companies and the breaking-up of the duopoly structure.

The process of privatisation of electricity companies in Britain and the breaking up of the duopoly structure of the sector highlighted the presence of many preferences by policy-makers. The characteristics of privatisation and the process by which the duopoly structure was broken up were the outcomes of several and different factors. The sets of preferences of policy-makers went beyond the narrow concept of firm coordination. First, the process of privatisation in Britain was also motivated by a desire to reduce the role of the state in the electricity sector. The aim was to replace the tightly regulated monopolistic environment with one where greater competition would deliver electricity at competitive prices (Coen and Thatcher, 2000). The process of turning the former core monopolies into competitive organisations, in turn, carries substantial policy implications for the evolution and transformation of the electricity sector. The breaking-up of the duopolistic structure was seen as a necessary condition for the introduction of greater competition (Helm, 2003; Newbury, 2004; Thomas, 2006a). This meant that UK policy-makers did use their veto powers over attempts by National Power and Powergen to acquire other domestic companies – but not when foreign firms launched takeover bids for smaller English electricity units (Loredo and Suarez, 2000: 72). Moreover, the choice of a dispersed ownership structure for privatised companies was driven by the idea that takeover threats would result in the imposition of market discipline on companies – otherwise they would end up being the target of unwanted takeover bids (Helm, 2003; Littlechild, 1988). The prominence of takeovers was interpreted as a check on managerial inefficiency. Ownership diffusion came to be associated with greater competition via greater market discipline resulting from exposure on the market for corporate control.

Second, the policy choices of UK policy-makers were also tied to the idea of reducing the power of militant trade unions in the sector (Thomas, 2005; Ridley, 1991; Walker, 1991). Trade union militancy was seen as an obstacle to the proper functioning of markets. The argument of the Thatcher administration was that the power of trade unions would be substantially reduced in the case of the fragmentation of the sector – thereby providing further impetus for breaking-up the National Power-Powergen duopoly (Helm, 2003: 89). The influence of trade unions was seen as more likely to be limited in conditions of perfect competition as opposed to an oligopolistic/monopolistic industry structure. In particular, the unchecked behaviour of union monopolies (notably coal) came to threaten security of supply.[9] Hence, it is no surprise that the process of privatisation under Thatcher was also associated with the breaking up of the large monopolies and the introduction of competition – two factors that were bound to have an impact on trade union power. The negative influence of trade unions militancy was seen as more difficult to sustain in competitive markets than if the firm was operating as a monopoly. The break-up of companies upon privatisation, moreover, would further fragment union power. The breaking-up of a monopolistic position was appealing to Thatcher and complemented her distrust of large corporate entities and of neo-corporatist bargaining (Helm, 2003: 89). Moreover, the use of ownership diffusion in the privatisation of electricity companies further reduced the power of trade unions. The bargaining power of trade unions tends to be stronger and more developed in the presence of ownership concentration since management does not have to worry about takeover threats.

4 Conclusion

The advent of liberalisation has not induced convergence between national models of capitalism. The analysis of the cases of the English and Spanish electricity sector performed in this paper illustrates quite well the prominence of national institutions of corporate governance and the centrality of patterns of re-regulation. The institutionally-based Varieties of Capitalism theoretical perspective and the notion of state activism share great scepticism on the notion that liberalisation results in a race toward the bottom of the lowest standards. However, each remains individually incomplete to fully account for the specific nature of the role of takeovers in the transformation of the electricity sector in Britain and Spain. The Varieties of Capitalism (VoC) literature has provided essential insights for understanding the viability of economic divergence in an age of greater economic integration – but the perspective is more explanatory powerful when complemented with notions of state activism. The impact of the institutions of corporate governance (and employment relations) is mediated by their interaction with

[9] The electricity supply industry depended on coal for three-quarters of its output (Newbery, 2004: 2).

the wider institutional framework in which they are embedded. In particular, it is within their interaction with the choices of policy-makers that institutional frameworks matter, not by themselves.

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Table 1 Equity Holding by Substantial Shareholders (Aggregate Equity Stake and Number of Institutional Investors) in British Electricity Companies (RECs)%

Years	Eastern	East Midlands	London Ele	Manweb	Midlands	Northen	Norweb	Seeboard	Southern	South Wales	South West (SWEB)	Yorkshire
1991	**8.4 (2)** Prudential Norwich Union	**6.5(2)** Prudential Norwich Union		**4.1(1)** Prudential	**9.4 (3)** Prudential Legal&General Friends Provid	**11.4(3)** Friends Prov Sun Life Prudential			**4..2(1)** Prudential	**26.6(4)** Welsh Water Norwich Friends Prov Prudential	**11.1(2)** Prudential Robert Fleming	**3.4(1)** Prudential
1992	**9..5 (2)** Prudential Robert Fleming	**11.1(3)** Prudencial Friend Provi Norwich		**12.3 (2)** Prudential Robert Fleming	**18.5 (3)** Prudential Friends Prov Legal&General	**19.8(4)** Prudential Barclays Friends Prov Rockleigh	**23.8(4)** Prudential Robert Flem Barclays Gartmore	**21.9(5)** Morgan Prudential Norwich Friends Prov CIN Manag	**8.1(1)** Prudential	**29(4)** Welsh Water Norwich Prudential Friends Prov	**22.1(3)** Prudential Robert Flem British Rail Pension Trustee	**15.2(2)** Prudential Robert Fleming
1993	**17.5(4)** Prudential Robert Flem Abu Dhabi Bank Sun Life Inv	**7..9(2)** Prudential Barclays	**16.6 (4)** Prudential Robert Flem Henderson Gartmore Inv	**11.2(2)** Prudential Norwich Union	**12.3 (2)** Prudential Legal&Assur	**16.5(3)** Prudential Barclays Sun Life Corp	**22.7(4)** Prudential Barclays Norwich Gartmore	**24.1(5)** Norwich Morgan Gre Prudential CIN Manag Chase Man	**8.4(1)** Prudential	**22.6(6)** Norwich Prudential Nat. Westmi Friends Prov Chase Nomi Capital	**25.6(3)** Prudential Gartmore Robert Fleming	**22.1(4)** Prudential Robert Fleming Bank of New York AMAP Asset Mgrs. Ltd
1994	**9..5(2)** Prudential Sun Life Inv	**4.7(1)** Prudential	**14.8 (4)** Prudental Fleming Inv Gartmore Inv Standard Lif	**6.5(1)** Prudential		**N/A**	**20.1 (3)** Prudential Bank of New York Norwich	**11.3(2)** Norwich Prudential	**7..9(1)** Prudential	**14(3)** Norwich Prudential Friends Prov	**11.5(1)** Prudential	**8.6(2)** Prudential Bank of New York
1995	**16.1(4)** Prudential Sun Life Inv Capital Grop Standard Lif	**N/A**	**11.4(3)** Prudential Standard Lif Noewich	**16.7 (4)** Prudential B.A.T Indust Leagl&Genen Norwich	**9.5(2)** Prudential Legal&Assur	**6.4(1)** Prudential	**24.2(4)** Prudential Bank of New York Norweb Norwich	**10.5(2)** Norwich Prudential	**7..8(1)** Prudential	**22.2(5)** Norwich Prudential Friends Prov Standard Liv Francklin Re	**15.9(2)** Prudential Standard Life	**14(3)** Swiss Bank Prudential Standard Life
1996		**7.1(1)** Prudential					**3.4(1)** Norwich		**15.7 (2)** National Power Prudential			**8.3(2)** Prudential Standard Life
1997									**12.6 (2)** Prudential Capital			

Source Annual Reports

Table 2 Equity Holding by Substantial Shareholders (Aggregate Equity Stake and Number of Institutional Investors) in British Electricity Companies (RECs) %

	National Power		PowerGen		Scottish Power		Scottish and Southern	
Years	**State**	**Institutional Investors**	**State**	**Institutional Investors**	**State**	**Institutional Investors**	**State**	**Institutional Investors**
1991	**39.1**	**6.9** Nomura Securities	**40.5**	**4.0** Nomura Securities	**3.5**		**3.4**	
1992	**39.1**	**4.3** Schroder Investment	**40.5**	**3.1** Prudential	**3.6**	**8.5(2)** Morgan Gren, Prudential	**3.4**	**8.3(2)** Morgan Gren, Provident Mutual
1993	**39.1**	**4..3** Schoder Investment	**40.5**	3.1 Prudential	**3.6**	**7.7(2)** Prudential, Norwich	**3.4**	**3.1** Gartmore
1994	**39.1**		**39.7**	**5.0** Prudential	**3.6**	**3.4(1)** Prudential	**3.4**	
1995	**N/A**	**N/A**	**3.1**	**5.0** Prudential		**3..5(1)** Prudential	**N/A**	**N/A**
1996	**N/A**	**N/A**	**3.1**	**7.6(2)** Prudential and Bank of New YorK		**4..5(1)** Prudential	**N/A**	**N/A**
1997		3.0 The Capital Group		**10.5 (2)** Prudential and Bank of New YorK		**7..2(1)** Prudential		**3.1** Standard Life Group
1998	**N/A**	**N/A**		**11.1(2)** Prudential and Bank of New YorK		**7.7(1)** Prudential	**N/A**	**N/A**
1999		**9.9 (2)** Merry Lynch Franklin Resources		**11.1 (2)** Prudential and Bank of New YorK		**6.6(1)** Prudential	**N/A**	**N/A**
2000				**20.1 (4)** Bank of New York Frankin Re, Brandes Invest, Prudential		**3.8(1)** Prudential		**7.4(2)** Prudential, FMR Corp
2001				**26(4)** Brandes Invest, Capital Group, Franklin Resour, CGNU,plc		**11.2(3)** Putman Investment, CGNU, Prudential Corp		**4.1** Prudential
2002						**9.1(2)** Capital Research, Barclays		**7.0(2)** Prudential, Barclays
2003						**17.9(4)** Capital Research, Barclays, Prudential ,Legal&General		**6.4(2)** Leagl&General Group, Prudential
2004						**19.9(4)** Capital Research, Barclays, Legal&General, Prudential		**10.1(3)** Prudential, Legal&General Group, FMR Corp
2005						**14.7(3)** Capital Research, Legal&General, Barclays,		**7.3(2)** Barclays, Legal&General Group
2006						**3..3(1)** Barclays Bank		**10.3(3)** Capital Group, Legal&General, Barclays

Source: Annual Reports

Table 3 Equity Holding by Substantial Shareholders in Spanish Electricity Industries (%)

	Endesa		Iberdrola		Unión Fenosa	
Years	**Domestic Friendly**	**Foreign Inst. Inv.**	**Domestic Friend**	**Foreign Inst. Inv.**	**Domestic Friendly**	**Foreign Inst. Inv.**
2000	Caja Madrid 5.1 Caixa 5.0		BBVA 9.9 BBK 5.1	Chase M 10.2 Franklin Res 5.0	BSCH 11.8 Caixa Gal 6.6 Banco Pastor 4.2	
2001	Caja Madrid 5.1 Caixa 5.0 BBVA 2.5	Chase M 6.5	BBVA 8.6 BBK 7.5	Chase M 10.2 Franklin Res 5.0	BSCH 13.7 Caixa Gal 6.7 Banco Pastor 3.9	E.ON 4.9
2002	Caja Madrid 5.1 Caixa 5.0	Chase M 6.4	BBVA 9.4 BBK 7.5	Chase M 10.2 Franklin Res 5.0	BSCH 14.2 Caixa Gal 6.8 Banco Pastor 3.7	
2003	Caja Madrid 5.1 Caixa 5.0 BBVA 2.5	Chase M 5.7	BBVA 9.9 BBK 5.1	Chase M 10.3 Franklin Res 5.0	BSCH 23.4 Caixa Gal 7.1 Caja Med 3.7 Caixanova 3.1 Banco Pastor 3.8	E.ON 5.0
2004	Caja Madrid 5.1 Caixa 5.0	Chase M 5.7	BBVA 9.8 BBK 5.0	Chase M 9.6 Cartera e Inv 7.4	BSCH 22.0 Caixa Gal 5.4 Caja Med 4.1 Caixanova 4.0 Banco Pastor 3.8	
2005	Caja Madrid 9.0	Chase M 5.7 Axa 5.3 State Strt 5.0	BBK 7.5 BBVA 5.4	Chase M 8.4	ACS 34.5 Caixa Gal 9.9 Caja Med 4.0 Caixanova 4.0 Banco Pastor 3.8	
2006	Caja Madrid 9.0 Acciona 20	Axa 5.3	ACS 10 BBK 9.9 BBVA 7.5		ACS 40.5 Caixa Gal 8.0 Caja Med 5.1 Caixanova 5.0 Banco Pastor 3.8	
2007	Acciona 25 + Enel (Italy) 67		ACS 7.2 BBK 7.1 Caja Valencia 6.0		ACS 45.3 Caja Med 5.1 Caixanova 5.0 Caixa Gal 5.0 Banco Pastor 2.6	

TABLE 4 British Electricity CompaniesTake-overs and mergers for the REC (Regional Electricity company)

	1995	1996	1997	1998	1999	2000	2001	2002	2007	Trade name
National Power							Innogy	RWE	RWE	Innogy
Powergen								E.ON	Powergen	Powergen
ScottishPower									Iberdrola	ScottishPower
Scottish Hydro				SSE					SSE	SSE
National Grid								N Grid Tra	National Grid	N Grid Transco
Eastern distrib	Hanson Trust		Energy Group	Texas Utils				EDF	EDF	24Seven
Eastern supply	Hanson Trust		Energy Group	Texas Utils				E.ON	Powergen	Powergen
EMidlanddistrib		Dominion		Powergen				E.ON	EMidlandsElec	E Midlands Elec
EMidlandsupply		Dominion		Powergen				E.ON	Powergen	Powergen
London distrib		Entergy		EDF					EDF	24Seven
London supply		Entergy		EDF					EDF	London Electric
Manweb distrib	ScottishPower								SPManweb	SP Manweb
Manweb supply	ScottishPower								ScottishPower	ScottishPower
Midlands distrib		Avon Energy			GPU			Aquila	EON	Aquila
Midlands supply		Avon Energy		National Power			Innogy	RWE	RWE	NPower
Northern distrib		CalEnergy							CEElectric	Northern Electric
Northern supply		CalEnergy					Innogy		RWE	NPower
Norweb distrib	NW Water								UUitilities	United Utilities
Norweb supply	NW Water					Texas Utils		E.ON	Powergen	Powergen
Seeboard distrib	C&SW Corp					AEP		EDF	EDF	24Seven
Seeboard supply	C&SW Corp					AEP		EDF	EDF	Seeboard Energy
Southern distrib				SSE					SSE	SSE Power Dist
Southern supply				SSE					SSE	Southern Electric
SWALEC distrib	Welsh Water					WPD			WPD	WPD
SWALEC supply	Welsh Water				British Energy	SSE			SSE	Swalec Electric
SWEB distrib	Southern Co				WPD				WPD	WPD
SWEB supply	Southern Co				EDF				EDF	SWEB
Yorkshiredistrib			Y’shire Holding				MidAmerican Energy		CEElectric	Y’E’ Distrib
Yorkshiresupply			Y’shire Holding				Innogy	RWE	RWE	NPower

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Centre for the Study of Globalisation and Regionalisation
University of Warwick
Coventry CV4 7AL, UK

Tel: +44 (0)24 7657 2533
Fax: +44 (0)24 7657 2548
Email: csgr@warwick.ac.uk
Web address: http://www.csgr.org