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SECTOR, FIRM AND MANAGEMENT PERFORMANCE IN THE NETHERLANDS: THE ROLE OF NATIONAL GOVERNANCE AND INSTITUTIONS [1]

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INTRODUCTION

This paper discusses performance characteristics and differences at three levels: at sector, firm and top management level. First, it explores the extent to which the particularities of the Dutch business system history influence the economic performance of different types of firms and sectors in the Netherlands. Elaborating on earlier work on the Dutch business system (Iterson and Olie, 1992; van Dijk and Punch, 1993: Sorge and Iterson, 1995, Iterson, 1997), it will be hypothesised which sectors and types of firms will prosper in the socio-institutional context and which sectors and types of firms will not. For instance, it will be brought forward that the agricultural sector, the mineral fuels and chemicals sector, the foods and detergents sector, the transport and transshipment sector and the financial services sector have emerged in a favourable socio-institutional context whereas the steel and the car sector have not. As to different types of firms, it will be brought forward that family-owned and state-owned companies are much less dominant in the Netherlands than public limited liability companies. At firm level, special attention will be given to the large multinational corporations, such as the Royal Dutch Shell Group, Unilever, AKZO, DSM and Philips.

Secondly, the socially constructed managerial capabilities and discretion - again, related to economic performance - will be explored in this paper. They are to be understood as an outcome of the idiosyncratic formation of social groups in the Netherlands and the related emergent governance principles (Cf. Kristensen, 1995), whixh is known as `pillarisation'. In

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doing so, a tentative link will be made between the theoretical perspective used in an earlier paper on governance and work systems in the Netherlands and the resource-based view of the firm, more specifically the impact of (attributes of) work and management teams on performance and survival. After all, this latter perspective aims at explaining differences in efficiency and effectiveness of economic actors. An attempt is made to asses the influence of natural and formal governance systems and institutional features on the spread and level of management teams' attributes, which are an important factor in relation to firm performance. It seems that Dutch management is more apt to performance attained via effectiveness than it is through efficiency, since heterogeneity of perspectives is not only `internally' valued but also `externally' nót restricted.

THE CONTEMPORARY DUTCH BUSINESS STRUCTURE

The present-day Dutch business structure is markedly `waisted': the distribution of company size resembles the shape of an hour-glass. On the one hand, there is some twenty large corporations with world-wide operations, employing more than 20,000 people, on the other hand, we see a vast number of small-sized companies: about half a million registered companies have less than 10 employees. Between these very large and small units, there is precious little: the small number of medium-sized firms in the Netherlands is striking. In addition to their limited share, Dutch medium-sized firms tend to be smaller than their counterparts in neighbouring countries, such as Germany and Belgium. The large enterprises `above the waist' include multinationals with world-wide operations. A number of these multinational corporations can be found in the list of the 100 most successful European firms in terms of net added value (FEM, 1996, in cooperation with the University of Amsterdam). They are, respectively: the (anglo-dutch) Royal Dutch Shell Group (nr. 3 on the list), Philips (nr. 6), Unilever (nr. 11; also Anglo-Dutch), KPN (nr. 29), AKZO Nobel (nr. 42), and AHOLD (nr. 85). (See table 1 for an overview of these firms' activities).

Except for Philips and KPN, all these MNCs further process natural inputs, and. This is what the Dutch food and drinks sector - Unilever, but also beer brewer Heineken, and, partly, AHOLD - and the chemical sector - Shell, AKZO Nobel, but also DSM (chemicals, energy, fertilisers) - have in common: natural materials are refined and further processed. The dominant position of these enterprises can be understood in relationship with the agricultural and fisheries sector, which was highly productive already in early-modern times (e.g. Mokyr, 1976; de Vries & van der Woude, 1995; Israel, 1995) as will be discussed below.

Not only is the distribution of company size `a-typical' *vis-à-vis* its neighbouring countries, also is the Dutch business marked by its sectoral distribution, as already indicated above. The strong focus on the agricultural and fisheries sector is discernable - not in terms of employment since only 6,9 per cent of the Dutch working population is employed in this sector, but in terms of sales. Dairy, meat, fish, cut-flowers et cetera are the Netherlands' second most important export commodities (See table 2, next page).

Table 1: *The largest multinational corporations in the Netherlands*

Corporation	**Sector**
Royal Dutch Shell Group	Oil and petroleum products
Philips	Consumer electronics and industrial electronic
Unilever	Foods, detergents
KPN	Postal and telephone services, banking
AKZO Nobel	Chemicals, synthetic fibres, pharmaceuticals
AHOLD	Retail, also foods and detergents

Next to the foods, detergents, and retail sectors, and the mineral fuels and chemicals sector, one also needs to point at the disproportionate size of the trade (transport and transshipment) and the service sector. Only in the United States is the percentage of service sector as compared to other industries bigger. In the U.S., this proportion amounts up to 3:1; in the Netherlands 2,5:1. The average for European countries is 2:1 (van Iterson & Olie, 1992). The traditional strengths of the Netherlands, then, seem to reside in the processing sector, as well as in the distributive and financial services, not in the areas of the manufacturing and basic industries.

Table 2: Dutch export distribution

Products	**Percentage**
Agricultural products	18
Machinery and transportation equipments	22
Chemical products	17

Source: *CBS, 1996*

THE DOMINANT TYPES OF FIRMS AND FORMAL GOVERNANCE IN THE NETHERLANDS

As to the dominant types of firms, family-owned companies, especially among the larger firms, are not very common - retailers C&A and Vendex International, and trade company SHV Holdings being exceptions to that rule. Of the companies whose shares are traded on the Amsterdam Stock Exchange, only very few are (partly) owned by the founding families. Beer brewer Heineken, here, is an example. State-owned companies are equally rare in the Netherlands. The few state-owned companies left have mostly been privatized in recent years: KLM, DSM, Volvocar, Hoogovens and Fokker. The legal form which is used by most large Dutch firms is the so-called *Naamloze Vennootschap* with limited liability and quoted shares. The public limited liability company has been the dominant legal form `above the waist' since the beginning of this century. As in Germany, Dutch public companies have a two-tier board system. At the top is a supervisory board, the *Raad van Commissarissen*, consisting entirely of non-executive directors: former politicians, former senior company executives, leading dignitaries or executives of other important firms, although never from the same sector. Members of this board are appointed by co-optation and not by the shareholders or by the work-force. Both the meeting of shareholders and the Enterprise Council have the right to propose or to reject new members. However, final decision-making power rests with the supervisory board. This disengagement from shareholders and workforce is necessary in view of the task of this board, which role it is to serve the interests of the company as a whole and not to represent the interests of one group in particular. Therefore, a balanced board composition is usually pursued. The executive board (*Raad van Bestuur*) carries a similar task. It has to base its decisions on the general interest of the company. Dutch company law with respect to joint-stock companies therefore assumes that both supervisory and executive board act in the public interest of the company. They have to consider interests of all stakeholders: suppliers of capital, management, work force as well as the general public (Schreuder, 1981).[1] Dutch firms can be labelled as a `nexus of stakeholders' (van Iterson and Olie, 1992) where none of the collective actors involved dominate.

The executive board is appointed and can also be removed from office by the supervisory board. But this is an *ultimum remedium*. The relationship between the two boards is characterised by trust. Overall, the involvement of the supervisory boards in company policy is modest, the more so since board members usually lack specific knowledge of the industry in which the company operates and their function is only part-time. It is the *Raad van Bestuur* who actually runs the company. The supervisory board intervenes only in non-routine cases, e.g. a financial crisis, a crisis of confidence in the executive board, or when major decisions about the future company operations are involved (van der Grinten, 1985). The added value of the supervisory board must be mainly sought in their function as intermediaries of information. Consequently, managerial discretion is high.[2]

As a result of elaborate legal protection constructions, the market for corporate control is not strongely developed in the Netherlands. But this does not mean that shares are closely held by business partners. Dutch company shares are usually widely dispersed. Furthermore, banks and other companies hold few shares in companies. This, too, contributes to the high managerial discretion in larger Dutch firms.

Two other features of the Dutch business system with regard to the functioning of executives' teams are the consensus striving character within the board and the combination of task- and group-oriented personnel management. Although the executive board is presided by the *president-directeur*, this chairman is not the ultimate authority figure who actually leads the firm, but a *primus inter pares*. A Dutch board is principally a team of equals. Responsibility for corporate actions is carried by the whole board. It does not happen very often that chairmen use their decision making power against the will of other board members. Consensus is highly valued (d'Iribarne, 1989) and therefore, one can label Dutch management as consensus management. Charismatic or heroic leadership is not a common phenomenon in the Netherlands, nor is it something considered worth striving for. `Management has never been very spectacular. (..) In our history we do not know any popular heroes, nor any Sun kings in the centre of an impressive household' (Franke and Whitlau, 1979: 172). Although a flamboyant leadership style is not to be expected, purely task-oriented, formal leadership is not emphasized either in the Netherlands. Persuasion power and expertise are the main bases for authority. On the one hand, the Dutch manager has to be a problem solver and task-oriented. At the same time, his group expects him to be considerate and nurture group relations (Cf. Lawrence, 1990).[3]

EXPLAINING THE DOMINANCE OF SPECIFIC SECTORS AND TYPES OF FIRMS IN THE NETHERLANDS

How to explain the prevalence of the Dutch multinational corporations in the above-mentioned industries and the dominance of the public limited liability form? Therefore, it seems, the idiosyncratic path to industrialisation which the Netherlands took, must be given closer attention. Below, a concise overview will be given of the geographical and socio-economical characteristics of late-medieval `Holland', when the fundament was laid for the high-productive agrarian economic organisation, and the early history of the Republic of the Netherlands, when the rebellious provinces gained unity and identity in their combat against Spanish overlordship and the ubiquitous water, and when merchant elites grasped the opportunities offered by the expanding oversees trade and the favourable location of the maritime part of the Netherlands (for a more detailed discussion, see van Iterson, 1997). This long time-span is deemed necessary since the development of governance principles and the formation of collective economic and institutional actors in the Netherlands cannot be understood without due reference to:

(a) the late-medieval and early-modern agrarian and commercial activities (cattle-farming, fishing, and trading), which were not governed by a feudal owner class or centralised kingdom, but supported by municipal bourgeois,
(b) the winning of land from the sea and securing it through dikes and dams, which has seen the rise of partly voluntary associations, founded on the cooperative principles of quasi-government through peer control, and,
(c) the emergence of large trade companies, which were coordinated by rather collegiate `management teams' representing the interests of local and regional governments, and who operated on the Amsterdam Exchange.

These phenomena and processes have generated a distinctively Dutch pattern of constituting and regulating social groups which continues to influence the succesfulness of specific types of firms and industries as well as the failure of others. The central regulatory principle that has become established can be summarised as the strong preference for compromise and consensus among peers, and I shall conclude the paper with a brief `resource-based' discussion of how this national governance principle, in concert with later-developed `proximate institutions' (See: Whitley, 1992), has possibly continued to influence the performance of top management teams in large, modern corporations in the Netherlands.

THE EMERGENCE OF NATIONAL GOVERNANCE AND THE FORMATION OF SOCIAL GROUPS IN THE NETHERLANDS

(a) Feudalisation, pervasive overall in medieval Western-Europe, was much more limited in impact in the Rhine and Maas delta, notably in the maritime provinces of Holland and Zeeland. These low-lying zones, surrounded by water and moors and a frequent prey to tidal waves and river floods, were a territory difficult to get at. Therefore, this outpost of the (weakening) German Empire was quite insuitable for the formation of a military-agrarian society, in which semi-autarkic farmers lived in dependence of a warrior class. Peasant farmers in the Dutch maritime provinces were free from feudal ties and obligations already from the 12th century onwards. Land reclamation and colonization of new territories urged the nobility and the church to offer attractive terms and free status, in order to entice peasant farmers to work these newly cultivated areas. By 1500, the larger part of the Low Countries was in held in fee simple. Land - whether it belonged to nobles, the church, citizens or to farmers themselves - was parcellized into small spots. The colonized polders were covered with large numbers of medium-sized farmhouses, on small, standard-sized parcels of land (cf. Israel, 1995: 106). Even ancient common fields were parcelled out to small farmers. Increasing specialisation and intensification, then, rendered Dutch agriculture the highest productivity in the world.

Already in the 13th century one witnessed a remarkable rise of the cities. The absence of a warrior nobility striving for extensive rule offered the town-dwellers the opportunity to specialise in commercial activities. The same omnipresence of water (sea and rivers) explains why economic expansion was found in fishing, carrying and transshipment. The Hollanders and Zeelanders developed the full-rigged herring buss, which endured their dominance over the North Sea herring grounds for three centuries, and the seagoing ships which formed the basis of the rapidly increasing bulk-carrying traffic between the Baltic (grain and timber) and France and Portugal (salt). Fishery, freightage and also the extensive river traffic stimulated an array of supportive activities: shipbuilding, the production of ropes, sails, barrels, casks, sacks, as well as equipping and manning.

As the peasant farmers were included in nascent urban trading networks, chances did increase for both groups: cattle-farmers and fishermen as well as craftsmen and merchants. Also profiting were the related small-scale manufacturing industries in the cities. In these shipyards, ropewalks, breweries and other `manufacturen', and in sugar refineries, soap works, tobacco processors and other `trafieken', expert knowledge of commodities and craft production were crucial. The productive co-operation between peasantry, commerce and industry brought about a strong population growth which again contributed to the on-going process of urbanisation. At the beginning of the 16th century, nearly half of the population of Holland lived in cities.

These cities were usually not governed by the nobility. The relatively weak position of feudal lords in the Dutch maritime zone contributes to the explanation why the Netherlands did not develop into an absolutist monarchy in the following centuries. The attempts of the Burgundian dukes and later of the Spanish Habsburg kings Charles V and Philip II to bring the `Dutch' provinces under strong imperial rule, met strong resistance and failed in the end: the Dutch Revolt resulting in the Eighty Years' War. The result of this revolt and war was the establishment, in 1648, of a sovereign republic of seven sovereign provinces. The political structure of the young republic was considered an `anachronism' since it preserved local and provincial autonomy and privileges, whereas the emerging absolutist states had abolished this. At the same time the Dutch republic is labelled as strikingly `modern' (e.g. de Vries, 1973), since the state, the provinces and the cities were governed by urban elites where the nobility was outnumbered by the *burghers*. The `States General' (the Dutch legislative body) was dominated by the non-aristocratic patricians from the cities, of which there was not one enjoying absolute power, despite Amsterdam's leading position. The most important issues discussed in the States General required unanimity of the voting provinces. This demanded time-consuming persuasion and mutual adjustment. The same applied for the provincial legislative bodies: the seven Provincial States. As to the executive, the `Stadtholder' had to share considerable power with the Grand Pensionary, Holland's highest civil servant.

Compared with the model example of state formation - feudal France into absolutist France (See Elias, 1969) - the Netherlands had its *Sondergang*: non-feudal `Holland' into non-absolutist Republic. The seemingly paradox between the anachronistic and modern political system accounts to some extent for the simultaneous existence of traditional forms of small-scale co-operation on the basis of peer control ànd large-scale trade organisations such as those active in the Baltic grain and wood trade as well as the *Verenigde Oostindische Compagnie* (the Dutch East India Company; 1602-1798) and the *Verenigde Westindische Compagnie* (the Dutch West India Company; 1621-1648), the first one being the world's first limited liability company and the largest multinational trading firm in the 17th and 18th century (Gaastra, 1991). Also profiting from the open spirit of bourgeois enterprise were the (mainly Amsterdam) merchant-banking houses, which operated largely on the international market as well.

(b) The collective effort of drainage and land reclamation in the Netherlands, which started already in the 12th century, is essential to understand the composition and decision-making of contemporary Dutch management and work teams. To fund, build and maintain dikes, dams and drainage channels, local drainage and polder boards developed. These *heemraadschappen* were committees on which villages, towns and local nobles had their representatives, providing a mechanism for cooperation between them. These committees were not family- nor state-initiated, but `local and spontaneous in origin' (Israel, 1995: 10): partly self-organized groups of experienced water tamers and therefore often labelled as `original democracies'. Nonetheless, the count of Holland, and neighbouring princes, exerted from the early 13th century onwards, a growing influence on this already vital framework of dike, drainage, and waterway control, especially by setting up regional jurisdictions to oversee the work of the drainage and polder boards: the *hoogheemraadschappen* (*hoog* - high). Although their procedures were fixed by the count and presided over by a *dijkgraaf* (`dike count'), these committees consisted also of representatives of towns, rural localities, and the nobility. Moreover, were these regional boards limited in reach, and, because of their character of proportionality, not contradictory to the associations on which they were superimposed. In the seventeenth century, the States General took over the supervising of the water defenses, drainage boards and land reclamation projects. The sea dikes, river embankments and `polders' continued to be maintained mainly by the regional boards, but in new drainage projects, where there were often rival interests, the role of the States was fundamental. In the draining of the Schermer lake `prolonged negotiations took place with the States mediating between Alkmaar, a group of investors in Amsterdam, and the local drainage boards' (Israel, 1995: 284). This example already indicates that supervising in the Netherlands often takes the shape of mediating.

The team work activities of the winning of peat bogs, the putting up of dams and dikes and the regulation of water were not initiated nor coordinated by any central government, but mobilised by volunteering farmers and citizens, with some aid of the local government. Upon these initiatives, governed through peer control, one has seen the rise of the above-sketched regional organisations. These formal agencies, too, were `founded on the traditional Germanic cooperative principles of quasi-government through peer control' (Sorge and van Iterson, 1995: 191). Both these local and regional water district boards are regarded here as one of the craddles of the Dutch governance principle of consensus building via peer control of representatives of local interests.

(c) Another craddle of national governance can be found in the large-scale trade companies active in the expanding world market. The East and West India Companies might very well have served as a blue print for the Dutch MNCs of late eras.[4] The highest managerial functions of the VOC were in the hands of the *Heeren XVII* (`Gentlemen XVII'), who represented local boards of directors: the six *kamers* (`chambers'). The *kamers* set the agenda of the *Heeren XVII*. Especially the Amsterdam and Zeeland chambers, with 12 to 13 of the 17 votes at highest level, were quite powerful.[5] Despite the dominant position of particularly Amsterdam, the VOC's higher managerial levels were strikingly horizontally decentralised. Another strikingly `modern' feature is that managerial discretion from owners was high. Shares were remarkably widely dispersed (Van Dillen, 1958). And although these shareholders were represented by nine `participants' to the meetings of the *Heeren XVII*, they had only an advisory role.

This undoubtedly influential example learns that early-modern Dutch `top management' operated as teams of equals, promoting the interests of stakeholding local parties rather than exclusively those of owners. And this idiosyncratic pattern fits well with the contemporary situation in Dutch business in which both the executive and the supervisory board are supposed to consider the interests of all stakeholders (see above).

INDUSTRIALISATION AND PILLARISATION: THE FORMATION OF PROXIMATE INSTITUTIONS

The rise of the Republic to world leadership in oversees trade (trade capitalism), including the transshipment activities (entrepot economy), and in agricultural productivity was nothing less than a divergent path to industrialisation. Dutch industrialisation can only be qualified as `retarded' when compared with the English `Industrialisation Revolution': the large-scale application of steam-driven technology in the `factory system'. What contributed to the Republic's early prosperity, were other technological innovations than the flying shuttle, the blast-furnace and the steam engine. These innovations are to be found in precisely the sectors discussed above. Drainage, farming and manufacturing profited greatly from the advanced windmill technology; fishing and bulk freightage from the indroduction of the fast `fluit' ship, which enabled the Dutch to sail to the Baltic twice a year in stead of once. In addition, one can refer to fodder crops, methods of soil replenisment, improved sluices, harbour cranes, timber-saws, and textile looms (e.g. Davids, 1993). These examples already indicate that these innovations were above all improvements of traditional devices.[6] An essential element of the trade-oriented `industrialisation' was the Dutch' unparallelled knowledge of commodities (Wennekes, 1996), but also knowledge of classifying, testing, storing, transporting, processing and market these commodities. These skills have become an enduring strength of a large number of Dutch firms in the industrial processing of drinks and foodstuffs and in the field of transport by road and air. The continuity between the early-modern and the present era accounts for the seemingly paradox that the Dutch economy has `come to be focused on activities which are elementary and yet highly modernised and capital intensive, simultaneously pre- and postindustrial due to a high service sector share in total employment: about 72 per cent at present (including government)' (Sorge and van Iterson, 1995: 191) and to `the prevalence of very productive large enterprises in process industries' (Ibid., p. 192). Now, because of this very continuity between the pre- and postindustrial Dutch business system, it can be expected that the natural governance, which has developed in the 13th to 17th century, is still viable in present enterprises, both small- and large-scale. Before that the formation of collective actors, competing over social and economic space in modern Dutch organizations, has to be touched upon. The resulting constitution of an industrial order was largely determined by the strong vertical ideological segmentation between these collective actors: the `pillarisation' (*Verzuiling*).

Soon after its establishment as the state religion of the young Republic, Dutch protestantism proliferated in a plethora of denominations, which fragmented loyalties dramatically. However, being a vulnerable nation, caught in an enduring fight with England, this fragmentation needed to be overcome, at least among the elites involved, through coalitions. This led to a pattern of `segregation at the bottom, coalitions at the top' (cf. Lijphart, 1968). In the 19th century, when the Roman-Catholics and the socialists emancipated and joined the public arena, this pattern found strong enforcement through institutionalisation. Political parties, schools, mutual health and social insurance, trade unions and professional organizations were established along these confessional and political lines. This resulted in a strongly corporatist system, which one would not expect in such an `open', trade-oriented nation. The pillarisation has reinforced the Dutch natural governance of compromise and consensus. Since neither of these different religious and ideological groups has gained absolute power in any domain, coalition building involving compromise seeking was needed to come to decisions and to find steady governance. On first thoughts pillarisation seems to contradict consensus and compromise. But, as already indicated, pillarisation did not occur along class divisions, but ran counter to these, so that owners, managers and workers could `find each other' in the insitutionalised defense of, for example, Roman Catholic interests. Pillarisation has reinforced the consensual spirit within the pillars.

These pillars, standing firmly seperated from each other, carried the same roof. Pillarisation is `a structure of vertical divisions [..] which parcelled out institutions along religious/ideological lines in a way which minimized conflicts between the "pillars". At the top, a relatively small elite bargained for the division of the spoils among the contending pillars and developed a model based on consensus, negotiation, paternalism from the top, and of "non-aggression treaties" to avoid disruptive conflict among, and open embarrasment of, elite members' (van Dijk and Punch, 1993: 172). This corporatist framework, with the accepted role of `pillarised' associations at `mid-field' level, and the power balance between them, has also strongly affected the governance of firms, particularly joint-stock companies. Both in the operative co-determination system, with the accepted role of the trade unions and the works councils, and in the predominating concept of the firm as a nexus of stakeholders where neither of the parties dominates, coalition building and consensus seeking are mandatory to achieve business goals. Despite their large managerial discretion, as a result of dispersed share ownership, the failing market for corporate control, but also because of the arm's length relations with governmental and financial institutions (as will be seen below), executive boards in the concentrated sectors and industries pursue the public interest of the company and not the partial interests of owners, management itself, workers or any other collective actors. This commitment to the firm's interest as a whole is even expected from the works council, which is, of course, officially the representative body of the work force.

Given i) the nation's traditional strength in international trade and export, resulting in powerful multinationals with major operations abroad, and b) the tradition of proportionality and consensus, which was both re-enforced and somewhat altered in the era of pillarisation, it will not be surprising that state commitment to industrial development and risk sharing (Cf. Whitley, 1992) has always been low in the Netherlands. Since the end of the 19th century, a belief in the power of the free market and a dislike of protectionism determined to a large extent the role of the state. Only in the post-war reconstruction of the late 1940s and 1950s, this `laissez-faire' attitude changed into a more developmental role of the state, aiming at creating full employment and a modern welfare state. All in all, direct involvement with companies has always remained low. Even during the concentration trend in the 1970s, where in many countries government-controlled agencies played an active match-making role, the Dutch state stood aside. State involvement primarily focused upon creating a favourable climate. So, active intervention never was an enduring quality of Dutch economic state policy, irrespective of the political background of governments. The Dutch state has never really acted as a strong coordinator of economic activities, both with respect to trade and industry. This stand, then, contributes to the high managerial discretion Dutch management teams enjoy.

Not only the political institutions, but also the financial institutions stay at arm's length from Dutch firms' management. In contrast to other European countries which are considered belonging to the `Rheinland model' of capitalism, the Netherlands has a well developed capital market: shares of the public companies are usually widely dispersed. About 45 per cent of the shares of listed companies are in the hands of private owners. Because pension funds and life insurance companies invest only a small proportion of their funds in common stock[7], they possess no more than 15-20 per cent of the shares of listed companies in the Netherlands. Next, since Dutch banks are first and foremost commercial banks specialized in short term credit provision and trade finance, they hardly engaged in large-scale financial participations in the national industry. The amount of industrial participations usually does not exceed two percent of their balance-total. `The fact that Dutch banks never developed into investment banks is a consequence of the orientation of the Dutch economy towards international trade and commercial activities, particularly those related to the Dutch colonies' (Stokman et al., 1985: 113). Hence, the relationship between company and banks is one of remoteness, the more so since they do not have deposit voting rights for private shareholders, as in Germany. Demanding a change of policy or management only comes up when interest of the repayment of loans is at stake.

The main providers of long-term credit are the pension funds, insurance companies, as well as the saving banks (Ibid). The behavior of these institutional investors is therefore noteworthy. All large companies in the Netherlands have their own pension funds and smaller companies often participate in a pension fund for a whole branch of industry. The largest pension fund in the Netherlands is ABP (*Algemeen Burgerlijk Pensioenfonds*), the civil servants pension fund. Unlike the assertive policy often pursued by their Anglo-Saxon counterparts, Dutch institutional investors show a more reserved policy vis à vis management. They seldomly exercize their formal ownership rights. Confrontation with a companies' management is exceptional. This policy is reinforced by the fact that membership of a pension fund is obligatory for Dutch employees. The constant influx of capital relieves the pension funds of the obligation to compete for these resources and press company management for higher returns on investment.

All this, again, adds to the already observed managerial discretion in the Netherlands.

As to the labour system - the third proximate institution - one can acknowledge a considerably high level of trust and cooperation between (organised) employers and (organised) employees. Labour and management have traditionally been in more or less cooperative roles. Consequently, the strike rate in the Netherlands has always been quite low in all respects: in frequency, duration and breadth. Also, wage claims are usually moderate. Moreover, the relation between companies and unions is mainly indirect. Matters that are related to work and working conditions in companies are mostly handled by the Enterprise Council, which in general regards the interest of the firm as a whole[8]. All in all, the attitude of Dutch organised labour, too, contributes to the high managerial discretion.

Fourthly, the Dutch education system is marked by a high level of differentiation along `pillarised' lines, but even more so - and this may be surprising in a country where equality is valued so highly - according to ability. This starts already at the age of twelve, the beginning of secondary school. The various types of secondary school feed different types of higher and further education establishments, such as universities and higher vocational schools. University graduates, for example, usually take VWO (prepatory academic education) from 12-18 before they enter university. The universities themselves, however, are not organised into a strong prestige hierarchy. They have relatively low entry barriers and grants are easy obtainable. Also, clear status differences between universities and technical universities are absent. The higher educational system surely is anti-elitist. Consequently, one cannot recognise a strong distinction between intellectual and manual work in the Dutch business system. This - it is hypothesised - might very well have a positive effect on functional team differentiation.

NATURAL GOVERNANCE AND INSTITUTIONS AND MANAGEMENT TEAMS' PERFORMANCE

The fact that the Dutch pattern of industrial organisation, with the accepted role of `pillarised' intermediate associations, largely gave way to a more `liberal' order in the last two decades, must be understood in relation to the above-mentioned `waisted' structure. The capital intensive multinationals `above the waist' became powerful enough in the process of concentration in the 1970s to operate very independent, or to have only loose sub-contracting relations with firms `below the waist', which are both quite different from the corporatist principle.[9] The shifting power balance in favour of these large economic actors, in combination with the secularisation process of `de-pillarisation' in the wider society, finally finished corporatism off. This is not to say, of course, that the same lot fell to the Dutch regulatory principles of compromise and consensus between peers, e,g, in top management teams. In an earlier contribution (Iterson, 1977), I have argued that work floor systems in larger enterprises, despite of high job fragmentation and strong managerial coordination of complementary processes as a consequence of the size and technology of operations (mass and process production), worker and workers teams' discretion is still relatively high, also because of the accepted role and prominent role of the unions and the Enterprise Council. As a result, peer control in (semi-)autonomous work teams has never become obsolete in the Netherlands. Following Whitley's terminology (1997), Dutch work systems were qualified as `negotiated' rather than `Taylorist'.

A more or less comparable mix of national idiosyncratic governance and compliance to international market demands may be discernable in the decision-making of top management teams of larger Dutch firms. At this level, again, the twin features of the pressures of the international market and the dominant perception of the firm as a community - and not a collision - of interests, expressed in consensus-seeking behaviour and coalition building, alsoin the board rooms, play a crucial role. In combination they may have the effect that management, in spite of the high discretion from supervisors, shareholders, government, banks, institutional investors, trade unions et cetera, has not become too self-involved and inert. This, again, might have the effect that external perspectives will be embraced, which can contribute - according to the theorists' of the resource-based view of the firm (eg. van Olffen, 1995)[10] - to the effectiveness of top management rather than to its efficiency. Table 3 presents these ideas in a schematic form. The arrows between the columns may serve as hypotheses, to be tested perhaps in a comparative analysis.

Performance characteristics and differences in the Netherlands, then, do reflect, as the Dutch business system does, to a large extent basic values and structures which developed in the pre-industrial era. This may sound surprising since Whitley (1992) suggests that pre-industrial structures may be less relevant in explaining variations in Western-European business systems and - one could further argue - socially constructed business performance. Nevertheless, it is striking that the pre-industrial emphasis on trade, transshipment, financial services and agriculture still plays an important role in explaining performance differences of Dutch firms and industries, and that the early developed practices, like coaltion-building between equals in a spirit of consensus, seem to continue unabated in current business practices and beliefs. Apart from these explanations derived from `background institutions', this paper also focussed upon later-developed, more immediate institutional patterns: first and foremost the pillarisation, next the commitment of the state, the role of financial, educational and labour institutions.

Table 3: The social constitution of Dutch MNC's management performance (I)

Natural and formal systems of governance		Business systems characteristics		Resource attributes of top management teams
Natural governance system: Co-operative principle of governance through peer control	→	Top management: team of equals Consensus management No authoritative/ charismatic leadership, but both task- and group-oriented	→	Heterogeneity not overemphasized Limited communication problems Low probability of conflicts and power struggle
Pillarisation	→	Management by coalitions	→	
Formal governance system: Two-tier board system (based on trust) Dominant legal form: not state- nor family-owned firms, but public limited liability firm	→	Managerial discretion: high	→	Creativity in problem solving not externally restricted High average tenure

Table 3: The social constitution of Dutch MNC's management performance (II)

Institutional features		Business systems characteristics		Resource attributes of top management teams
Proximate institutions: State regulations and commitment: low	→	Managerial discretion: high	→	Creativity in problem solving not externally restricted
Capital market: shares widely dispersed	→		→	High average tenure
Labour unions and Enter-prise Councils: cooperative stand	→			
Educational system: stratified but not elitist	→	No sharp distinction between intellectual and manual work	→	Positive influence on functional team differentiation
Pressures of the international market	→	Not too self-involved management	→	External perspectives embraced
Accepted role of organized labour	→			

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1.Even the Enterprise Council has a similar responsibility, apart from defending the interests of the employees. By Dutch law (Council Act 1950, 1971, 1979), any company employing at least 35 people is required to have an enterprise council called. This *Ondernemingsraad* (OR)consists only of elected employee representatives, including qualified middle managers. Since the ammendments of 1979, Dutch enterprise councils have had more extensive rights than in most other European countries (Teulings, 1987). They do not only have extensive information rights concerning all financial and economic results, they also have advisory rights with respect to strategic decisions of management and co-determination rights with respect to social policy.

2. Managerial discretion is further increased by the permanent nature of the appointment of executives.

3. How is consensus management to be reconciled with the high individualism of the Dutch? One can acknowledge a typical Dutch understanding of individuality: individualism because of the Calvinistic moral accountability which is an individual responsibility, but not individuality in the sense of self-glorification and eccentricity. The emphasis is on conformity rather than on individual excellence, which helps to explain the low emphasis on individual performance, the relative lack of a careerist attitude among managers, and the unpretentious leadership style.

4. It is, for instance, suggested that the East India Company offered a bureaucratic model for integrating commercial and colonial interests, which was adopted by 19th century trade organisations such as the *Nederlandsche Handelsmaatschappij*. One could argue that the VOC also offered a paragon for integrating the need for adhering to the consensus and coalition model of the `home country' (Holland) and the opportunity to utilise the natural and human resources of the `host country' (particularly Indonesia).

5. In return, these two chambers were commissioned by the *Heeren XVII* with three-quarters of the controlling tasks, such as bookkeeping and supervision of storage and shipbuilding, and of the operational tasks.

6. Sophistication was also achieved in finance, accounting, warfare and punishment. In these fields, too, one noticed rationalisation of existing techniques rather than revolutionary break-throughs.

7. Some 15 percent, since investment in shares is restricted by law.

8.The labour unions' main focus is working out (series of) collective labour agreements. About 700 of these agreements - at industry level or at company level - are concluded each year.

9. Only in the agro-related sector (dairies, marketing of food), the cooperative and corporatist principle is still strong.

10. Two theoretical perspectives have emerged from research of the relationship between homogeneity/heterogeneity in work or management teams and their effectivity and effectiveness. The `process facilitation perspective' emphasises the importance of homogenity, whereas the `resource diversity perspective' emphasises the importance of heterogenity. When members of a group share essential values and capabilities, that group will show more cohesion, and that will have a positive effect on frequency and effectiveness of communication, and, as a result, on *efficiency*. On the other hand, homogeneous groups tend to be conformistic, thus less alert on environmental threats and opportunities. In other words, homogeneous groups tend to be less *effective*. Heterogenous groups profit from the broader spectrum of views which their members cherish. This is the more valuable when the group is faced with complex problems that call for complex solutions that, by nature, are beyond the cognitive capacities of an individual. Heterogenous teams will therefore be more innovative and creative than homogeneous groups, hence more *effective*. The drawback, here, is that the variety of skills, knowledge and values can easily hinder communication. The result can be an increase of conflicts and power struggle. Consequently, heterogeneous teams tend to be less *efficient*.