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Companies' Access to Finance, Co-operative Industrial Relations, and Economic Growth: A Comparative Analysis of the States of South Eastern Europe

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ABSTRACT

This paper examines the links between corporate funding, co-operative industrial relations, and wage flexibility, on the one hand, and economic growth, on the other, in 11 countries in South Eastern Europe. These links have been downplayed in previous research. The paper draws on the most comprehensive and extensive dataset on these issues for the whole of the region. Previous research has focused on a selection of these countries. The paper uses a novel analytical technique, fuzzy set qualitative comparative analysis, to examine these possible associations. It finds that wage flexibility and co-operative labour relations can promote growth; the availability of different forms of domestic funding for firms does not. The findings indicate that policy makers may focus their efforts on promoting wage flexibility within a consensual industrial labour system if they wish to foster economic growth.

1. Introduction

Economic growth in South Eastern Europe is important to individuals, local and foreign companies, investors, and politicians, as it will influence employment prospects, investment opportunities,

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and countries' relations with, for example, the European Union. To promote growth, countries in the region have been encouraged to ensure that property rights are clear and secure, that capital can flow freely and efficiently in financial markets, that politicians are not venal, and that foreign firms invest in the region (see, for example, Anastasakis and Watson, 2011; Hamm *et al.*, 2012; Stanisic, 2008). Such prescriptions follow neo-liberal principles of free capital and labour markets. This focus, however, downplays two important factors. First, it tends to prioritize foreign sources of capital over domestic ones. Second, it overlooks how industrial relations impact upon economic development (*cf.* M. Feldmann, 2006a).

In short, analyses that seek to determine the links between, primarily, foreign sources of capital, such as loans from international organizations or investments by multinational companies, on the one hand, and economic growth, on the other, overlook the importance of domestic sources of funding and how industrial relations system shape the development of human capital. Analysing these latter, somewhat neglected factors is important, as the links between external sources of capital and higher rates of economic growth in the region are ambiguous (Stanisic, 2008).

Although previous studies that have focused on economic growth in South Eastern Europe have noted the role played by the increasing availability, in general, of foreign credit to firms in the region (Anastasakis *et al.*, 2011; Estrin and Uvalic, 2013), they have not attempted to compare the availability of domestic funding to companies (cf., more broadly, Colombage, 2009; Pasiouras and Kosmidou, 2007). Companies can draw on a range of funds from domestic stock market listings to bank loans to venture capital. Their options are not confined to foreign capital. Whilst foreign investors – both public and private – are, of course, important in the economic transformation of South Eastern Europe, analyses that solely focus on such external factors downplay the significance and impact of the region's own sources of capital.

Human capital and industrial relations systems have a significant impact on economic growth (Hall and Soskice, 2001; Whitley, 2007). For instance, a country's industrial relations system can play an important role in developing a co-operative working environment within firms. As a result, employers can share authority with employees and give them the discretion to make decisions in certain areas. This, in turn, influences the types of capability that firms are likely to develop (Whitley, 2007). Hence, as is discussed in greater detail below, the competitiveness of firms and the prospects for economic growth in a country are linked in important ways. Whilst studies have examined the links between co-operative industrial relations systems and unemployment (Addison and Teixeira, 2009; H. Feldmann, 2006b, 2008), they have not assessed the links to economic growth. Moreover, previous related studies have not taken into consideration specific features of industrial relations systems, such as wage flexibility, in their assessments.

This paper seeks to fill these gaps by analysing the associations between financial systems and labour-market systems, on the one hand, and economic growth, on the other. More specifically, it assesses the links between the availability of corporate funds from a range of sources (local stock markets, banks loans and venture capital), co-operative industrial relations, wage flexibility and economic growth in 11 countries in South Eastern Europe. Existing research often neglects these sources of funding (see, for instance, Lyroudi *et al.*, 2004 and many of the studies in Anastasakis *et al.*, 2011). Such factors have not been examined either before or across such a breadth of countries in South Eastern Europe (e.g. Dibben *et al.*, 2011). By filling these gaps in the empirical literature, this paper can reveal areas for reform. For instance, if company access to local financial resources promotes higher GDP growth rates, this would suggest that countries in the region with lower growth rates should attempt to attract local investors, both public and private, to back companies within their country.

This remainder of this paper has four sections. The next section discusses previous analyses of the factors behind economic growth in South Eastern Europe as well as this study's research aims. The methods and data used are then set out. The subsequent section presents the results. Finally, the results are discussed and conclusions drawn.

2. Analyses of Economic Growth in South Eastern Europe, and Research Aims

Neo-liberal principles underpin many of the reforms in South Eastern Europe (Hamm *et al.*, 2012). Policies have sought to promote greater mobility of both capital and labour. Analyses, as a result, have