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**An Application of Grounded Theory: A Study of European
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By

Kerry E. Howell

Bournemouth University

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**Bournemouth University, School of Finance & Law
(Department of Accounting & Finance), Talbot Campus,
Fern Barrow, Poole, Dorset. BH12 5BB**

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For further details contact:

Kerry Howell

School of Finance & Law
Bournemouth University
Fern Barrow
Poole, BH12 5BB
United Kingdom

Tel: (00)-1202-595541

Fax: (00)-1202-595261

Email: khowell@bournemouth.ac.uk

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For further information on the series, contact K. Howell,
School of Finance & Law,
Bournemouth University.

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by

Kerry E. Howell

Senior Lecturer

University of Bournemouth

School of Finance and Law

Poole, Dorset. BH12 5BB.

Tel +44 (0) 1202 595541

Fax +44 (0) 1202 595261

e-mail: khowell@bournemouth.ac.uk

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ABSTRACT

The purpose of this paper is to illustrate the use of a methodological technique (grounded theory) in relation to European integration theory. This is accomplished through categorisation and process, in conjunction with theoretical coding (open, axial and selective). Indeed, the paper builds a substantive theory to enhance our understanding of intergovernmentalism and neo-functionalism (pre-existing formal theories). In the aftermath of the Single European Act (SEA), the beginnings of the Single European Market (SEM) and the Maastricht Treaty it became evident that industries/sectors needed to involve themselves in the creation of the European Union. This paper illustrates the extent of industry/sector involvement through an empirical study of European life insurance and in doing so investigates and clarifies a number of theoretical propositions relating to the formal theories.

INTRODUCTION

The aim of this paper is to illustrate an application of grounded theory in the context of European integration. Initially, it undertakes a comparative analysis of Member State life insurance legislation and through induction, deduction and verification formulates a matrix and model to illustrate decision-making processes in European Union (EU) institutions. Furthermore, the paper develops a substantive theory and illustrates the extent to which it relates to pre-existing formal theories. Substantive theory emerges from the analysis of a “. . . particular situational context”, whereas formal theory “. . . emerges from a study of phenomenon under many different types of situations” (Corbin and Strauss, 1990; p 174). Substantive theory necessitates four central criteria. *Fit, comprehension, generality* and *control*: First, theory should be induced from diverse data and be faithful to reality (it should *fit*); secondly, the *fit* should be *comprehensible*; thirdly, the data should be comprehensive and interpretations conceptually wide (there should be *generality*); and finally, in relation to generality, it should be made clear when conditions apply to specific situations and phenomenon (there should be *control*) (Corbin and Strauss, 1990).

Initially, the paper discusses the underpinnings of grounded theory and identifies the rationale for applying it to European integration. Secondly, the means of data collection are indicated and linked to the methodology. Finally, the paper provides a substantive theory based on the research findings. Indeed it uses this theory to further analyse two pre-existing European integration theories (intergovernmentalism and neo-functionalism)

GROUNDED THEORY AS METHODOLOGY

Grounded theory wishes to demote the idea that the discovery of relevant concepts and hypotheses are *a priori* to research (Glaser and Strauss, 1967; Glaser, 1978; Charmaz, 1983; Strauss, 1987; Strauss and Corbin, 1990; Corbin and Strauss, 1990; Glaser, 1992; Strauss and Corbin, 1994). Grounded theory posits that theory is derived from data and cannot be divorced from the process by which it is developed. Most hypotheses and concepts are generated and interpreted in relation to the data throughout the research (Glaser and Strauss, 1967).

Charmaz (1983) reiterates Glaser and Strauss (1967) when she contends that data collection and analysis are undertaken simultaneously, interpretation is formed through data discovery and *vice-versa*. The approach allows for emerging ideas because it provides for further data collection. It accepts that one of the main strengths of the grounded theory approach is one where data and ideas are derived through the research rather than through *a priorism*. Verification is secondary to understanding processes, not simply the processes of the phenomenon but by understanding that social life itself is a process. Data should be analysed as it emerges and through coding, “order created” (ibid).

AN APPLICATION OF GROUNDED THEORY

In general terms, “. . . (a)nalysis makes use of constant comparisons. As incidents are noted, they should be continually compared against other incidents for dissimilarities and likenesses” (Corbin and Strauss, 1990; p 9). Initially, a comparison of Member State life insurance legislation was undertaken and the extent to which this legislation allowed trading freedom in the national life insurance market identified (Oyen, 1990). This is a standard means of generating

theory and is usually accomplished early in the study to put the “story straight” (Glaser and Strauss, 1967; Strauss and Corbin, 1990; pp 116-142). “Making comparisons assists the researcher in guarding against bias . . . comparisons also help to achieve greater precision (the grouping of like and only like phenomenon)” (Corbin and Strauss, 1990; p 9). Indeed, one is seeking regularities, this also creates order and helps with data integration.

Data Sampling

Data sampling was based on the grounded theory technique of *theoretical sampling*. *Theoretical sampling* is undertaken on the basis that “. . . concepts have *proven theoretical relevance* to the evolving theory” (Strauss and Corbin, 1990; p 176). *Theoretical sampling* involves three processes: *open sampling* which relates to *open coding*; *relational and variational sampling* which is associated with *axial coding*; and *discriminate sampling* which is linked to *selective coding* (coding processes are discussed below).

Proven theoretical relevance identifies concepts that are significant enough to be considered *categories* “. . . they are deemed significant because (1) they are repeatedly present or notably absent when comparing incident after incident (2) through coding procedures they earn the status of categories. . . . The aim of theoretical sampling is to sample events, incidents, and so forth, that are indicative of categories, their properties and dimensions, so that you can develop and conceptually relate them” (ibid, p 177).

Table 1.
Data Collection Scheme

Survey A: Survey of European Union life insurance companies. Allows an understanding of market environment perceptions from separate Member States. *Open sampling* and *relational and variational sampling*.

Survey B: Survey of UK insurance companies to ascertain interest group utilisation. *Discriminate sampling*.

Interviews: The interviews are supplemented by survey B and provide an in-depth understanding of the EU decision-making process with regard to the Third Life Assurance Directive. *Relational and variational sampling* and *discriminate sampling*.

Observations and preliminary discussions: This incorporated three months in Brussels working with a European political consultant (GJW), a period with the European section of a UK company (Commercial Union) open discussions and close contact with the Association of British Insurers (ABI). *Open sampling*

Following an inductive analysis of the different Member States' life insurance legislation and a survey (survey A see below) of the European life insurance industry, a regulatory environment matrix was created. This part of the of the analysis illustrates *open sampling* where the aim is “. . . to uncover as many potentially relevant categories as possible along with their properties and dimensions” (ibid, p 181) and the beginnings of *relational and variational sampling*. Indeed, survey A validates the relationships between the categories and identifies processes. From this some propositions were formed and the sampling gradually became specifically *relational and variational* (see Table One)

The sampling was undertaken purposefully which encompassed choosing individuals and documentation that demonstrated variations in the categories and what happened when change occurred. As with the coding (see below) the distinction between relational and variational sampling and discriminate

sampling became unclear. *Discriminate sampling* is direct and deliberate and is indicated in the choice of interviewees and survey B (see Table One). “In discriminate sampling, a researcher chooses the sites, persons and documents that will maximise opportunities for verifying the story line and relationships between categories” (ibid, p 187). Sampling in grounded theory studies is concerned with the “. . . representativeness of concepts in their varying forms. In each instance of data collection, we look for evidence of its significant presence or absence, and ask why?” (ibid, p 190) (see Table One). Grounded theory studies look “. . . for incidents and events that are indicative of phenomena” (ibid). Indeed, they pursue density and “. . . the more interviews, observations and documents obtained, then the more evidence will accumulate, the more variations will be found, and the greater the density will be achieved. Thus there will be wider applicability of the theory, because more and different sets of conditions affecting phenomena are uncovered” (ibid pp 190-91).

Theoretical Coding

Theoretical coding is linked closely to the theoretical sampling and encompasses the very basis of grounded theory. The essential relationship between data and theory is a conceptual code. The code conceptualises the underlying patterns of the data. “Thus, in generating a theory by developing the hypothetical relationships between conceptual codes (categories and their properties) which have been generated from the data as indicators, we discover a grounded theory” (Glaser, 1978; p 55). There are three types of theoretical coding.

Open Coding

Open coding is closely linked to open sampling and provides the foundation of the research process. “The goal of the analyst is to generate an emergent set of

categories and their properties which fit, work and are relevant for integrating theory. To achieve this goal the analyst begins with open coding” (Glaser, 1978; p 56). Attention should be fixed on a category and the properties that emerge continually coded and analysed: these are the initial basic steps. Ultimately, one constantly compares and continually categorises. The qualitative data relating to each regulatory environment was broken down in terms of open coding and restructured initially on a table and later refined in a matrix. The *category* of 'Regulatory Environment' emerged following an analysis of Member State legislation and regulations (see Table Two). Through further research *conceptual labels* emerged in terms of liberal, prescribed and state-controlled regulatory environments and each of these was made up of the *properties* outlined (see Table Two). A *category* is a “. . . classification of concepts. This classification is discovered when concepts are compared one against the another and appear to pertain to a similar phenomenon (Corbin and Strauss, 1990; p 61). Furthermore, *conceptual labels* are placed “. . . on discrete happenings, events, and other instances of phenomena” (ibid). Indeed, these concepts are made up of *properties* and *characteristics* that are indicated by the overall category. Finally the Member States are given *dimensions* through the “. . . location of properties along a continuum” (ibid), in this research a regulation table and matrix. This process was pursued through the use of *code*, *theoretical*, *operational notes* and *diagrams*; *code notes* illustrate separate types of legislation in the different Member States and how aspects of the legislation link together and fluctuate under *conceptual labels*; *theoretical notes* link different types of cultural existence to the conceptual labels and questions how compromises takes place, whereas, the *operational notes* illustrated the need for further research. The *operational notes* guided the research in respect of; who to survey; the questions to be asked, who should be interviewed and the structure the interviews should take. Overall, the research was visually represented through *diagrams* each of which illustrated the relationship between *concepts*. Indeed, the *diagrams* illustrate a “. . . visual sorting

process that helps you identify how the categories are related to one another” (ibid p 197).

Table 2
Regulatory/ Legislative
Environment Table

<u>Regulatory</u> <u>Environments</u> (CATEGORY) Liberal (CONCEPTUAL LABEL)	<u>Legislative/Regulatory</u> <u>Stipulations</u> (PROPERTIES)	<u>Member States</u> (DIMENSIONAL -ISATION)
1	Completely free market	
2 - 3	Approval of Company Solvency Margins Policyholder protection Evaluation of Liability & Rates	Luxembourg Netherlands UK
3 - 4	Open Access to Insurance Information	Eire
Prescribed		
5 - 6	Price Controls Marketing Controls Solvency Deposit	Belgium Denmark Spain
7 - 8	Policy Approval Regulation of Contract	Germany
State-Controlled		
9 - 10	State Controlled Companies Contractual Obligation to State	France Italy
10 - 11	Intense Monitoring of Companies Proof of Ability	Portugal Greece
12	Total State Control	

Open coding was used to create a scale of one to twelve on which a totally liberal regulatory environment is valued one and a completely state-controlled or

nationalised regulatory environment is valued twelve. A prescribed regulatory environment is considered not to be one of primarily self-regulation, nor is it completely state-controlled: it is a market with tight government controls. The higher the number on the matrix the greater the regulation and state-control indicated in the Member State's legislative system. Through further comparative analysis and open coding each Member State was understood to be at some point on the matrix scale (see Table Two below and Life Insurance Regulation Matrix One, Fig One).

Once this had been achieved further investigation was necessary and a survey of the European life insurance sector was undertaken (survey A). In survey A, three hundred questionnaires were sent to insurance companies in eight of twelve Member States, (the UK, Germany, France, Italy, Belgium, Netherlands, Spain and Eire). Four Member States were omitted mainly because of problems with translation and difficulties in terms of acquiring addresses. The response rate was 35-40% which are listed. Survey A wished to illustrate the thoughts of the Member States with regard to national life insurance regulation and the creation of a SEM. It also aimed to determine the extent of liberality allowed within a particular Member State, illustrate what the respondents considered to be the optimum regulation for trading and the amount of legislation necessary to enable this.

Survey A

A Survey of the European Life Insurance Industry

- (1) How liberal or state controlled is your national life insurance market?*
- (2) Where would you place the Single European Market (SEM) life insurance sector in respect of regulatory freedom?*
- (3) What type of regulatory environment do you consider that the SEM should be to allow your company its greatest advantage?*
- (4) What type of regulatory environment do you consider the SEM in life insurance should be to allow the greatest consumer protection?*
- (5) What type of regulatory environment do you consider the SEM in life insurance should be to allow the greatest consumer choice?*

Survey A was used instead of interviews, because a broad sample was required to add to and verify the regulatory environment matrix which encompassed the industry's understanding of the SEM and the EU. Indeed, the survey provided an understanding of the differences in Member State normative thinking in respect of life insurance regulation and raised the question of where and how compromise takes place in the creation of the SEM.

FIG 1 _____ **Life Insurance Regulation Matrix One.**

	Liberal			Prescribed						Nationalised		
	1	2	3	4	5	6	7	8	9	10	11	12
Lux												
UK												
Neth												
Eire												
Belgium												
Denmark												
Germany												
Spain												
Italy												
France												
Portugal												
Greece												
CCP												

CCP = Compromised Convergence Point

Matrix compiled from an analysis of Munich Re: (1988), Financial Times (1992), Sigma Re: (1988-93), Pool (1991) BIIC & CEA Working Papers.

The Matrix was subsequently revised taking into consideration the survey results which also raised further questions (See Life Insurance Regulation Matrix Two, Fig Two).

FIG 2

Life Insurance Regulation Matrix Two

	Liberal			Prescribed				Nationalised				
	1	2	3	4	5	6	7	8	9	10	11	12
Lux												
UK												
Netherlands												
Eire												
Belgium												
Spain												
Germany												
Denmark												
Italy												
France												
Portugal												
Greece												
CCP												

CCP = Compromised Convergence Point

Matrix compiled from an analysis of Munich Re: (1988), Financial Times (1992), Sigma Re: (1988-93), Pool (1991), BIIC & CEA Working Papers and survey of EU life insurance industry.

Table. 3.
Regulation Scale

1-2 = self-minimal regulation
3-4 = minimal regulation; independent regulatory bodies
5-6 = moderately regulated without state ownership
7-8 = highly regulated without state ownership
9-10 = highly regulated with minimal state ownership
11-12 = highly regulated with a profusion of state control.

This process subsequently set up a number of questions which were investigated through semi-formal interviews with key individuals in the creation of the Third Life Assurance Directive and through observations of the European decision-making process. These gave an understanding of the political process and enabled further construction of a theoretical model. Table One summarises the data collection process in terms of three surveys, the interviews and observations.

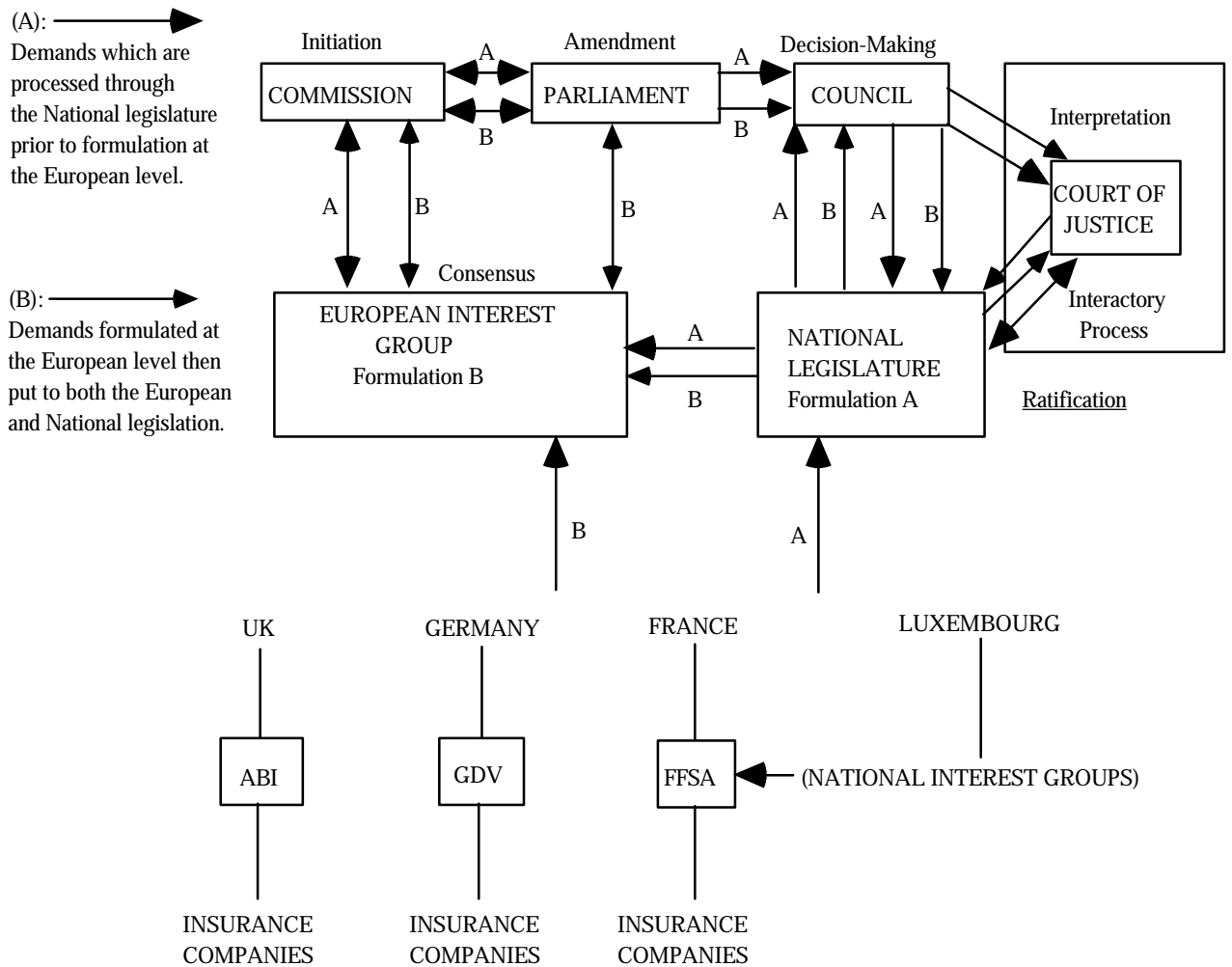
Axial Coding

Axial coding involves bringing the analysis together, creating a whole. It indicates the overall system of which the categories created through open coding are part. In this study axial coding is illustrated through the interviews and subsequent European Decision-Making Model¹ (see Figure Three)

¹ There are two general directions that could be taken regarding decision-making procedures identified on the model. These are indicated by arrows A and B; process A considers that demands are formulated through the national legislature prior to formulation at the EU level; whereas route B illustrates demand formulation being compromised at the EU level prior to the involvement of the national legislature. Route A is a stronger intergovernmental approach whereas route B illustrates more of a neo-functional process. Of course, the situation is not as clear-cut as depicted and elements of both routes were in use but in

FIG 3

THE EUROPEAN DECISION-MAKING MODEL



general the interviews emphasised route B. The interviews illustrate that agreement is sought and usually accomplished at the European interest group level in tandem with the Commission and Parliament. Indeed, if the legislation is being negotiated by the industry through interest group involvement with a supranational institution EU decision-makers, the research has uncovered elements of neo-functionalism. If a compromise is not reached at the EU level, then each Member State industry would pursue its own ideal market type (as indicated by the matrix) and compromise would be difficult if not impossible to achieve. To enable successful acceptable legislation at the EU level the interviews and surveys illustrate that both neo-functional and intergovernmental processes need to be at work. This is taken further by the Spillover Model.

It is inclusive of:

- (a) Causal conditions.
- (b) Phenomenon.
- (c) Context.
- (d) Intervening conditions.
- (e) Action/Interaction.
- (f) Consequences.

(Corbin and Strauss, 1990; pp 96-97).

An application of axial coding in this research was identified through:

- (a) Membership of the EU.*
- (b) The creation of the SEM and legislation to create regulatory environments.*
- (c) The European decision-making process.*
- (d) The harmonisation of different Member State concepts of market conditions (life insurance industries).*
- (e) Interaction between Member States and decision-making bodies.*
- (i) Goal orientation (purposeful) market as near to one's own. Interaction between Member states at the European interest group level.*
- (ii) Evolutionary changes (processional) compromised issues. Interaction between interest groups and the EU decision-making institutions.*
- (f) Outcomes or the creation of a harmonised SEM in the life insurance sector; a move towards greater integration in the EU.*

In more specific terms, the *causal conditions* and *phenomenon* are membership of the EU and the on going evolution of the SEM. The *context* is the possible transfer of sovereignty in terms of the decision-making process and market control. The *intervening conditions* are the necessities of harmonisation and the

implications this has for integration; such is illustrated through the compromises made by Member States in respect of regulatory environments. This portrays the need for *action/interaction* between Member States and the European decision-making institutions in terms of the evolutionary changes taking place i.e. the need to harmonise and create a SEM and the goal oriented interaction of creating legislation as close to one's own as possible. Finally, the *consequences* are the creation of the SEM through harmonisation and a shift toward closer union and greater European integration.

Glaser considers that axial coding “. . . undermines and confuses the very method that he (Strauss) is trying to build” (Glaser, 1992; p 61). This process forces the data and negates theoretical coding. The grounded theorist should code categories and properties and allow theoretical codes to emerge where they will. Strauss and Corbin consider that axial coding allows a more focused means of discovering and relating categories. This research uses Corbin and Strauss' axial coding as a guide into which emerge the specific categories to the study i.e. those categories outlined above.

The Interviews & Observations

Interviews were used to investigate decision-making processes at the European level. Over an eight week period working for a political lobbying company (GJW Political Consultants) in Brussels, the author was able to observe the decision-making processes. Interviews were undertaken with the Commission; insurance interest groups; the UK Permanent Representative (Finance Committee), and lobbyists. Further interviews were undertaken in Paris and the UK.

INTERVIEW QUESTIONS

The interviews were conducted on a semi-formal basis and centred around 10-12 core questions these were;

- (1) *What are the major functions of the CEA/BIPAR/ABI/the Commission/the Council/National Supervisors and how do these fit with each other at;*
- (A) *The EU level.*
- (B) *The national level.*
- (2) *To what extent are decisions made with interest group/COREPER/Commission/National Supervisor in-put.*
- (3) *Is it interest groups, national supervisors, the Council of Ministers or the Commission that define decision parameters.*
- (4) *Does the Council, the Commission, national legislatures and interest groups reach a compromise prior to a decision reaching the Council.*
- (5) *Does an interaction exist between the Council/the Commission/national supervisors and specific interest groups at a national and European level.*
- (6) *How does the Council/national supervisor know what to insist upon in respect of national interest.*
- (7) *Does an interaction exist between interest groups/Commission/Council/national supervisor and the Insurance Committee*
- (8) *Are different Member States looking for specific types of life insurance regulatory environments for the SEM which is different from other member states.*
- (9) *Are there differences between the;*
- (a) *The French ideal*
- (b) *The German ideal*
- (c) *The Dutch ideal*
- (d) *The UK ideal*
- (e) *The Italian ideal*
- Please illustrate these differences.*
- How does your market ideal fit into these?*
- (10) *Is a compromise reached between the different national interest groups prior to the Commission initially drawing up draft legislation or is there an interaction between the interest group at the European level and the Commission which takes into consideration a compromise reached by the member state interest groups i.e. ABI through membership of the European interest group CEA/BIPAR.*
- (11) *Where possible have compromises been reached between the Council, the Commission and Parliament before the final negotiations to enable a more efficient means of decision making?*
- (12) *What takes precedence in the formulation of a Directive Member State or sector interests?*

Each interview attempted to look at the same phenomenon from a different perspective and enable data 'saturation'. The interviews were conducted between surveys A and B and indicated the need for survey B (see Data Collection Scheme). The need for legislative convergence is indicated by the open coding process, the surveys and subsequent matrices. Additionally, the interviews and survey B allow the construction the European Decision- Making Model. Indeed, through the use of both the matrix and the model, a substantive theory is constructed that illustrates convergence and harmonisation procedures in the EU. Ultimately, a substantive theory of European integration is illustrated that has aspects of neo-functionalism and intergovernmentalism (formal theories) (see the substantive theory below).

Survey B

A Survey of the UK Insurance Industry regarding Interest Group Use.

- (1) *Your company used organised interest groups at the European level i.e. the CEA in the formulation of the third life directive.*
- (2) *Your company used organised interest groups at the national level i.e. the ABI in the formulation of the third life directive.*
- (3) *Your company uses organised interest groups at the European level for most European issues.*
- (4) *Your company subscribes to a European interest group.*
- (5) *Your company subscribes to a national interest group.*
- (6) *Your company lobbies European institutions when its European interests are affected.*
- (7) *Your company lobbies the national government when European interests are affected.*
- (8) *Your company primarily uses interest groups to lobby on its behalf at the European level.*
- (9) *Your company primarily uses interest groups to lobby on its behalf at the national level.*
- (10) *Your company prefers to use interest groups at the European level because this allows European industry/sector wide compromises.*
- (11) *Your company prefers to use interest groups at the national level because this allows nation-wide sector compromises.*

Selective Coding

“Selective coding is the process by which all categories are unified around a core category” (Corbin and Strauss, 1990; p 15). The core category in this study is European integration. The SEM in life insurance and regulatory environments incorporate “. . . other categories and stand in relationship to the core category as conditions, action/interactional strategies, or consequences” (ibid). The selection of data and the creation of other categories have been processed with the core category in mind. “The core category represents the central phenomenon of the study. It is identified by asking questions such as; what is the main analytical idea presented in this research? What does all the action/interaction seem to be about?” (ibid). The answers to which are: the integration processes at work in the EU, how Member States’ action/interaction create the SEM and how this adds impetus to European integration. These areas are identified and unified through axial coding. “During axial coding, one begins to notice certain patterns . . . and a certain amount of integration naturally occurs” (ibid p 130). Indeed, a network of conceptual relationships already exists. Of course, the network may be unclear but these can be refined during selective coding. “It is very important to identify

these patterns and to group the data accordingly, because this is what gives the theory specificity” (ibid). To clarify connections in the network grounded theory uses “. . . a combination of inductive and deductive thinking, in which we move between asking questions, generating hypotheses, and making comparisons” (ibid, p 131). Selective coding integrates the research, it puts the story straight, provides analysis, identifies the core category and illustrates how major categories relate, both to it and to each other. This can be further developed through understanding *process*.

Process: Self-Interest & Social Mutuality

Process is also be built into the theory. “Process analysis can mean breaking a phenomenon down into stages, phases, or steps. Process may also denote purposeful action/interaction that is not necessarily progressive, but changes in response to prevailing conditions” (Corbin and Strauss, 1990; p 10). Consequently, when the life insurance sector and EU decision-making institutions are analysed, processes and action/interaction are identified through interest groups. And the changes and compromises made by interest groups and sectors are interpreted in relation to the changes the SEM has brought and is bringing about.

The analysis identified process in the Member State markets because of their membership of the EU and the creation of a piece of legislation that would harmonise the different regulatory environments. This would create the need for compromise; and the research sought to identify why and how these compromises and changes would take place. Consequently, the European Decision-Making Model (Fig Three) was constructed through semi-formal interviews, observations and a further survey (Survey B see Data Collection

Scheme Table One). The surveys assisted in generating substantive theory. Survey A was used as secondary analysis in relation to the open coding of Member State regulatory structures. Indeed, it added to and verified the initial open coding. “Comparative analysis requires secondary analysis when populations from several different studies are compared, such as different nations or factories” (Glaser and Strauss, 1967; p 188). Survey B is used in the same way with regard to the European Decision-Making Model.

Through compromise at the European level, *self-interest* is sacrificed for the welfare of Europe in general even though this is initially in a limited area². However, ultimately welfare is realised throughout Europe in terms of peaceful co-existence and economic expansion. As Scheingold indicated “. . . integration was good by definition since it was directed at economic reconstruction and permanent reconciliation between nations whose conflicts had led to bloody wars. . . . A ‘United States of Europe’ seemed almost by definition likely to serve the cause of a peaceful and prosperous future” (Scheingold, 1971; p 30).

SUBSTANTIVE AND FORMAL THEORY

Glaser and Strauss (1967) considered that grounded theory was concerned with two types of theory: substantive and formal (conceptual); theory allows hypotheses and substantive concepts to emerge from the data, so analysis may identify concepts relevant to understanding the data. They emphasised that theory generation was accomplished through the collection, coding and analysis of the data and that these three operations were done together as far as was possible. These areas should interact continually, from the beginning of the investigation to its end. The separation of these areas hinders theory generation

² Welfare in this paper is based on the concept of the social contract. As in, the need for people to work and exist together so they are able to pursue their self interest. It is based on Kant's civic constitution. It is giving up one's individual freedom in certain areas for the welfare or general good of all.

whereas set ideas stifle it. In this study the aim is to generate a substantive theory in relation to neo-functionalism and intergovernmentalism, (formal theories) and questions these with regard to their applicability as theories of European integration.

Formal Theories

In the context of this paper and its study of the EU decision-making processes, formal theory is broadly European integration theory and, specifically, neo-functionalism and intergovernmentalism. Neo-functionalism is one of incremental integration through the transfer of allegiance to a supranational body, the use of interest groups and the concept of spillover. On the other hand, intergovernmentalism considers that the nation-state is the main impetus behind the European integration process. The substantive element of the theory formulated in this paper measures the extent formal theories empirically adhere to these propositions.

The empiricism is bound up in the changes that are taking place as the EU evolves, especially now that the process has intensified. Indeed, the idea of neo-functional transformation has re-emerged (in the aftermath of the SEA the SEM, the Maastricht Treaty and EMU) and the evolving EU is where the process may be further identified and best observed.

Neo-functionalism is ground in Kantian political thought and considered peace oriented in terms of a specific region. It is a peaceful process directed at a peaceful end and wishes to ensure a 'civic constitution' under the auspices of perpetual peace (Kant 1992). Neo-functionalism proposes that the EU is a supranational entity which through its growing authority encourages the transferral of allegiance away from national institutions and towards the

European. On the other hand, intergovernmentalism argues that the nation-state is the main impetus and will remain so.

“A substantive theory generated from the data must be formulated, in order to see which of diverse formal theories are, perhaps, applicable for furthering additional substantive formulations” (Glaser and Strauss, 1967; p 34). This illustrates that theories are never complete but processes in themselves. In this context, one may question the extent to which intergovernmentalism and neo-functionalism may be labelled formal theories, and the extent to which they are substantive theories of realism and functionalism. Neither has emerged from studies under different types of situations i.e. integration processes external to western Europe. However, one may consider that all theory is open ended because as new categories or properties are generated, there is a place for them in the scheme. This research wished to investigate, verify, question and ideally, further understand European integration through the construction of a substantive theory and an analysis of neo-functionalism and intergovernmentalism.

The Substantive Theory

The substantive theory is built through coding, categorisation and process. The matrices provide the basis of the substantive theory in that they acknowledge that separate Member States pursue different regulatory regimes. This sets up the problem of understanding how compromise is reached. The interviews, observations and survey B further construct the substantive theory. A substantive theory that has implications for the formal theories of intergovernmentalism and neo-functionalism (in terms of spillover, supranationality and interest group utilisation).

The substantive theory was constructed through an induction/deduction process. The inductive element encompassed the creation of a matrix through coding and categorisation. This was added to and verified by survey A, this led to a number of deductions. Through axial coding elements of the research were linked up around the core category and through selective coding the European Decision-Making Model was formulated. In practical terms, this meant that through the construction of the matrix, we discover that different Member States pursue different concepts of a regulatory environment. This leads the paper to the question: do the Member States compromise their differences and if they do how is this achieved? The interviews provided an understanding of how compromise is pursued and indicated a generalisation. Indeed, the generalisation is part of and extends the substantive theory, the basis of which is as follows:

- (a) Sectors/industries (in this context the insurance industry) are involved in the construction of the SEM and furthering European integration.*
- (b) They participate in the decision-making process in a number of ways but primarily through the use of interest groups.*
- (c) Each Member State sector/industry compromise their own interest at the EU level (this is achieved through national interest groups e.g. (ABI and European interest groups e.g. CEA).*
- (d) Compromise between the EU wide sector/industry and the Commission is reached primarily through European interest groups.*
- (f) Compromise between the EU legislative bodies, national legislatures and interest groups takes place throughout the creation of legislation.*
- (g) There is a shift in allegiance from the national legislature to the EU with regard to certain issues. However, the Member States still play an important role in the decision-*

making process. Indeed, there has been a shift toward joint sovereignty in the creation of EU legislation. Through this process European integration is intensified.

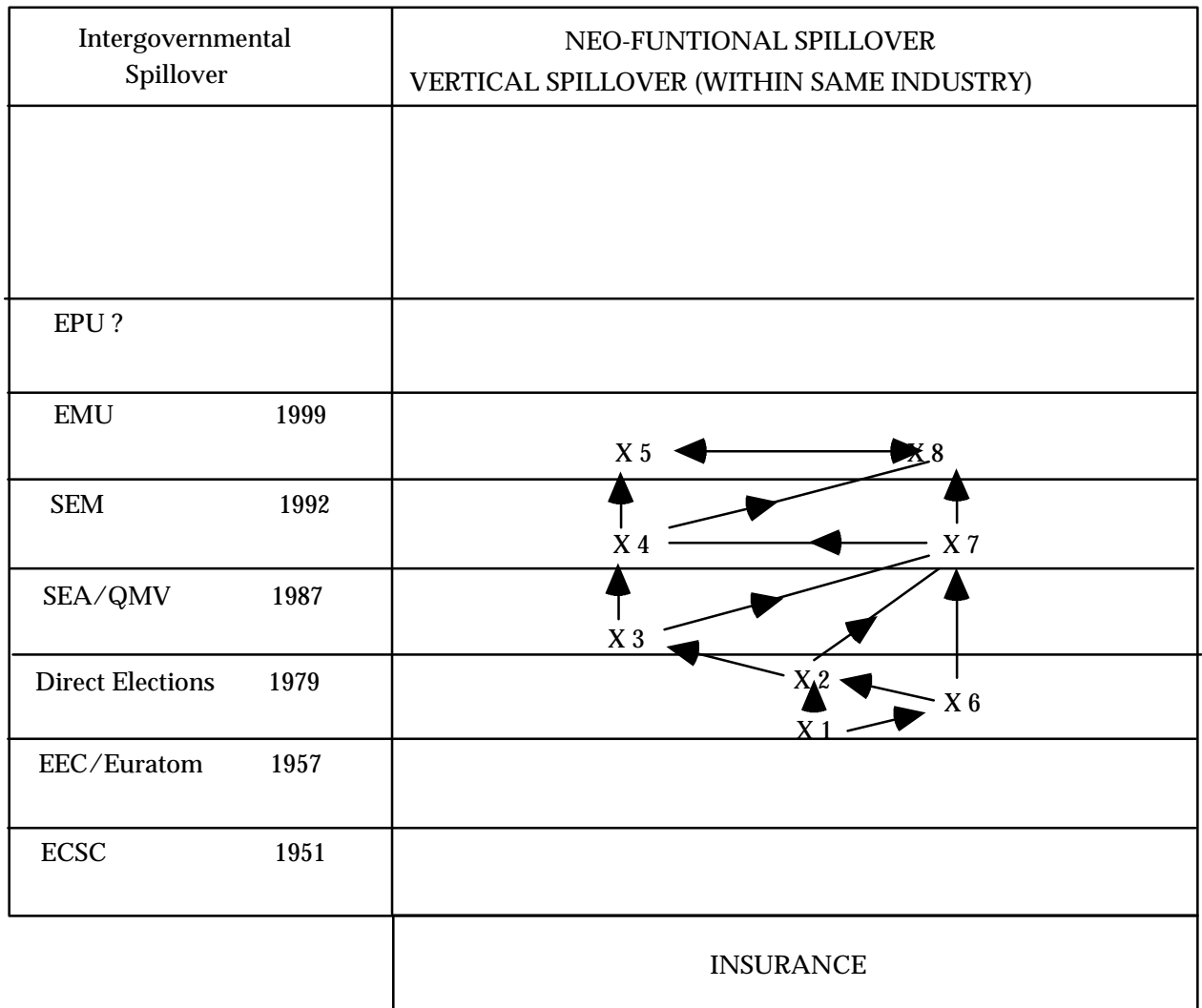
(h) European integration is given impetus by economic industries/sectors pursuing their self-interest in the creation of EU legislation. However, this allows welfare for Europeans in terms of greater prosperity and peaceful co-existence. Again, this intensifies European integration.

The substantive theory has been constructed through the following procedures. First, the grounded theory techniques of theoretical sampling and coding and categorisation. Secondly the accumulation of data based on two major surveys, an interview programme and observations (see the Data Collection Table). Finally, a generalisation which illustrates the accumulation of the process and indicates how each piece of legislation created between the Member State industries/sectors, the EU decision-makers and Member State governments accumulates and intensifies European integration (see the Spillover Model, Figs Four and Five). Indeed, the Spillover Model illustrates an interaction between neo-functional and intergovernmental processes of spillover³.

³ Spillover is observed in terms of the need for further legislation in the European life insurance industry and the industries (non-life insurance, banking and pensions) and sectors (capital) related to it. It is suggested that EMU will intensify the need for harmonisation in these areas and it is in this context that intergovernmental and neo-functional processes can be observed. In intergovernmental terms spillover can be seen the creation of the Treaties and agreements that further integration i.e ECSC, EEC, Enlargement, Direct Elections, SEA, SEM, EMU. While in neo-functional terms spillover may be observed in three areas (a) in one industry (the insurance industry) vertical spillover; (b) spillover from industry to industry (from insurance to banking) horizontal specific spillover. More tentatively one may posit spillover from sector to sector (from services to capital) horizontal general spillover.

THE SPILLOVER MODEL (FIGS 4 & 5)

FIG 4



Neo-Functional Spillover. Vertical Spillover (Within Same Industry)

1. Re-insurance Directive
2. Co-insurance Directive
3. First Life Insurance Directive. 79/267/EEC
4. Second Life Insurance Directive. 90/ 619/EEC
5. Third Life Insurance Directive. 92/96/EEC
6. First Non-Life Insurance Directive. 73/239/EEC
7. Second Non-Life Insurance Directive. 88/357/EEC
8. Third Non-Life Insurance Directive. 92/49/EEC

FIG 5

Intergovernmental Spillover	NEO-FUNCTIONAL SPILLOVER HORIZONTAL SPECIFIC SPILLOVER (INDUSTRY TO INDUSTRY (WITHIN SAME SECTOR))		
EPU ?			
EMU 1999			
SEM 1992			
SEA/QMV 1987			
Direct Elections 1979			
EEC/Euratom 1957			
ECSC 1951			
	INSURANCE	BANKING	PENSIONS

Horizontal Specific Spillover (Industry to Industry Within the Same Sector)

- X1. Re-insurance Directive 64/225/EEC
- X2. Co-insurance Directive 78/473/EEC
- X3. First Life Insurance Directive. 79/267/EEC
- X4. Second Life Insurance Directive. 90/ 619/EEC
- X5. Third Life Insurance Directive. 92/96/EEC
- X6. First Non-Life Insurance Directive. 73/239/EEC
- X7. Second Non-Life Insurance Directive. 88/357/EEC
- X8. Third Non-Life Insurance Directive. 92/49/EEC
- X9. First Banking Directive. 77/780/EEC
- X10. Second Banking Directive. 89/646/EEC
- X11. Capital Adequacy Directive. 93/6/EEC
- X12. Solvency Ration Directive. 94/7/EEC
- X13. Accounts Directive for Banks and Other Credit Institutions. 86/635/EEC
- X14. Directive Concerning Equal Treatment for Men and Women in Occupational Social Security Schemes. 86/378/EEC

X15. Directive Concerning the Rights of Residence for Self-Employed Persons Who have Ceased Occupational Activity. 90/365/EEC

The substantive theory is illustrated by the following:

Regulatory/Legislation Environment (Table 2)

Regulation Scale (Table 3)

Life Insurance Regulation Matrix One (Figure 1)

Life Insurance Regulation Matrix Two (Figure 2)

The European Decision-Making Model (Figure 3)

The Spillover Model (Figures 4 and 5).

If sectors/industries (in this context, the insurance industry) are involved in the construction of the SEM and furthering European integration. Then the process is not purely intergovernmental. However, as the Council of Ministers passes legislation, an intergovernmental element still remains. The substantive theory considers that industries/sectors compromise their own interest at the EU level (this is achieved through national interest groups e.g. the ABI and European interest groups e.g. the CEA). This too illustrates aspects of neo-functionalism as the use of interest groups (sub-national actors) particularly European interest groups is central to a neo-functional understanding of European integration. Compromise between the EU-wide sector/industry and the Commission is reached primarily through European interest groups. The use of EU-wide interest groups is emphasised in the interaction and compromises that are reached between the EU legislative bodies and the EU-wide interest groups in the creation of European legislation. However, the national interest groups still play an important role in the process by reporting back to national governments. In general the substantive theory concluded that there was a shift in allegiance from the national legislature to the EU with regard to certain issues. However,

the Member States still played an important role in the decision-making process. Indeed, there has been a shift toward joint sovereignty in the creation of EU legislation. This is illustrated through the concepts of intergovernmental and neo-functional spillover; the former creates the environment through the treaties whereas the latter pushes this forward through the need for industries/sectors to ensure their advantage in the evolving EU. This process initiates a shift away from economic interdependence toward an intensification of European integration, a move away from an intergovernmental process of integration toward a neo-functional.

CONCLUSION

This study illustrates grounded theory techniques in the following ways. Firstly, a comparative analysis through the open coding of individual Member States' life insurance legislation and regulatory regimes; formulates a regulatory/legislation table and a regulation matrix. Further coding through a survey of Member State insurance industries refined and verified the matrix. These procedures illustrated the need for a further survey which allowed data saturation and an in-depth understanding of the phenomenon. Indeed, this investigation raised questions with regard to how legislative differences between Member States may be resolved. Secondly, through axial coding and an interview programme, process was identified and illustrated through the European Decision-Making Model (Fig Three).

Thirdly, the selective coding process is illustrated by the matrix and the model fitting together around the core category of European integration through the creation of the SEM and European Union. Axial coding draws all parts of the analysis together: it is the pivot or the axis of theory building. This is illustrated through the European Decision-Making Model. Finally a generalisation is made

regarding this understanding of legislation formulation which indicates both neo-functionalism and intergovernmentalism in the process of European integration. In this context, substantive theory is formulated in relation to the formal theories of intergovernmentalism and neo-functionalism. Through grounded theory techniques a substantive theory is constructed which furthers our understanding of European integration and the evolving European Union.

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