

Comparing Germany across Time and Space A picture Puzzle?



What do you see? A beautiful young woman admiring herself in a mirror or a skull?
It depends.

Financial Market Capitalism (FMC) in Germany: To what extent?

**1) Varieties of Capitalism and Financial Market Capitalism:
Change Pessimism *and* Optimism on shaky ground**

**2) Conceptual considerations: The three dimensions of
change and the relevance of the firm level**

**3) „Institutional reconfiguration“, multiple embeddedness,
translation of Shareholder Value and capitalist diversity
(with) in Germany: stylized facts**

4) Conclusion

Varieties of Capitalism and Financial Market Capitalism: Change Pessimism and „Optimism“ on shaky ground

Two perspectives on German capitalism

- Change of formation over time: from organized capitalism to FMC
- Comparative perspective: path dependence or convergence to the liberal model (VoC). Are hybrids sustainable?

Main criticisms of VoC

- The weaknesses of comparative statics, only all-or-nothing change; functionalist equilibrium approach; the need to count with gradual but nevertheless transformative change below/besides complete/formal system change
- Neglect of varieties within national capitalism in favor of national models

Formation change to FMC an alternative perspective to understand the German case?

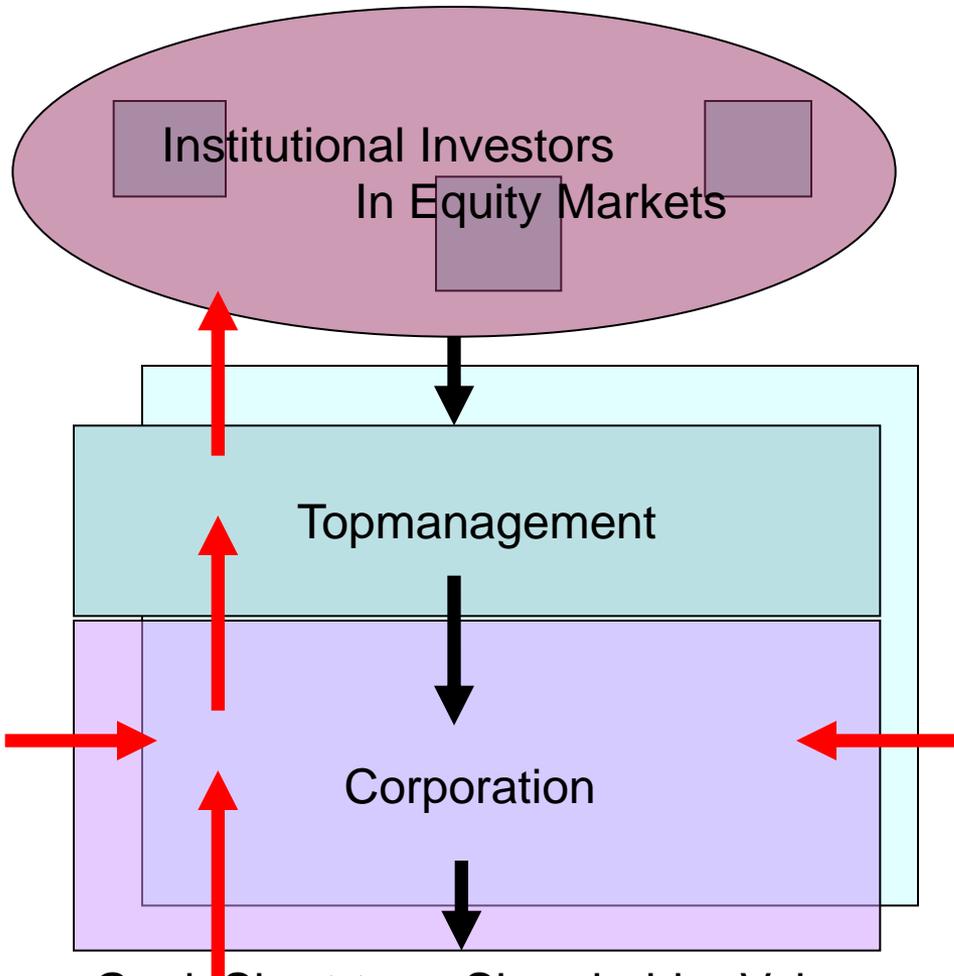
FMC – basic, ideal-type features

- **Focus on change in ‚dominant master sector‘: the rise of the institutional investor as the „new owner“**
- **New owners combine exit and voice**
- **Change from patient to impatient and demanding capital – dependence of equity financing**
- **Transfer of capital market logic to firms**
- **Mechanisms of transfer: market for corporate control, market of top managers, managers remuneration aligned to shareholder interests**
- **Management forced to drive rates of return (fix, sell or close) and short-term profit maximization**
- **(Depressing) impact on growth and innovation**

FMC - core objections

- **Institutional and structural conditions** not or only partially given
- **Other institutional spheres** and institutional interaction/conflict or complementarities disregarded
- **Other markets and competition** and hence relational and structural embeddedness disregarded
- **Concept of Actors and Organization** one-dimensional
- Concept of FMC accepts **agency theory** at face value (performativity)

The pneumatic top-down model of corporate change in FMC



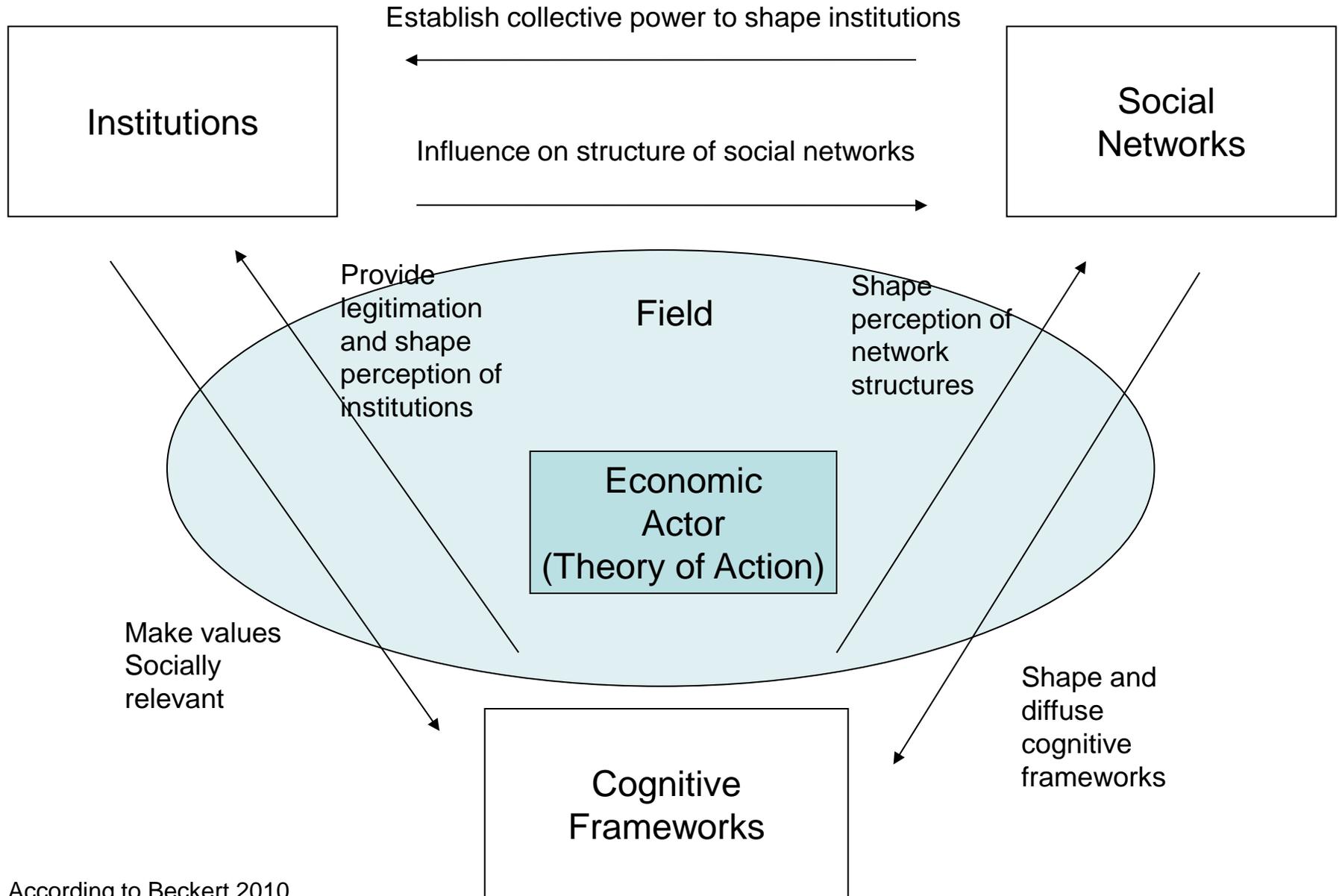
Goal: Short-term Shareholder Value
Maximization

Owners as a dominant collective actor, with consistent and operational goals, able to control/dominate the corporation and to force managers to maximize Shareholder Value

Topmanagement is made a fungible agent to follow one goal which is regarded as operational

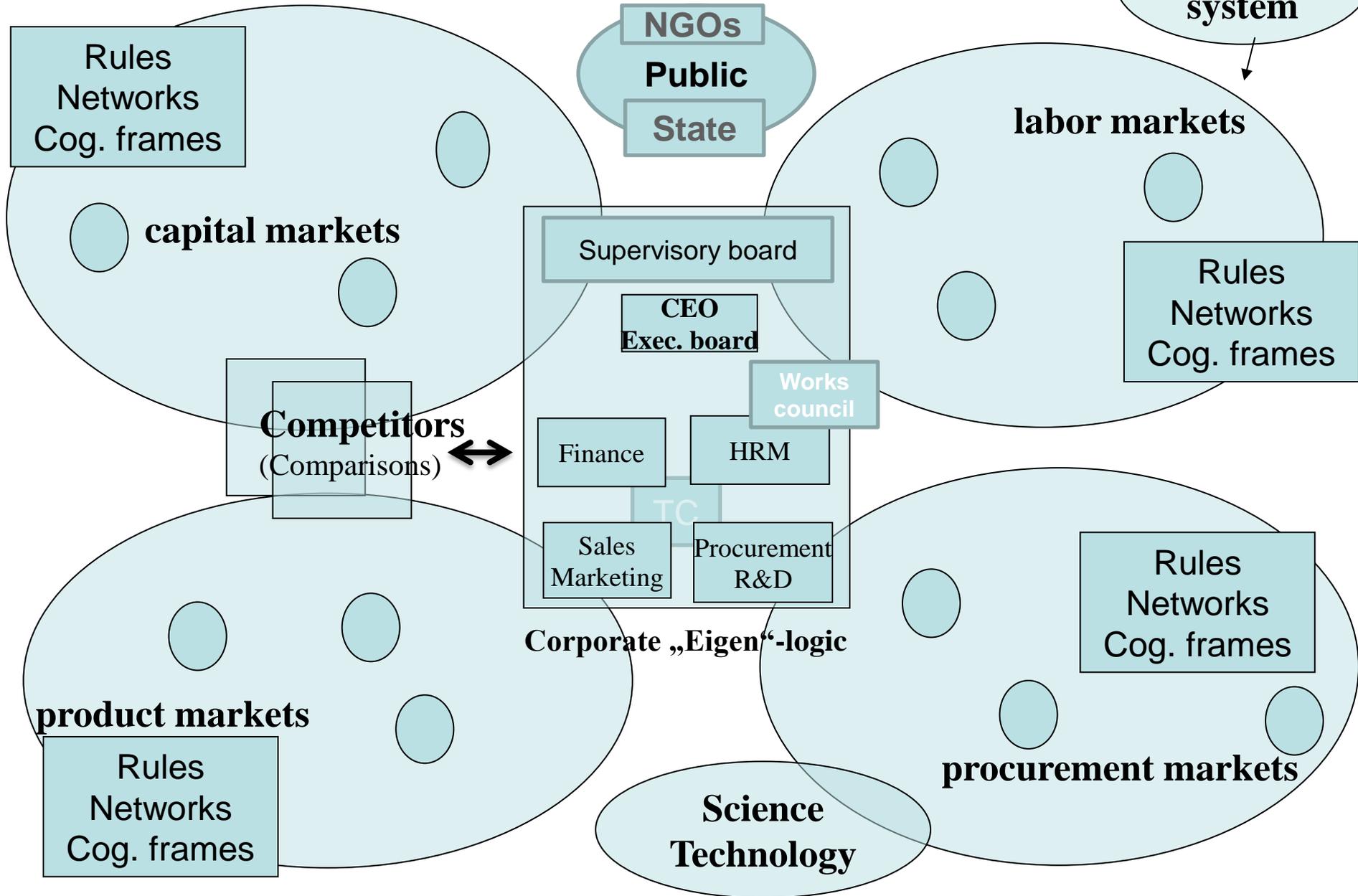
The enterprise as an organization is a compliant and yet omnipotent means of goal achievement without other internal and external actors/stakeholders being able to influence goals and goal achievement

(Partly non-intended or Side-) Effects (workers, innovation, growth)



According to Beckert 2010

The multi-referential firm



„Theory of the firm“: sociological building blocks

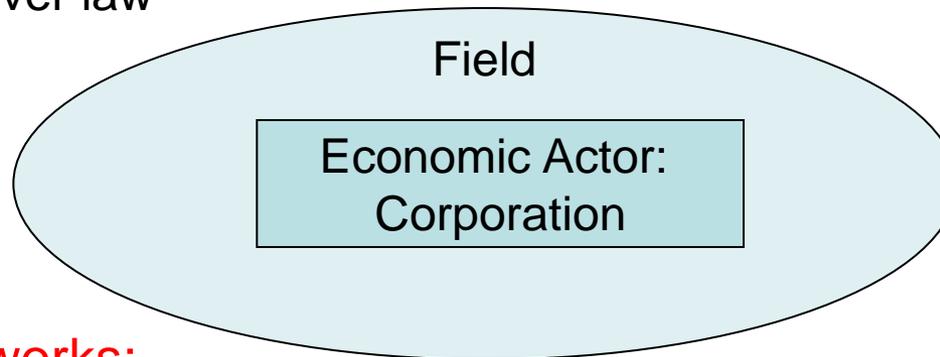
- **Coalitional model**
- **Firms as multi-referential systems in terms of institutions, cognitive-cultural frameworks, and relational/structural embeddedness**
- **Internal representation of external references: organizational subsystems with different environmental references (organizational interfaces) and partial rationalities**
- **Change: not necessarily in all dimensions and in the same direction**
- **External change corresponds with/affects internal power distribution and provision of theories of legitimation (here: the rise of finance and agency theory).**
- **Local, situated translation of transorganizational (global) management concepts (Shareholder Value)**
- **Local, situated interpretation of institutional rules (e.g., codetermination within the institutionally given ambiguous dual mandate)**

Institutional Rules:

- New shareholder friendly rules (CG)
- Maintenance of a pluralist concept of the corporation, corporation as institution
- Continuance/reassurance of board level codetermination;
- Consolidation of the supervisory board
- Restricted takeover law

Relational/Structural Embeddeness:

- Dissolution of Germany Inc.,
- Rise of the institutional investor
- (Listed)corporate sector remains small
- Often anchor investors still important
- Market for corporate control weak
- Multiple embeddedness/claimants

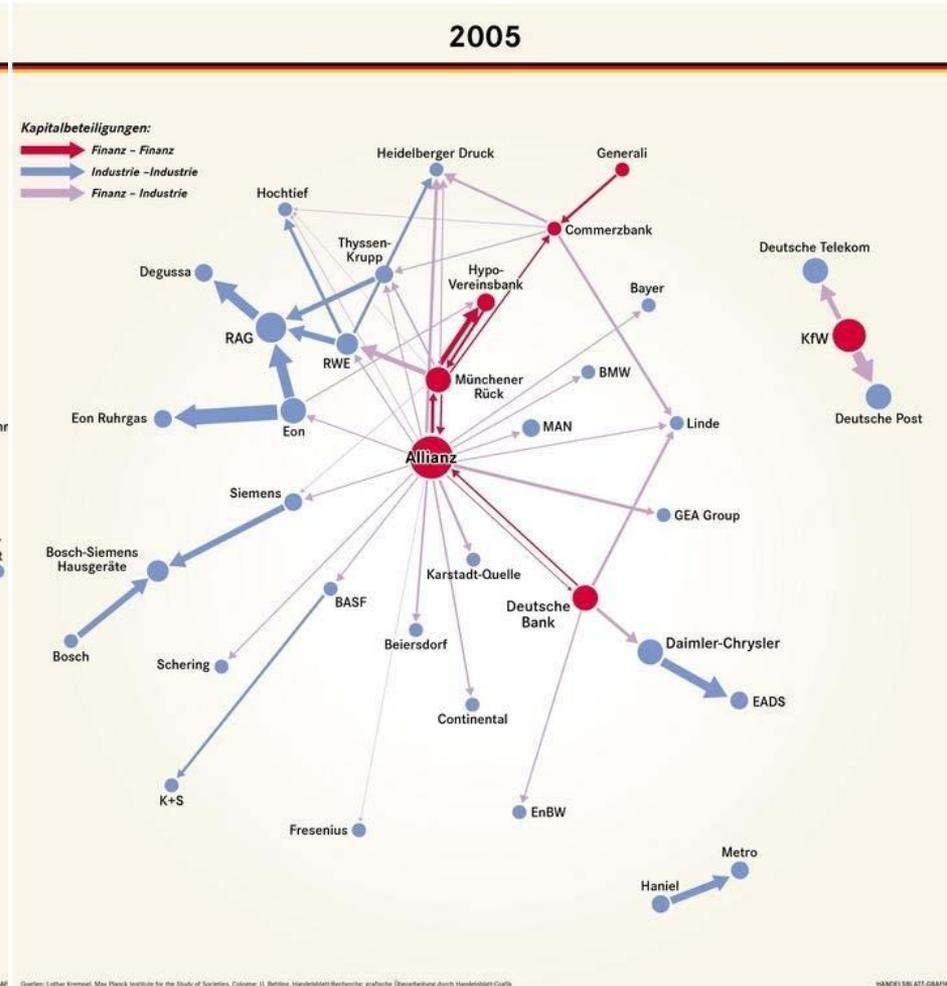
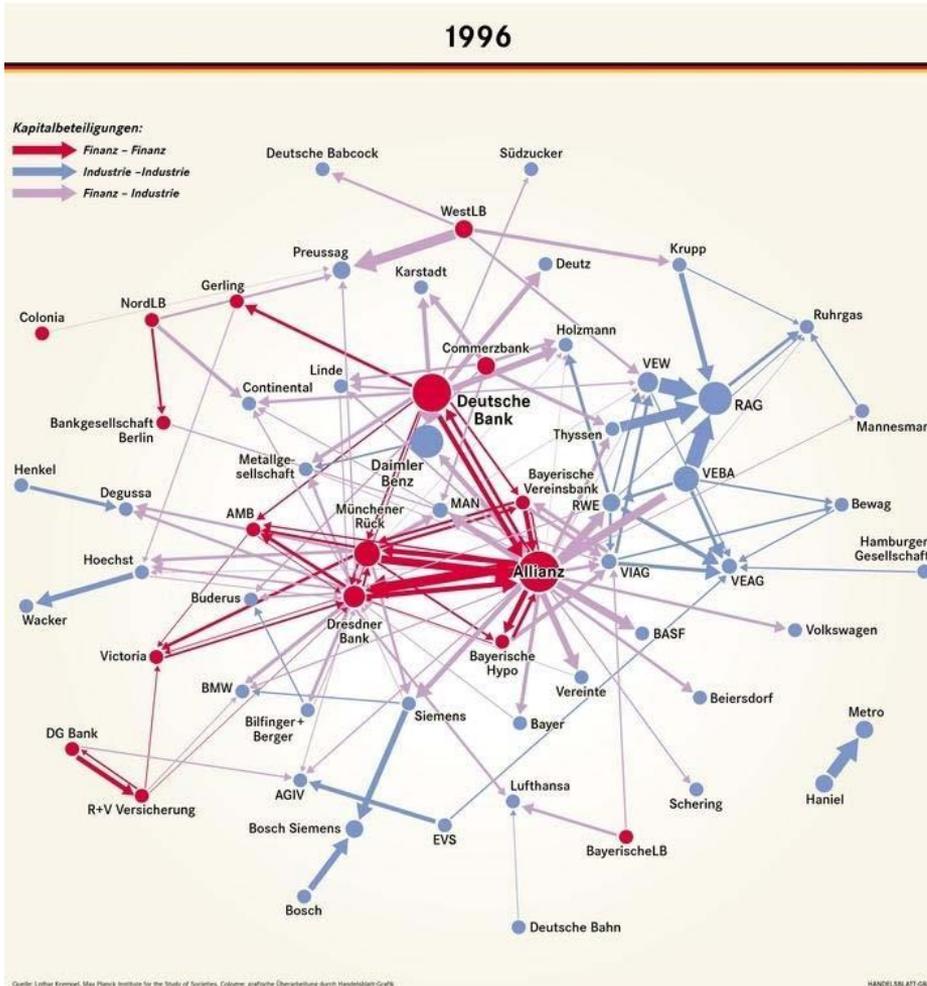


Kognitive Frameworks:

- The Rise of Agency Theory and new recipe knowledge (Value Based Management),
- but no hegemony; still broad support for pluralist concept of the corporation;
- Translation („negotiated“) of the shareholder value concept
- Partial localization of global actors

Germany: ambiguous intermediate state of affairs between ideal type FMC/liberal and organized/coordinated model: „institutional reconfiguration“ and within capitalist diversity

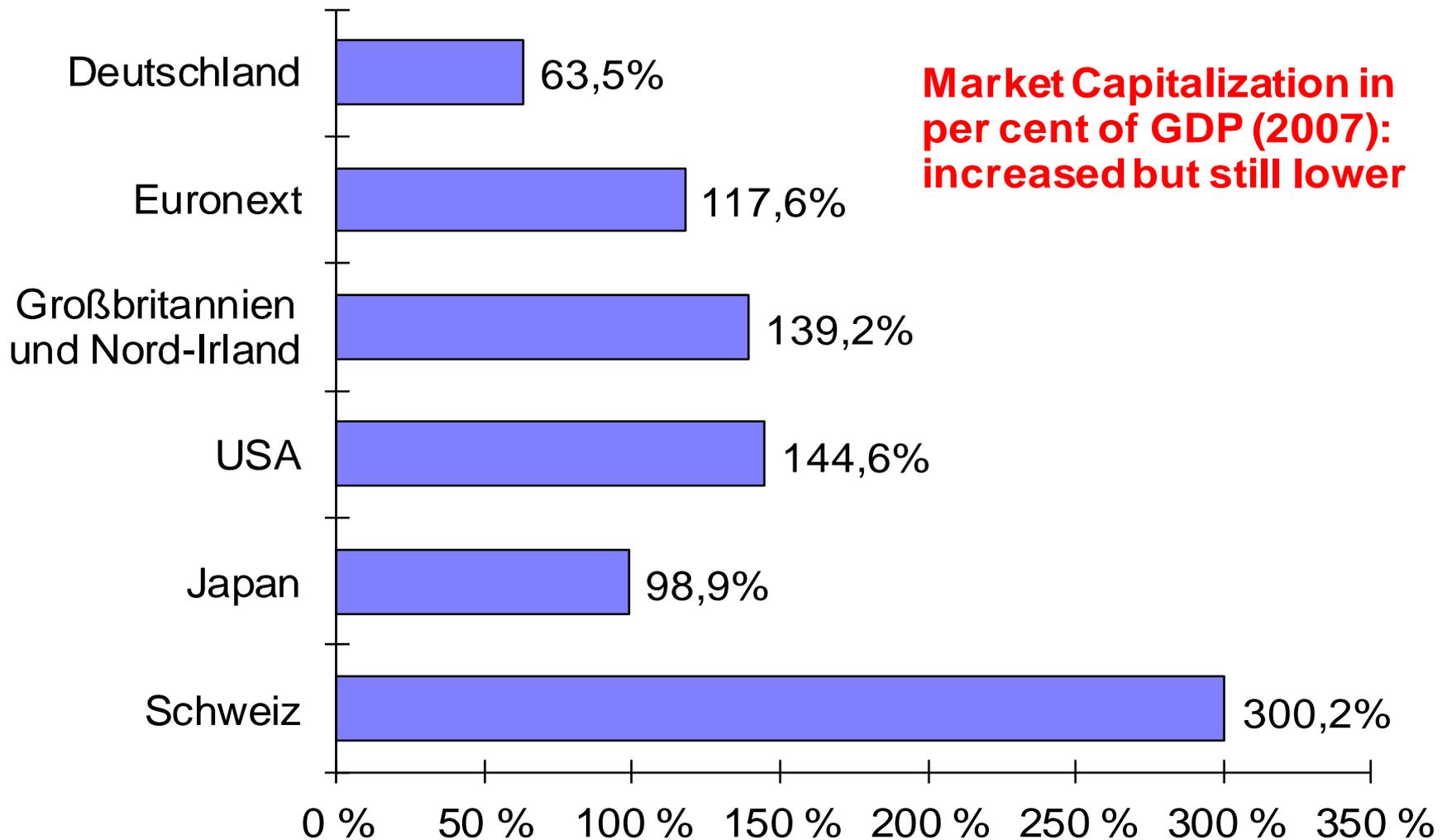
Exemplary observations: Germany Inc. Center of linkages



The Retreat of the Finance Sector

Holdings of Financial Sector Firms in non-financial firms among 100 largest (number of instances)

Firm	1996	2002	2004	2006	2008
Allianz	28	22	14	16	11
Deutsche Bank	15	9	5	6	9
Dresdner Bank	13	-	-	-	-
Münchner Rück	13	9	8	2	2
UniCredit Group	-	2	1	1	1
Commerzbank	6	3	2	1	3
All six largest	75	45	30	26	26
All financial	103	49	30	26	26



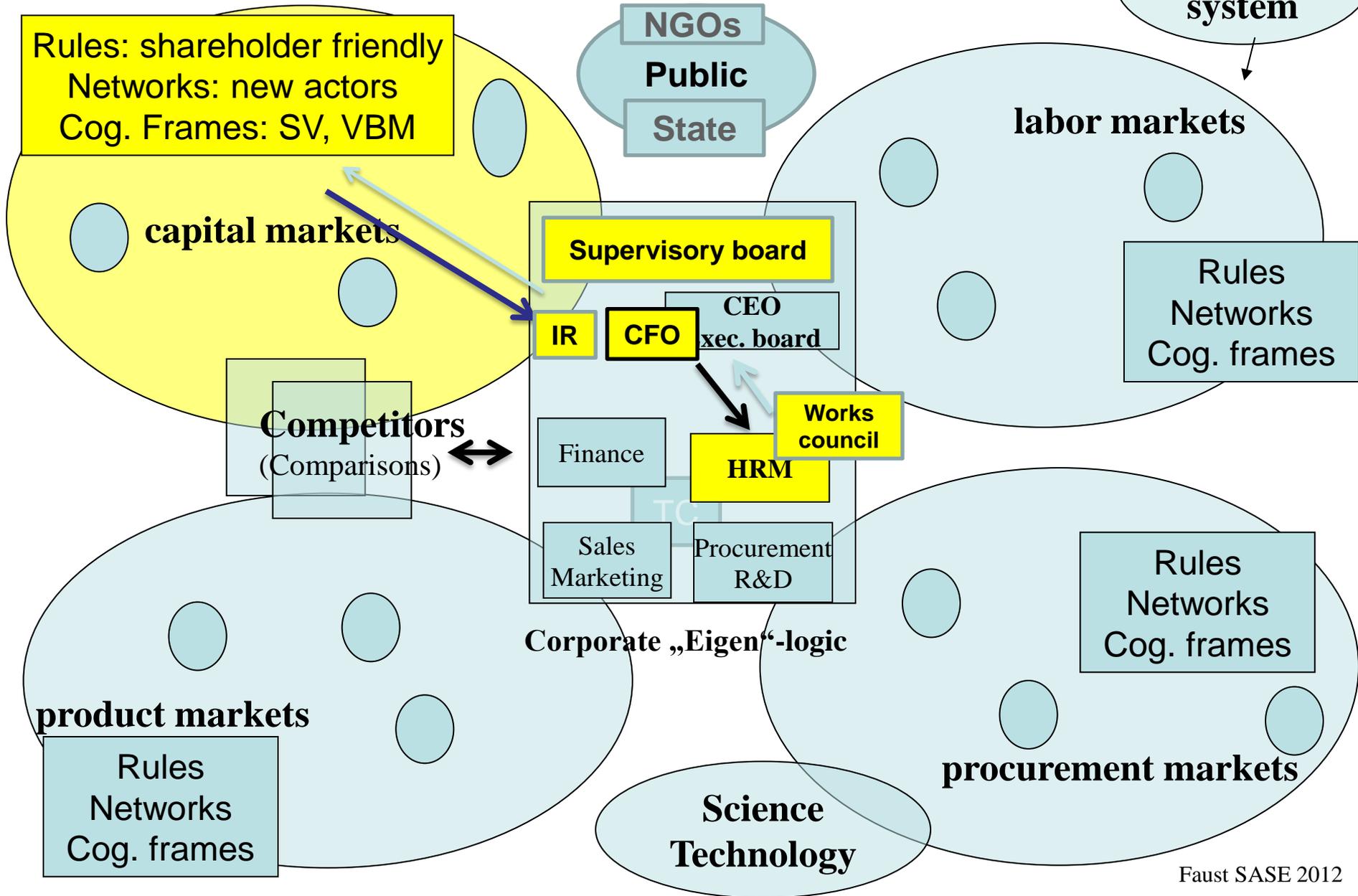
Some 1,150 listed corporations in 2011 (1987: 679), ~ 50% family/founder dominated

Ownership structure 100 largest firms in Germany

- Despite Erosion of Germany Inc. (measured by holdings within 100 largest) „Financial Market Capitalism“ Constellation not dominant
- Ownership structure 100 largest firms 2008 (2006)
(Monopolkommission 2010: 145):

▪ Majority from 100 largest	2	(0)
▪ Majority foreign single owner	27	(28)
▪ Majority state (agencies)	12	(12)
▪ Majority single persons, families, foundations	23	(21)
▪ Dispersed more than 50%	21	(20)
▪ Majority others	8	(7)
▪ Without majority	7	(12)

The multi-referential firm: change modus



Selected Firm Level Observations (I)

- **Structure of ownership matters** – mitigates capital market pressures (are we vulnerable?)
- **Capital market pressures:** new actors are relevant; new or accentuated expectations/cognitive frameworks; new needs to explain and justify own course of action; homogenization pressures via extended benchmarking within peer group.
- **Changing external coalition** goes along with **new internal distribution of power and sources of legitimation**. Internal actors' needs to explain own contribution in terms of value adding and in a financial accounting language; finance function has advantage in explaining external pressures (e.g. in internal construction of vulnerability by unfriendly takeover bids).
- **Financialization** sets agendas and time-limits for **codetermination**: pressure for **conversion**; but varieties of internal power relations and legacies of firm level industrial/labor relations modify effects.

Selected Firm Level Observations (II)

- **Shareholder Value concept and its implementation and usage:** Accentuated focus on rentability; „translation“ of SV in an adverse environment: SV hardly ever as explicit ideology, instead pluralistic concept of corporation still dominant in internal and external communication; leeway for decision making (timing, ad rem). Translation within the internal coalition, including the use of institutionalized means of codetermination.
- **„Alien“ new capital market actors are somehow acculturated** if not insiders themselves from the start. In general, not only fund managers and bank analysts influence corporate management but also vice versa.

Conclusion

- **Both capitalist diversity and diversity within capitalism**
- **The need for a more fine-grained analytical tool-set to analyze constellations: the multi-dimensional field concept (Beckert 2010)**
- **The firm as strategic actor matters. Theorization linkages between external and internal change: „Power in and around organizations“ (Mintzberg)**
- **The need for more substantial comparative analyses beyond model plumbing.**

More ...

- Faust, Michael; Bahnmüller, Reinhard; Fisecker, Christiane (2011): Das kapitalmarktorientierte Unternehmen. Externe Erwartungen, Unternehmenspolitik, Personalwesen und Mitbestimmung. Berlin (edition sigma).
- **Faust, M. (2011): The Shareholder Value Concept of the Corporation and Co-Determination in Germany: Unresolved contradictions or reconciliation of institutional logics. In: Lane, Ch.; Wood, G. T. (eds.): Capitalist Diversity and Diversity within Capitalism. London: Routledge, 150-188.**
- Faust, Michael; Bahnmüller, Reinhard (2007): Die Zeit der Aktienanalysten. In: Langenohl, Andreas; Schmidt-Beck, Kerstin (Hrsg.): Die Markt-Zeit der Finanzwirtschaft. Soziale, kulturelle und ökonomische Dimensionen, Marburg: Metropolis), S.37-74.
- Faust, Michael; Fisecker, Christiane; Bahnmüller, Reinhard (2007): Was interessiert Analysten? Versuch über erklärungsbedürftiges Desinteresse an Personalpolitik. In: Berliner Debatte Initial, 18 (2007), 4/5, S.16-26.