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

Based on Windolf (2005)
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)
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)
Institutions

Make values socially relevant

Social Networks

Influence on structure of social networks

Establish collective power to shape institutions

Field

Economic Actor
(Theory of Action)

Cognitive Frameworks

Provide legitimation and shape perception of institutions

Shape and diffuse cognitive frameworks

Shape perception of network structures

According to Beckert 2010
The multi-referential firm

- Capital markets
- Labor markets
- Product markets
- Procurement markets
- Education system

- Supervisory board
- CEO
- Exec. board
- Works council
- HRM
- Finance
- Sales and Marketing
- Procurement
- R&D
- Corporate „Eigen“-logic

- Competitors (Comparisons)

- Rules
- Networks
- Cog. frames

- NGOs
- Public
- State
- NGOs
- Education system

- Science
- Technology
- Rules
- Networks
- Cog. frames
„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/reassurement 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

Source: MPIfG – Krempel 2008, data from Hauptgutachten Monopolkommission
## The Retreat of the Finance Sector

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

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Allianz</td>
<td>28</td>
<td>22</td>
<td>14</td>
<td>16</td>
<td>11</td>
</tr>
<tr>
<td>Deutsche Bank</td>
<td>15</td>
<td>9</td>
<td>5</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Dresdner Bank</td>
<td>13</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Münchner Rück</td>
<td>13</td>
<td>9</td>
<td>8</td>
<td>2</td>
<td>2</td>
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<tr>
<td>UniCredit Group</td>
<td>-</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Commerzbank</td>
<td>6</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>3</td>
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<tr>
<td><strong>All six largest</strong></td>
<td><strong>75</strong></td>
<td><strong>45</strong></td>
<td><strong>30</strong></td>
<td><strong>26</strong></td>
<td><strong>26</strong></td>
</tr>
<tr>
<td><strong>All financial</strong></td>
<td>103</td>
<td>49</td>
<td>30</td>
<td>26</td>
<td>26</td>
</tr>
</tbody>
</table>

Source: Monopolkommission 2010
Market Capitalization in per cent of GDP (2007): increased but still lower

- Deutschland: 63.5%
- Euronext: 117.6%
- Großbritannien und Nord-Irland: 139.2%
- USA: 144.6%
- Japan: 98.9%
- Schweiz: 300.2%

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

<table>
<thead>
<tr>
<th>Ownership Structure</th>
<th>2008</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Majority from 100 largest</td>
<td>2</td>
<td>(0)</td>
</tr>
<tr>
<td>Majority foreign single owner</td>
<td>27</td>
<td>(28)</td>
</tr>
<tr>
<td>Majority state (agencies)</td>
<td>12</td>
<td>(12)</td>
</tr>
<tr>
<td>Majority single persons, families, foundations</td>
<td>23</td>
<td>(21)</td>
</tr>
<tr>
<td><strong>Dispersed more than 50%</strong></td>
<td><strong>21</strong></td>
<td><strong>(20)</strong></td>
</tr>
<tr>
<td>Majority others</td>
<td>8</td>
<td>(7)</td>
</tr>
<tr>
<td>Without majority</td>
<td>7</td>
<td>(12)</td>
</tr>
</tbody>
</table>
The multi-referential firm: change modus

Rules: shareholder friendly
Networks: new actors
Cog. Frames: SV, VBM

capital markets

Competitors (Comparisons)

product markets
Rules Networks Cog. frames

science technology

labor markets

NGOs
Public
State

corporate "Eigen"-logic

Supervisory board
CEO exec. board

works council

financial management: CFO
sales marketing
procurement R&D

finance

HRM

corporate council

rules networks
cog. frames

networks new actors
rules shareholder friendly

business environment

education system

networks cog. frames

networks cog. frames

networks cog. frames
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 capitel 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 …


