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Introduction

The topic of corporate governance – the system by which firms are controlled and operated, the rules and practices that govern the relationship between managers and shareholders, and the overall process by which investment capital is allocated – has become an important issue for policymakers and scholars in recent years in the wake of financial scandals both in Europe and in the United States (Coffee, 1999, 2002, 2005; Shinn and Gourevitch, 2002). The 2008 financial crisis, and the two preceding decades prior to its occurrence, has highlighted the shortcomings associated with unbridled pursuit of shareholder value as the guiding star for listed companies in the United States. In the context of the heightened influence of institutional investors, some of them largely unregulated, such as hedge funds, the strategy of corporations has essentially been oriented toward financial objectives (market valuation) with little consideration for the interests of stakeholders – most notably employees. The creation of shareholder value in the form of share price appreciation is seen as a reflection of the quality of corporate executives, the latter group being increasingly compensated through variable pay such as stock options (Davis, 2009). In addition to the neglect of the interests of employees, the focus on shareholder value has incentivized corporate executives to develop a short-term focus that has sometimes resulted in earnings manipulation designed to create an earnings spike (Coffee, 2005: 202). What happens when these same institutional investors diversify their financial assets in settings traditionally not open to the concept of shareholder value?

I investigate in this book the evolution of corporate governance in the wake of increased capital mobility in the form of portfolio investment in France and Germany – two settings previously insulated from strategic investments by Anglo-American shareholder value-oriented institutional investors (Achleitner et al., 2010; Dafsaliens, various years).

I focus on the investment allocation of two categories of impatient short-term oriented investors, namely hedge funds and actively mutual funds from the United Kingdom and the United States. The empirical evidence on the investment allocation of short-term, impatient investors highlights the greater attractiveness of French blue-chip companies over their German counterparts in a ratio of 2 to 1. What are the causes of this disparity in investment allocation of short-term-oriented investors and what are the consequences for the French and German model of capitalist economies? These apparently narrow empirical questions entail crucial political issues and also constitute important inquiries for research methods. The argument presented in this book builds on an impressive literature that emphasizes the importance of institutions in defining the scope and nature of new problems (Locke and Thelen, 1995), its impact on the process of preference formation of actors (Berger, 1981; Hall, 2010*a*), and its structuring influence on the process of interactions between actors (Hall, 1986: 19). More specifically, I argue that the firm-level institutional arrangements of workplace organization in France and Germany provides important insights to account for the divergence in the investment allocation of short-term investors. Hedge funds and actively managed mutual funds possess a short-term horizon and high incentives to maximize the value of their portfolio. The content and speed by which portfolio companies implement strategies of shareholder value matter to them. The issue is not about shareholder value per se, but rather concerns the presence of impatient investors aiming at portfolio companies implementing short-term oriented strategies designed to boost their market capitalization and/or secure the release of dividend payments (Clark and Wojcik, 2007; Brav et al., 2008; Klein and Zur, 2009; see also the discussion in Chapter 5). The Varieties of Capitalism (VoC) perspective offers important insights on this question. The institutional basis for the coordination of activities at the firm-level in the two countries differs substantially (Soskice, 1999; Hall and Soskice, 2001).[1] The attractiveness of French companies lies in the concentration of power in the CEO that, in turn, allows for a rapid reorganization of the workplace under the guidance of a small number of corporate officials. The decision-making process of large French firms is management-led with the exclusion of the workforce

[1] See Culpepper (1999, 2003), Hancké (2002), Woywode (2002), Whitley (2003), Sorge (2005), and Goyer (2006*a*) for an institutional perspective on the organization of work in France and Germany and the impact of this on the process by which firms coordinate their activities. To provide for a comparative-longitudinal perspective, see also Gallie (1983), Maurice et al. (1986), Thelen (1991), Soskice (1994), and Boyer (1995).

from important aspects of the decision-making process. The investment strategies of hedge funds and actively managed mutual funds, in contrast, do not fit well with the firm-level institutions found in Germany. Firm-level institutions impose several constraints on the ability of management to develop and implement strategies in a unilateral fashion. The process of adjustment to external pressures in Germany is the result of negotiation between management and employee representatives as several legal obstacles stand in the way of a rapid and unilateral reorganization of the shop floor.

Nonetheless, and despite the statement that institutions matter, the role of institutional analyses remains in some ways undetermined in social sciences for several factors. How do institutional arrangements affect corporate governance outcomes? Institutional analyses of comparative corporate governance raise many issues also found in other areas of the social sciences. The focus of many corporate governance inquiries might be specific to particular subfields – determinants of ownership structures, legal protection of minority shareholders, impact of the market for corporate control, and many others – but questions and insights about the role of institutions are present across disciplinary boundaries. Three key debates stand prominently in social science discussions with significant implications for the argument presented in this book. The first one concerns the extent to which scholars assign analytical primacy to institutions. This debate often pits institutionally based versus interest-oriented theoretical perspectives. The first group highlights the ways in which differences in national institutional arrangements result in different trajectories regarding patterns of policymaking, economic performance, and clusters of innovative specialization (Soskice, 1999; Whitley, 1999; Hall and Soskice, 2001). Institutions matter because they independently shape the distribution of power among social actors (Berger, 1981; Hall, 1986; see also Moe, 2005). The second group, in contrast, emphasizes how institutions reflect something perceived to be deeper in society – the usual suspect being the underlying distribution of power among groups (Pontusson, 1995; Howell, 2003). These critiques of institutional perspectives point to two alternative scenarios that lessen the importance of institutions: coalitional and policy realignments can take place within stable institutions, and institutions themselves become the objects of struggle if they are so influential over outcomes (see e.g. Gourevitch, 1977, 1986, 1999).

A second debate concerns the nature of interaction of institutions with other features. Scholars working from an institutional perspective rarely advance the notion that only institutions matter for outcomes. For some, institutions are mid-level variables (as distinct from macrostructures) that act as a midrange theory (Thelen and Steinmo, 1992; see also Merton, 1968). For instance, Katzenstein (1977) analyzes how variations in institutional frameworks provided for divergent political responses to the changes in the world economy in the 1970s – but does not seek to account for the origins of these important macro changes. Institutions are highly important at a given analytical level and, moreover, refract the impact that results from the occurrence of external developments. For others, institutions are part of a phenomenon of complex causation whereby an outcome results from potentially different combinations of conditions (Ragin, 1987; Mahoney, 2004).

A third source of debate is methodological and takes two forms. First, the dichotomy between institutional-based and interest-oriented theoretical perspectives often entails specific research design choices that mirror the other perspective's approach. Institutionally oriented researchers hold preferences constant with the aim of showing how changing institutions produce different outcomes. Interest-driven scholars, on the other hand, hold institutions constant to show how changing interests lead to different results. A problem with this often necessary but incomplete ploy is that both institutions and interests can be changing – that is, nothing is constant (Gourevitch, 1999; see also Frieden, 1999). Moreover, this methodological ploy neglects the importance of causal complexity whereby outcomes result from the intersection of variables. Second, the presence of change (or stability) of institutional frameworks is riddled with problems of assessment. For instance, the occurrence of institutional change is not always interpreted as leading to behavioral change. Comparative political economy scholars increasingly distinguish between institutional change that does not affect the process by which firms coordinate their activities versus institutional transformation that implies a transformation of coordination (Culpepper, 2005; Goyer, 2006*a*; Hall, 2007; Hall and Thelen, 2009; see also Sorge, 2005: 142–83). Distinguishing between radical and incremental institutional change becomes crucial (Campbell, 2004; Hall, 2010*a*; see also Deeg, 2001, 2005*b*). On the other hand, the presence of institutional stability can be associated with substantial modifications in the behavior of actors. The occurrence of functional conversion – whereby institutions are redirected to new purposes in the presence of formal institutional stability – complicates analytical inquiries (Gilson, 2001; Thelen, 2003, 2004). The practice associated with an institution can change without a corresponding transformation in its formal structure.

The above overview of the debates surrounding institutional analyses in contemporary capitalism points to the difficulties in assessing how institutions matter for corporate governance outcomes. Should one attempt to account for institutional variation across national systems of corporate governance? Or, in contrast, should the analytical focus revolve around differences in corporate governance outcomes among advanced capitalist economies? Important political questions lie beneath these methodological questions. For some authors, the process of piecemeal-incremental institutional change reflects the strategic behavior of actors seeking to erode the existing functions of institutions rather than to abolish their formal existence (Hyman, 2001; Streeck, 2008; see also Crouch, 2004). Why, this behavior suggests, aim for a full confrontation if the achievement of one's goal could result from incremental changes? However, institutional change is often full-scale as illustrated by the removal of control on capital flows – an important stimulus for the research question of this book (Abdelal, 2007; see also Berger, 2003, 2010). The ability of actors to aim for full-scale institutional change is often contingent upon the visibility and politicization of issues (Culpepper, 2010). Actors are more likely to seek institutional change if important issues are under the political and social radar.[2] Thus, the nature and role of institutions do not lend themselves to a single viewpoint. Inquiries highlighting the importance of institutions should also avoid inferring a mechanical relationship between institutional stability/change and outcomes. These issues are important in the assessment of the meaning and extent of convergence across national VoC (Gourevitch, 2003*b*: 328). To overcome these conceptual and methodological issues, this introductory chapter is organized in the following manner. First, I present the theoretical foundations of politically inspired institutional analyses on comparative corporate governance. I proceed to review their contributions to the analysis of diversity in both institutional arrangements and outcomes across national systems of corporate governance. These approaches are also characterized by substantial internal diversity as regard the role of institutions – thereby increasing the analytical variety of inquiries.

Second, I present the main argument of the book which is organized in three interrelated blocks: institutional diversity and the settlements of conflict, hierarchical character of institutional variables that are part of a process of complex causation, and the importance of context. The first building block highlights the importance of historical developments characterized by location-specific settlements of conflict negotiated

[2] Full-scale institutional change is also the result of the specifics of the settlements of conflicts negotiated in different advanced capitalist economies and constitutes an important theme for the study of comparative corporate governance (see Roe, 2000, 2003).

across advanced capitalist economies (Hall, 1984, 1986; see also Berger, 1979; Gourevitch, 1986; Roe and Gilson, 1999). The process of incorporating socialist parties into the democratic liberal frame, the reconciliation of organized labor to the capitalist mode of accumulation, the entry of women into the labor force, the higher sets of expectations of the electorate, the transition to a service-based sector economy, and the normalization of religion constitute the major challenges faced by advanced capitalist economies (Berger, 1985; Hall, 1999; Iversen and Wren, 1998; Kepel, 2004). Moreover, the content and the extent to which these important sources of conflicts are settled exhibit significant differences among advanced capitalist economies. As a result, international and domestic developments do not translate into common pressures for actors (countries, firms, policymakers, trade unions). Diversity in pressure intensity reflects substantial differences in institutional starting points as well as the fact that the practices and behavior that follow from these institutional frameworks carry different meanings – two features inherent in the settlements of political conflict (Thelen, 1993; Locke and Thelen, 1995; see also Kogut et al., 2002). In particular, I investigate the construction of the distribution of authority inside French and German companies that, in turn, proved crucial in terms of their attractiveness to short-term-oriented institutional investors. The investigation focuses on the choices of French labor organizations to rely on the state in order to achieve their objectives versus the commitment of German trade unions to securing full participation in economic decision-making.

The second building block of the argument presented in this book highlights the hierarchical character of institutional variables in mediating the impact of external (and internal) developments on the evolution of advanced capitalist economies. Qualitative studies in social sciences (small-N) are increasingly geared toward an understanding of causation in terms of necessary, sufficient, and insufficient but necessary parts of a condition which is itself unnecessary but sufficient for the result (Mackie, 1965; Lieberson, 1985, 1991; Ragin, 1987; Mahoney, 2004, 2008). Important political, economic, and social outcomes are rarely generated by the presence of one cause alone; they occur as the result of specific intersections of conditions (Hall, 2010*a*).[3] The study of social

[3] The presence of complexity makes it no easy task to identify the decisive causal causation, thus the methodological importance of the increasing sophistication in the design of techniques by which cases can be divided into sets according to their values on the studied dependent variable. For instance, the use of Boolean algebra and the development of a "fuzzy-set" approach have been crucial in the reduction of significant amounts of

phenomena is almost invariably characterized by complexity and attempts at presenting a single-variable explanation are bound to disappoint. Nonetheless, the notion of causal complexity should not obscure the fact that some (institutional) variables are more influential on outcomes than others (Goldthorpe, 1997). The relative weight of different institutional arrangements constitutes part of an intersection of conditions that generate a specific outcome and this remains an important issue that has not been tackled in qualitative research.[4] As a result, the importance of different paths of conflict settlements across advanced capitalist economies entails that what is necessary and/or sufficient in one setting will not be a causal variable in another. The diversity of institutional arrangements across advanced capitalist economies reflects context-specific settlements of political and social conflicts, thereby highlighting that radical change entails "capturing" different sets of institutions across time and space (Thelen, 1993; Gourevitch, 1999; Amable, 2003; Hall, 2010*a*).[5] The early work of Katzenstein (1977) illustrates how new developments are mediated by domestic institutional frameworks. The notion of hierarchy presented in this book highlights the fact that not every single institution in the economy will contribute equally to this process of refraction. I investigate how and why certain causal variables are more important than others even if the logical inference of my argument relies on the notion of causal complexity. In other words, phenomena of complex causation are characterized by hierarchy in the causal effects of institutional variables.

Third, and following on from the previous point, I argue that the contribution of the hierarchically superior causal variable in a process of complex causation lies at two levels. The first one is that the hierarchically superior causal variable increases the likelihood of the outcome. The presence of the hierarchically superior causal variable directly acts upon the dependent variable and thus should be referred to as a cause. The second level at which the hierarchically superior causal variable operates is through the provision of the context for assessing the impact of other causal variables on the studied variable/research question The context (C) influences the relationship between other hypothesized independent variables (x1, x2, . . . , xN) and the dependent variable (Y) (Goertz, 1994). The hierarchically superior causal variable

information to manageable levels (Ragin, 1987, 2000). See also Kogut and Ragin (2006) for an analysis of legal institutional arrangements of corporate governance with Boolean algebra.

4 For an exception, see Goertz (2006).

5 See also Deeg (2001, 2005*b*) and Campbell (2004) for subtle analyses of the differences between radical and incremental change.

influences whether other hypothesized independent variables generate the outcome of interest on the dependent variable. An important implication of this is that the relationships between variables will differ across settings/time – but not in a capricious manner. For instance, x1 appears to constitute a necessary and sufficient/sufficient/necessary causal variable for the dependent variable in situation A/point T, but not in situation B/point T+1. Should one conclude that it is pointless to attempt at inferring a causal relationship between x1 and Y on the basis that the hypothesized relationship between the two variables exhibits variation across settings/time? The issue is that what is often an important factor lies in the background in the form of context (Mackie, 1965; Goertz, 1994). The context (C) does not contribute to the value taken by other hypothesized independent variables (x1, x2, . . . , xN), but rather impact on the nature of the interaction between these other hypothesized independent variables and the dependent variable (Y). The context embodies the notion of hierarchy and influences the relationship between other variables among themselves – for example, positive relationship between x1 and Y in one setting but not in another. Thus, the study of the interaction between a hypothesized causal variable (x1, x2, . . . , xN) and the dependent variable do not necessarily result in the occurrence of the outcome of interest since it is contextually bounded by the hierarchically superior causal variable (see e.g. Falleti and Lynch, 2009). Instead, the causation resides in the influence of the context on the interaction between the hypothesized independent variables and dependent variables. In turn, the presence of contexts – which are the result of historically and location-specific settlements of conflict – entails important methodological implications for the analysis of change.

The institutional hierarchy inherent in context makes some types of changes more feasible than others – thereby providing a healthy warning against the illusion of differences (see e.g. Ragin, 1987: 44–9). The nature and degree of institutional change has been impressive across advanced capitalist economies, but how do we distinguish between radical versus incremental change? (Campbell, 2004; see also Deeg, 2001, 2005*b*). A key insight of this book is that one must distinguish between the character of coordination and the institutional framework that supports it (Hall, 2007; Hall and Thelen, 2009; see also Goyer, 2006*a*). Change in the latter does not entail a modification in the former. The sustainability of national models of corporate governance and capitalism cannot rest on the total absence of institutional change (Thelen, 2004). The hierarchically superior causal variable matters in two ways: it directly impacts on the value taken by the dependent variable; and it shapes how other hypothesized independent variables themselves impact on the dependent variable.

For the argument presented in this book, the hierarchically superior causal variable is operationalized in the form of the institutional arrangements of workplace organization identified by the VoC perspective. Differences in the distribution of power at the firm-level, as embodied by the institutional arrangements of workplace organization, impact on the investment allocation of institutional investors. Short-term-oriented fund managers prefer firms governed by a small group of top executives with significant concentration of power around them since it is easier to implement strategies of shareholder value in a quick fashion (Rebérioux, 2002; Goyer, 2006*a*). Portfolio firms with many stakeholders are less attractive given the short-time horizon of this category of institutional investors.

Moreover, the arrangements of workplace organization identified by the VoC perspective also serve as the institutional context (C) that impacts on the nature of the interaction between other hypothesized causal variables and the dependent variable. More specifically, I focus on the extent to which legal–institutional arrangements result in greater protection for minority shareholders. The other hypothesized independent variable in this study is the legal protection of minority shareholders as emphasized in the law and economics literature, and the dependent variable is whether or not French and German companies are targeted by short-term investors. The second contribution of the hierarchically superior causal variable (the institutional arrangements of workplace organization) lies in providing the context that shapes the relationship between the legal protection for minority shareholders and the investment allocation of short-term investors. The presence of ownership diffusion constitutes the most important and determining factor for the law and economics perspective in terms of being targeted by short-term investors (see e.g. Shleifer and Vishny, 1997; LaPorta et al., 2000; Coffee, 2005). However, the relationship between ownership dispersion and investment allocation of short-term investors differs across the two cases: it is positive in France since the quasi-totality of companies with ownership diffusion has been targeted by short-term investors; it is weaker in Germany given that several corporations with ownership diffusion have not been targeted by these same impatient investors. The variation in the relationship across space highlights the importance of domestic firm-level institutional contexts. The disappearance of large shareholders in France constitutes the removal of the last stumbling block for the implementation of short-term-oriented strategies of shareholder value given the concentration of power in top management. By contrast, the strength of organized labor at the firm-level in Germany explains why the removal of large blockholders inside companies does not result in managerial autonomy to quickly implement strategies of shareholder value. This autonomy is blocked by the strength of organized labor at the firm-level. The VoC institutional context influences the nature of the relationship between variables. The same variable – the emergence of ownership diffusion – has different effects in two nonliberal market but institutionally distinctive economies, namely France and Germany.

Thus, politics matters but in a very specific and asymmetric manner. Politics is reflected in the settlements of conflict across advanced capitalist economies that are translated into specific institutional arrangements. However, the importance of the contribution of politics to institutional origins varies tremendously across issue areas. Politics might not be overbearing in the sense that the values taken by institutions in one area do not impact on the value of institutional arrangements in other spheres of the economy. Political dynamics are often different across issue areas and over time. Nonetheless, the institutional arrangements associated with the hierarchically superior causal variable (i.e., the context) mediate the relationship between institutions in other spheres of the economy and on the value taken by the dependent variable. As a result, the influence of politics over the institutional content of the hierarchically superior causal variable is more important than the influence of politics over the constitution of the institutional configuration of other causal variables. The mobilization of groups over political and social questions results in different outcomes across issue areas and over time.

1.1 Politics and Institutional Diversity in Corporate Governance

How do institutional arrangements shape corporate governance outcomes? What institutional factors account for the disparities in the investment allocation of short-term-oriented institutional investors in France and Germany? Early studies of corporate governance focused on the divergence of interests between the principal and the agent (Berle and Means, 1932; Jensen and Meckling, 1976; Fama and Jensen, 1983). The key idea is that unmonitored managers will pursue goals that are not in the interests of shareholders – ranging from actions that allow them to profit personally (embezzlement, misappropriations) to empire building. Compounding this problem of agency is the issue of free riding whereby a shareholder owning a small amount of stocks possesses no incentive to monitor corporate executives, and the impossibility of predicting all future contingencies that results in the inability of dispersed shareholders to write complete contracts that would serve as a constraint on the behavior of corporate executives (Grossman and Hart, 1981). Thus, the focus of early law and economics studies was organized around a puzzle – namely why would minority investors provide funding to companies run by unaccountable, dominant managers. The answer provided was that inefficient firms would be punished in financial and product markets if they deviated for profit maximization and efficiency-based norms, thereby providing corporate executives, shareholders, and other actors with incentives to design institutions aimed at reducing agency costs (for a critical analysis, see Davis, 2005).

Notwithstanding the functionalist bias of these early law and economics analyses of corporate governance, a second problem proved to be more important. Empirically, the separation of ownership and control does not constitute a universal proposition. In many countries, ownership is highly concentrated thereby exposing the lack of comparative focus of the early studies of corporate governance in law and economics. In such settings, the controlling shareholder has both the incentive and the power to discipline management (Morck et al., 1988). The main issue in ownership-concentrated systems of corporate governance concerns the divergence of interests between the controlling shareholder and minority investors. The concentration of ownership, with its associated control over corporate policies, is valuable since the controlling shareholder is able to transfer value from the firm at the expense of minority shareholders – that is, the private benefits of control (Zingales, 1998).

As a result, the field of law and economics underwent a major regeneration from the early 1990s onward with the aim of accounting for diversity in ownership structures across national systems of corporate governance. The core argument is that differences in ownership structures across national systems of corporate governance are accounted for by the extent to which legal–institutional arrangements protect minority investors from expropriation by managers or controlling shareholders (LaPorta et al., 2000). There are two types of agency costs: separation of ownership from control (ownership diffusion) and divergence of interests between the large owner and noncontrolling shareholders (ownership concentration) (see e.g. Coffee, 2005). The investigative starting point is that minority shareholders need assurance that they will get a return on their investment (Shleifer and Vishny, 1997). If legally unprotected, (potential) minority shareholders are significantly less likely to invest in equities with the result that corporate ownership is dominated by large blockholders.

The law and economics perspective has generated impressive empirical results whereby differences across national systems of corporate governance in regard to ownership structures, size and depth of securities markets, number of listed firms, dividend payments, and rates of IPO correlate with the extent to which legal–institutional arrangements protect minority shareholders (LaPorta et al., 1999, 2006). Nonetheless, the focus of the law and economics perspective on the rights of minority shareholders has been criticized on empirical and theoretical grounds. Empirically, changes in ownership structure across national systems of corporate governance have been more frequent over the course of the twentieth century as compared to the overall stability of legal systems especially viewed from the common law/civil law angle – thereby making it difficult to explain variation with a quasi-constant (Rajan and Zingales, 2003; Gourevitch and Shinn, 2005: 4–10; Morck, 2005; Herrigel, 2008*a*: 479–88; see also Aguilera and Williams, 2009). Theoretically, the importance of institutional arrangements in protecting the legal rights of minority shareholders does not cover every instance where corporate executives can destroy firm value even under the best-case scenario of American and British corporate law. Legal arrangements in these two countries, which are comparatively highly protective of the rights of minority shareholders, are insufficient to account for the presence of ownership dispersion. Corporate law is generally, although not always, effective at dealing with agency costs that take the form of diversion of value by executives (stealing, embezzling, and shirking) – but is largely unconnected to a second type of agency costs related to value destruction in the form of managerial mistakes (Roe, 2002). The issue is not one of a misfit between institutions and the type of agency costs faced by firms – but rather of the limits on the extent to which legal arrangements can cover every instance of shareholder value destruction in either concentrated or dispersed ownership settings.

These shortcomings associated with the law and economics perspective have been addressed by political perspectives on corporate governance (Roe, 1993, 2003; Gourevitch and Shinn, 2005). Two political variants have been prominent. The first variant is associated with the groundbreaking work of Mark Roe (1993, 1999, 2000, 2003; see also Roe and Gilson, 1999). His core argument is that the introduction of legal–institutional arrangements of corporate governance protective of the rights of minority shareholders is not driven by concerns related to agency costs and economic efficiency. Instead, a myriad political and societal concerns stand out prominently in accounting for institutional diversity across national systems of corporate governance. The presence of diversity of institutional arrangements represents the outcome of political, social, and economic struggles specific to countries and cannot be reduced to efficiency considerations. An underlying assumption is that the law and economics perspective overlooks a key first-order condition for financial markets to develop and ownership to become dispersed – namely the political legitimacy of capitalist economic arrangements (Roe, 1998). Therefore, differences in ownership structures reflect the extent to which the political climate and orientation of a polity is conducive to the pursuit of market-oriented policies. In systems of corporate governance characterized by ownership concentration, governments have traditionally emphasized distributional considerations that privileged employees over shareholders – such as those occurring in postwar European social democracies and in Japan. The outcome is one whereby employees benefit from a greater degree of protection from the shareholder value-enhancing measures that minority stockholders (and managers) would like to implement such as proceeding to significant layoffs. Social democracies make it harder for corporate executives to pursue unbridled shareholder value strategies with the upshot that minority shareholders shied away.

The obvious implication of Roe's argument is that the main reason accounting for the reluctance of minority shareholders to invest on stock markets is not primarily driven by issues of managerial opportunism or self-dealing by the controlling shareholder, but by an antecedent factor. The political environment of social democracies constrains the range of actions of corporate executives and induces them to implement alternative strategies to the maximization of shareholder value. The institutional arrangements related to the protection of minority shareholders are not sufficient to explain the diversity of corporate governance. The presence of legal arrangements protective of minority shareholders sometimes result in ownership dispersion, but not in all countries (Roe, 2002). In fact, Gourevitch and Shinn (2005) found a closer correlation between ownership structures and the institutions of VoC – of which legal arrangements to protect the rights of minority shareholders only constitute one institutional subset – than between ownership structures and legal protections for minority shareholders (see also Culpepper, 2005).

The analysis of Mark Roe carries two important assumptions for the role of institutions in corporate governance. The first one is that institutions are secondary to politics. The absence of institutional arrangements that would protect the rights and promote the interests of minority shareholders in advanced capitalist economies cannot be attributed to technological shortcomings or financial issues (Roe, 2002). The political climate in European social democracies and Japan militates against the introduction of specific strategies of shareholder value whose distributional consequences would negatively affect employees and other stakeholders.[6] The second implication is that the presence of institutional variation within families of corporate governance is not central to the argument (Roe, 2003: 27–46). The presence of ownership concentration, or ownership diffusion, can be achieved in a number of ways. The politics of corporate governance in Germany resulted in formal institutional arrangements, namely Codetermination. In France, political settlements provided for a strong role for the state in the regulation of economic outcomes. In Japan, informal arrangements and social norms protect core employees of large firms against market fluctuations. Nonetheless, the presence of varieties in institutional arrangements in these three countries should not mask the concentration of corporate ownership that results from a political environment that deters minority shareholders from investing on the stock market.

The groundbreaking work of Mark Roe has substantially contributed to our understanding of major issues in comparative corporate governance. The politically influenced institutional differences in the authority structure of firms result in important consequences for the allocation of resources in the economy. It is no wonder, then, that politics should be intimately linked to the study of corporate governance. Nonetheless, and despite its theoretical elegance, the conceptualization of politics in Roe's presentation has been challenged on two grounds. Politics is immensely important, but what form does politics take and what is the resulting impact on corporate governance? The first issue regarding Roe's conceptualization of politics concerns the nature of the process of coalition formation. The model is essentially one of class conflict, namely workers against an alliance of managers and owners. The interests of employees prevail in the social democracies of mainland Europe, the capitalist alliance of corporate executives, and shareholders' triumphs in liberal America and Britain. However, this coalition scenario represents one potential outcome – the other two coalition lineups being sectoral conflict (managers and workers vs. owners) and property and voice conflict (owners and shareholders vs. managers) (Gourevitch,

[6] In developing economies, by contrast, financial and technical issues – as well as politics – militate against such institutional innovations (Roe, 2002, 2003). Conversely, the presence of shareholder value-enhancing institutions in dispersed ownership economies reflect the prior acceptance of market principles that privileges, or does not discriminate against, the preferences of minority shareholders.

2003*a*; Gourevitch and Shinn, 2005).[7] In particular, the presence of cross-class coalitions in continental Europe was often critical in the development of welfare state policies and arrangements of labor market rigidities that, in turn, made it attractive for firms to develop strategies devoid of shareholder value orientation (Swenson, 2002; Mares, 2003).[8]

The second set of criticism of Roe's social democratic thesis deals with the specific content of conflict settlement and forms the core of the argument of this book. The importance of political, social, and economic struggles in the introduction of institutional arrangements of corporate governance is paramount and cannot be denied – but nonetheless constitutes a too broad category to capture the evolution of national systems of corporate governance. For Roe, the specific content of how settlements of conflict are negotiated and become the basis for the institutional diversity across national systems of corporate governance represents a second-order variable. The notion of functional equivalence stands prominently in the social democratic thesis: the importance of social democratic values in the first postwar decades translated into codetermination in Germany and into state activism (*dirigisme*) in France – with the ultimate outcomes being highly concentrated ownership and strategies of shareholder value shunned. Nonetheless, the introduction of strategies of shareholder value has taken place in the two countries in the last fifteen years (Hoepner, 2001; Fiss and Zajac, 2004; Djelic and Zarlowski, 2005; Fiss, 2006; Goyer, 2006*b*). How, then, could we assess the consequences associated with the introduction of strategies of shareholder value in France and Germany?

These two economies have experienced significant liberalizing measures in the last twenty-five years (Djelic and Zarlowski, 2005; Streeck, 2008). Nonetheless, the impact of economic liberalization, trade integration, exchange rate stability, and capital mobility across borders on France and Germany has been uneven. Specific patterns of conflict settlement prior to the introduction of shareholder value are important for understanding the evolution of corporate governance in the two countries. In France, the advent of the above liberalizing measures have been associated with a specific pattern by which shareholder value was introduced – namely through the one-sided unilateral imposition of managerial power over the implementation of flexibility and other strategic measures in the workplace (Hancké, 2002; Goyer and

[7] See also Aguilera and Jackson (2003) for an analysis of coalitions in corporate governance from a sociological perspective.

[8] Sectors – such as export vs. public sector employees – constitute an increasingly important source of cleavages in continental Europe (see e.g. Pontusson and Swenson, 1996).

Hancké, 2005; Goyer, 2006*b*). Strong and extensive legal rights of firm-level works councils were not developed in France since the state exercised a preponderant influence over securing outcomes (Hall, 1986: 131–191; Sellier and Silvestre, 1986; see also Levy, 1999; Howell, 2006). At the firm-level, the skills of the bulk of the blue-collar workforce were both limited and narrow, thereby limiting managerial incentives to implement strategies of adjustment through negotiations (Maurice et al., 1986; Sorge, 1991). In other words, the previous absence of shareholder value in France highlighted the importance of politics mixed with the exclusion of the workforce in the governance of corporations. An important unintended outcome of the ability of French top executives to restructure the firm in a quasi-unilateral fashion is explored in this book – namely the relative importance of the arrival of short-term institutional investors, such as hedge funds and actively managed mutual funds (Goyer, 2006*a*, 2007).[9] In Germany, in contrast, firm-level institutions impose numerous constraints on the ability of management to develop and implement strategies in a unilateral fashion (Muller-Jentsch, 2003). Several legal obstacles stand in the way of a rapid and unilateral reorganization of the shop floor, so that the introduction of strategies of shareholder value has been the result of negotiation between management and employee representatives (Thelen, 1991; Hoepner, 2001; Vitols, 2004; Sorge, 2005).[10]

These differences in the introduction of shareholder value strategies reflect the specific content by which settlements of conflict were negotiated in the two countries – and institutional arrangements of work organization were set up – in the high days of social democracy (see also Crouch, 1993). The reliance on the state in France left firm-level unions ill-prepared for the advent of economic liberalization (Howell, 1992); the strength of works councils in Germany, in contrast, is contingent on the combination of legal rights and on their contribution by which firms develop their innovative capabilities (Markovits and Allen, 1984; Thelen, 1991; O'Sullivan, 2000; Whitley, 2002).

A second variant of the political perspective on corporate governance focuses on the enlargement of the range of coalitional possibilities (Gourevitch and Shinn, 2005). This political variant is built around the interaction of economic preferences and political institutions. On the side of preferences, actors could choose different types of coalitions – class, sectoral, and property and voice coalitions – to pursue their

[9] See also Morin (1998) and Clift (2004) for analyses of the role of foreign institutional investors in French corporate governance.

[10] See Börsch (2007) for an analysis of foreign institutional investors in German corporate governance.

objectives. Gourevitch and Shinn provide a three-actors coalitional model. The preferences of actors are not monolithic – thereby enlarging the coalitional possibilities. Each group of actors can stress different objectives by making different coalitions with one of the other factions. Shareholders have two coalition options: minimization of agency costs arising from managerial shirking that affect the competitive position of the firm – a shared preference with workers; and resentment over government legislation that would restrict the ability of corporate executives to pursue an extensive range of shareholder value strategies – a shared preference with managers. Employees have also two coalition options: job security that could be threatened by the implementation of strategies of shareholder value thereby favoring an alliance with management; and suspicions of managerial entrenchment that would lead to affect the competitiveness of the firm and/or affect the value of their pension fund via its effects on the stock market capitalization of the firm in retirement systems based on capitalization, thereby inducing a coalition with shareholders. Finally, managers are concerned about two scenarios that could threaten their autonomy: shareholder activism regarding the processes by which they run the firm, and workers' claims over the control of the firms' cash flow rights.

The next step in the Gourevitch–Shinn model consists in linking coalition formation with institutions. The process of preference formation is not contingent solely upon the dynamics of negotiation among these three actors. The preferences of actors are insufficient to result into coalition formation. Something is missing from this conceptualization – namely institutions. The translation of preferences into policy outputs necessitates an analysis of prevailing institutional configurations (Garrett and Lange, 1995). The process of coalition formation depends on institutional frameworks since it is they which shape the range of possible outcomes. On the side of political institutions, therefore, Gourevitch and Shinn distinguish between majoritarian/first-past-the-post systems and consensus/proportional representation systems. In majoritarian systems, the occurrence of small shifts of votes can translate into a substantial impact on public policy. A single party is more likely to be in control of the executive and legislative branches since single-member districts are won by a plurality of the votes. In consensus systems, small shifts of vote have little impact on public policy. The electoral system rewards political parties in proportion to the votes they received – usually with a threshold of 5 percent. The importance of the different institutions of political systems lies in their degree of impact on the ability of actors to issue credible commitments. Consensus political systems enable actors to make credible commitment to each other since they know that public policy outcomes are unlikely to change dramatically. The ability to issue credible commitments is essential for the sustainability of institutional arrangements in coordinated market economies whereby the coordination of firm activities rests on a high degree of interdependence among various actors (Hall and Soskice, 2001). Extensive spillovers in specific innovation niches require the inclusion of stakeholders in the development of the innovative capabilities of firms (Tylecote and Visintin, 2008; see also O'Sullivan, 2000). The possibility of developing a long-term, interactive relationship with other actors in the firm constitutes a crucial factor for employer and employee investment in the development of firm/sector-specific skills (Estevez-Abe et al., 2001; Culpepper, 2003). Majoritarian political systems, in contrast, encourage the formation of institutional frameworks in liberal market economies that reward actors that can adjust quickly to take advantage of market shifts (Soskice, 2007). The presence of a majoritarian political system makes it risky for actors to invest in specific skills and, therefore, contributes to the prominence of transferable skills (Hall and Soskice, 2001; see also Deakin et al., 2002).

The outcome of the interaction between political institutions and preference aggregation via coalition making is the formation of different institutional VoCs in the areas of corporate governance, employment relations, skill formation, and interfirm relations. Firms coordinate their activities in different ways (Soskice, 1999; Hall and Soskice, 2001; Berger, 2006). The nature of firm coordination is shaped by the institutions found in the four above-mentioned spheres – which are themselves the product of politics – that is, the interaction between political institutions and preference aggregation via coalition making.[11] The final element in the Gourevitch–Shinn political variant is that the differences in the VoC among advanced capitalist economies, in turn, translate into different ownership structures. The major institutional features of liberal market economies enable firms to take risks and to adjust quickly to shifts in demand through market-based mechanisms of coordination and, as a result, are also congruent with an exclusive focus on the interests of minority shareholders. In coordinated market economies, the institutional features of firm coordination build on the incorporation of the skills of the bulk of employees. The importance of issuing credible commitments to stakeholders implies different types of adjustment to shifts in market conditions compared to those in liberal market

[11] In other words, institutional arrangements of corporate governance are shaped by the interaction between political institutions and preference formation via coalition formation and constitute one set of institutional variables that affect firm coordination.

economies. The interests of minority shareholders do not enjoy a privileged status with the consequence that investments in equity markets do not constitute as attractive a proposition as in liberal market economies.

The Gourevitch–Shinn political variant results into two models of corporate governance based on three dimensions. The first model is associated with coordinated market economies and is characterized by a consensus political system, coordinated market institutions in employment relations and innovation, and concentrated ownership. The second model is associated with liberal market economies and is characterized by a majoritarian political system, liberal market institutions in employment relations and innovation, and dispersed ownership. The Gourevitch–Shinn political variant is based on three methodological stages. The independent variable is the interaction between political institutions and the preferences of actors embedded in specific coalitions. The intervening variable is the types of institutional varieties from which firms coordinate their activities. The dependent variable is the structure of ownership of listed companies.[12]

This second variant of the political perspective significantly contributes to the study of institutional analysis in comparative corporate governance. In addition to stressing the importance of power and conflict in politics, as in Roe's social democratic thesis, the analysis of Gourevitch–Shinn presents a sophisticated differentiation between and within categories of actors. The upshot of this finer-grained analysis is the enlargement of coalitional possibilities and the undetermined

[12] Gourevitch and Shinn (2005: 23) also recognize the presence of potential feedback loops in their model. In particular, and building from the VoC perspective, they highlight how the presence of institutional complementarities can constitute an important – albeit not the sole – determinant for processes of institutional creation and change (see Hall, 2005, 2007). An important insight of the VoC perspective lies in its specification of the importance of interacting institutions between different institutional spheres. The impact of a single institution should not be seen in isolation since its effects are contingent upon the specifics of its interaction with other institutions. Its impact varies according to the national institutional configuration in which it is embedded with important implications for the assessment of endogenous/exogenous developments that resulted in piecemeal institutional change (Hall, 1994; Hall and Franzese, 1998; see also Hall and Gingerich, 2009). Thus, the institutional arrangements of the VoC-type matter – intervening variable in the original formulation – in the process of adjustment as actors often seek institutional and functional equivalents to preexisting forms of coordination with the implication that the direction of causality is reversed (see Hall and Thelen, 2009). Institutional arrangements influence preferences in a self-reinforcing manner. Actors in coordinated market economies have developed an interest in preserving the nature of their firm-specific skills that, in turn, reinforce commitments to training and in the stability of political institutions. A feedback loop can operate between the intervening variable (VoC institutional types) and the independent variable (interaction between preferences and institutional arrangements of political systems) (see e.g. Pierson, 1993).

nature of preferences as actors can stress different objectives by making bargains with different partners. Nonetheless, an issue remains potentially unsolved regarding the explanatory power of the second political variant. The direction of causality in Gourevitch–Shinn's political variant could be expanded to incorporate notions of hierarchy and of context. The direction of causality is relatively straightforward in this political variant: the interaction between political institutions and the preferences of actors leads to different institutional arrangements in the spheres of corporate governance, industrial relations, and skill formation that, in turn, impact on the ownership structure of companies; alternatively, the institutional arrangements in the above-mentioned spheres can shape the preferences of actors in a process of feedback loop.

However, the impact of one variable on others is not always as straightforward as presented in the Gourevitch–Shinn variant. The impact could vary according to the context – that is, it is not always constant (see e.g. Goertz, 1994). The context can influence the relationships between variables in a noncapricious manner. To preview the empirical evidence presented in Chapter 3, the growing ownership diffusion of companies translates into different consequences in France and Germany. Privatization, liberalization, the removal of barriers to capital mobility, and the strategy of international expansion of Anglo-American institutional investors have all contributed to internationalize the ownership structure of French and German companies and, moreover, have led to increases in the free float of shares – albeit in an unequal manner across firms. But the impact of this development varies between France and Germany. All but one French company with dispersed ownership and a free float over 95 percent have been targeted by short-term-oriented institutional investors from the United Kingdom and the United States. By contrast, several equivalent German firms have not been targeted by short-term institutional investors. Why the contrast? The argument presented in this book highlights the importance of context and the hierarchical relationship between variables. In France, the decline of ownership concentration constitutes a major positive development toward the implementation of strategies of shareholder value that fit with the preferences of short-term-oriented investors. The concentration of power in the CEO and top management makes it easier for French firms to implement in a unilateral fashion strategies of shareholder value – a process facilitated by the relative weakness of organized labor. In Germany, in contrast, the growing diffusion of ownership is far from sufficient for the implementation of strategies of shareholder value as compared to France. The stronger position of organized labor entails a process of negotiation of the terms by which shareholder value is introduced (Hoepner, 2001; Deeg, 2005*a*, 2010).

1.2 Contextualized Capitalisms, Contingent Capital: The Argument

The institutional argument presented in this book highlights the importance of three interrelated factors for the study of change with a specific focus on movements of concentrated short-term capital in French and German equities. These three elements are: the importance of historical developments that shape the settlements of conflict across advanced capitalist economies; the hierarchical character of the relationship among institutional variables in the process of causal complexity that characterize the evolution of national systems of corporate governance and that of political economies; and the importance of the institutional context through which change is mediated.

1.2.1 *Historical Specificities of Conflict Settlements*

The first element emphasizes the specificity of important historical developments through which advanced capitalist economies settled important conflicts – the role of the state in maximizing economic growth while simultaneously distributing its benefits widely and minimizing economic dislocations, the reconciliation of the working class to private property and the capitalist mode of production, the management of the transition from a rural-based economy to one characterized by the dominance of the tertiary sector, the higher expectations of citizens with new sets of values, and the integration of religious forces into a liberal democratic framework being the most important issues confronted by policymakers (Berger and Piore, 1980; Berger, 1985; Gourevitch, 1986; Iversen and Wren, 1998; Roe, 1998; Hall, 1999; Kepel, 2004). The settlements of these conflicts, in turn, matters for corporate governance since the achievement of social peace constitutes a prerequisite for nations to generate economic wealth (Roe, 2003: 1–10). However, the process of securing social peace diverges across advanced capitalist economies given different historical developments around dissimilar struggles (Hall, 1984, 1986; see also Berger, 1979; Roe and Gilson, 1999). In regard to the topic of this book, I argue that the most critical source of conflict is related to the choices made by national labor organizations in France and Germany in regard to the nature of their participation in the strategic direction of the firm.

Institutional arrangements in the sphere of work organization, and within the context of two EU advanced capitalist economies, matter tremendously for the strategic direction of the firm in terms of corporate governance. The greater attractiveness of French firms to short-term investors relative to German corporations reflects the unequal distribution of authority between the two countries. French companies are characterized by the relatively greater concentration of power at the top of the managerial hierarchy that, in turn, makes it easier to implement strategies of shareholder value within a shorter time period and thus provides an excellent fit with the preferences of short-term investors (Rebérioux, 2002; Goyer, 2006*a*; see also Maurice et al., 1986; Sorge, 1991, 2005; Schmidt, 1996; Hancké, 2002). German firms, in contrast, are characterized by the imposition of substantially greater institutional constraints on managerial autonomy as well as by the participation of the workforce in important aspects of the decision-making process (Maurice et al., 1986; Sorge, 1991, 2005; Thelen, 1991; Streeck, 1992; Muller-Jentsch, 2003). The greater diffusion of power inside German corporations, in turn, stands in the way of a rapid and unilateral reorganization of the firm and does not fit well with the preferences of short-term investors (Rebérioux, 2002; Goyer, 2006*a*). The question then is why are these two systems of corporate governance characterized by such significant institutional differences in regard to the distribution of authority within companies.

The different responses of trade unions and labor organizations in the first three postwar decades in France and Germany have been influential for the evolution of the distribution of authority in corporate governance. Differences in the strategic behavior of labor reflected the political and economic contexts in which they were embedded, the specific ideologies of trade unions, and the character of policymaking as it shaped the interaction between labor organizations and the state.[13] In

[13] I do not wish to argue that class conflict in France was driven exclusively by the political choices of trade unions. Postwar settlements between capital and labor, although characterized by different terms, constituted important means of class reconciliation in Austria, Britain, Germany, and Scandinavian countries. The French case, in contrast, is characterized by the absence of historical compromises in the immediate postwar decades (Howell, 1992: 37–60). Collective bargaining was not institutionalized until the late 1960s, the position of trade unions was legally weak at the firm-level, and leftish political parties were largely excluded from power until the early 1980s. Moreover, employers have shown a constant preference to maintain managerial authority inside the firm.

Nonetheless, the position of French trade unions is interesting in two regards. First, it serves as an insightful point of comparison with Germany where trade unions encountered managerial hostility in the first ten to fifteen postwar years. The development of the coordinated character of the German economy did not emerge suddenly (Markovits and Allen, 1984; Thelen, 1991). Second, managerial hostility toward organized labor in France went

France, trade unions have traditionally pursued, until the mid-late 1980s, a maximalist strategy characterized by the refusal to accept any form of responsibility in the strategic direction of companies and in the broader management of economic crises at the national level (Lange and Ross, 1982; Ross, 1982; see also Howell, 1992). Issues associated with the competitive strategy of companies, and the economic crisis at the national level, were seen as being resolvable only in the form of rupture with existing social and economic arrangements. Attempts to play any form of role in the management of firms were seen as being futile without broader socioeconomic changes. In the then French context of the first four postwar decades, this choice made by labor organizations translated into two strategies: promotion of the political fortunes of left-wing political parties, and, more importantly, in terms of lasting consequences, the reliance on the state for achieving specific labor market outcomes. First, both of the two largest French trade unions, the Communist-oriented CGT and Socialist-leaning CFDT, have devoted most of their efforts, at least until the mid-1980s, to promote the political success of the Left either as stand-alone organizations or as a joint force in the form of the *Union de la Gauche* in the 1970s. Their support for left-wing political parties was not limited to the ballot box, but was predominantly characterized by mass mobilization at the national level in the form of a series of periodic one-day strikes, especially, but not exclusively, from the early 1970s onward (Ross, 1982: 51–5). These massive tactical strikes were designed to deepen working class support for left-wing political parties and for specific measures – but they also served as a substitute for action at the firm level where labor organizations were weak (see below). Nonetheless, the ultimate aim of these mass public demonstrations went beyond the mobilization of rank-and-file members; they were meant to highlight that labor market actions constituted a temporary solution to the victory of the Left at the ballot box. The politicization of French industrial relations reflected the fact that the prime target of these rank-and-file movements was the government itself – a situation that made it more desirable as well as more difficult for French policymakers to scale back their interventionist apparatus (Hall, 1984: 41–2; Hall, 1986: 185–91; see also Levy, 1999).

through cycles. Most notably, the post-May 1968 context witnessed the emergence of a reformist political class under Prime Minister Chalban-Delmas government which sought to provide greater legal rights to organized labor at the firm level (Howell, 1992: 111–41). The timing was poor as the two main trade unions – CFDT (Socialist-leaning) and the CGT (Communist-affiliated) – joined forces in the wake of the electoral alliance between the Socialists and Communists.

Second, labor organizations in France pursued a state strategy solution characterized by seeking intervention from policymakers to achieve labor market outcomes they could not achieve on their own (Ross, 1982: 1–16; Sellier and Silvestre, 1986). The state was not only the prime target of mass mobilization by trade unions, it was also the source of relief from labor market outcomes that eluded them due to their weakness at the shop floor level. The focus on capturing the state highlighted the specificity of the pattern of economic policies in France in the first four postwar decades that translated into important incentives for labor organizations to focus on the state. The distribution of power among groups implicit in the organization of capital, labor, and the state resulted in French policymakers having significant powers and interventionist tools – thereby highlighting the appeal of the state strategy solution (Hall, 1984). Following the economic stagnation of the Third Republic (1870–1940) characterized by a neutral but weak state which could do little more than observe profound cleavages (Hoffmann, 1963), the French economy embarked on a path of state-led growth (Hall, 1986: 139–91). Among the panoply of policy apparatus of the French state was a meritocratic set of elites in the civil service formed at state schools (ENA, Polytechnique) inculcated with a sense of strategic purpose and responsibility for the performance of the French economy, a Ministry of Finance (and Treasury) in charge of fiscal and monetary policy and with significant control over the actions of the central bank, and a system of indicative planning whereby resources could be allocated to sectors deemed crucial for the growth of the economy. Perhaps more important was the organization of the financial system that enabled policymakers to exercise significant influence over the allocation of funds (Zysman, 1983; see also Hall, 1984: 29–33). On the one hand, the French financial system was characterized by the heavy dependence of firms on debt credit (i.e., bank loans). The ratio of external sources of finance (debt/equity capital) was not only heavily tilted toward bank loans; the internal sources of finance (retained earnings) were limited, thereby distinguishing France from Germany – another bank-based economy (Mayer, 1988; Loriaux, 1991; Bertero, 1994; Corbett and Jenkinson, 1996). On the other hand, the state was able to gain preponderant influence over the banking sector as a result of several factors: the three largest banks had been nationalized after the war, several quasi-public financial institutions had specific mandates that fitted with the priorities of the state-led growth strategy, selective credit ceiling policies were implemented as a tool to contain inflation, and the central bank was extremely generous in its rediscounting policies in order to enable financial institutions to provide long-term loans to the industrial sector (Morin, 1974; Bellon, 1980; Loriaux, 1991; Goodman, 1992).

The focus on the state could be interpreted as perfectly logical given the importance of the actions of policymakers over important outcomes. For instance, policymakers possessed significant leverage over resources that had an indirect and direct bearing on firm profitability: the workings of the financial system provided firms with external financial resources for investment projects; state policies in the areas of price controls, procurement policies, and exchange rates impacted directly on the balance sheet of companies (Levy, 1999: 234–92; see also Saint-Etienne, 1996). The focus on capturing the state, even if trade unions aimed at a profound transformation of the French economy, was further incentivized with the consolidation of the political system under the Fifth Republic (Suleiman, 1978, 1994; see also Clift, 2008). The state strategy focus also fitted well with the ideological interpretation of the role of the state in the then specific French variety of capitalism. The political consolidation of the political system combined with the ability of policymakers to influence economic outcomes led trade unions, the Communist-oriented CGT in particular, to develop an interpretation of the French economy based on the Marxist "State Monopoly Capitalism" theory (Lange and Ross, 1982: 247–50). The state apparatus was, then, crucial to the mode of accumulation.

Nonetheless, the state strategy solution, while it did bring at times some immediate benefits to trade unions, ultimately further weakened labor organizations at the firm-level. The first issue is that the politicization of French industrial relations took place at the expense of the labor market activities and firm-level capabilities of organized labor. French trade unions did not seek to build, and possibly extend, their influence over the shop floor. They rather sought to promote the electoral victory of left-wing-oriented political parties. The activities of labor organizations were geared toward the political arena for national symbolic and electoral purposes since the French capitalist economy was seen as impossible to reform in its current parameters with the consequence that "this process diverted the attention of workers upwards, away from the shop floor towards very general economic concerns, and outwards, towards politics. In essence, such a strategic course had the effect of undermining the capacities of rank-and-file workers at the point of production" (Ross, 1982: 54). The activities of trade unions at the level of the firm essentially focused on wage increases in order for employees to maintain their purchasing power (Linhart, 1991). Labor organizations were not interested in issues of training and skill of the workforce until the mid-1980s (Sellier and Silvestre, 1986: 203–7). They rather relied on the rigid system of job classification as a source of protection against managerial intrusion. This strategic orientation took place in a context of weakness at the firm-level and was characterized by a rhetorical posture put in extremely general economic terms.[14] The Communist-oriented CGT developed a "State Monopoly Capitalism" theory of the French economy with an assessment of the economy based on the French-specific state-centered mode of accumulation embodying its basic internal contradictions (see above). The Socialist-leaning CFDT also couched its assessment of the French economy in Marxian vocabulary, but sought to promote workers' control (*autogestion*) as a solution to the contradictions inherent in capitalism (Ross, 1982: 29–34). Nonetheless, the respective visions of both trade unions were highly abstract and removed from immediate issues related to the operation of the shop floor. They further contributed to the view that significant changes would come from outside the activities of the firm.

The second issue with the state strategy solution is that the state is not a neutral actor in French industrial relations. The actions of policymakers contributed, although inadvertently at times, to the weakness of trade unions.[15] The undertaking of some policies was meant to compensate for the relative weakness of trade unions at the firm-level. However, policymakers often preferred to undertake such policies themselves rather than providing labor organizations with the institutional/legal/organizational capacities to perform them. French policymakers have been fearful of the consequences of unfettered market forces, but have also refrained from providing social partners, especially trade unions, with significant powers (Sellier and Silvestre, 1986; see also Levy, 1999). For instance, policymakers have sought to increase predictability at the workplace through the "most representative union" clause whereby contracts signed by one such union could be made compulsory for all employees within the firm or at the industrial level; and by giving large unions a monopoly on proposing candidates in the first round of elections for workers' councils.[16] The consequences of these policies have been unanticipated. The largest two trade unions (CGT, CFDT) have generally refrained from signing agreements partly out of ideological opposition while smaller, but still representative unions, have been

[14] Moreover, the absence of institutionally sanctioned dues check-off procedures meant that the membership of trade unions fluctuated significantly and that members had to be constantly re-recruited thereby further weakening unions (Ross, 1982: 20).

[15] See Sellier and Silvestre (1986) for an overview of this thesis.

[16] A second round of elections for works councils in French firms is required only in the absence of a quorum – that is, where the total of votes cased in the first round is inferior to half of the registered eligible employees.

more proactive and more involved in wage bargaining with employers. France's largest two trade unions experienced a decline in legitimacy as well as a hold on seats on works councils as workers increasingly considered the actions of smaller unions (and of nonunion bodies) to be more realistic (Lange and Ross, 1982: 273–4; Sellier and Silvestre, 1986: 184–7; Goetschy and Rozenblatt, 1992). The ideological posture of the largest two trade unions has also been (inadvertently) encouraged by another state policy, namely the practice of legal enactment. The latter refers to the passage of legislation by the French parliament in the event of nonagreement on important issues at the national level – such as the level of unemployment compensation. The practice of legal enactment has often served as a substitute for the collective bargaining process but with the consequences of further driving away trade unions from assuming responsibility in the management of economic affairs at the firm level as well as sharpening the lack of incentives for workers to become union members (Sellier and Silvestre, 1986: 174–8).[17] These examples highlight the importance of state autonomy in French industrial relations (see also Howell, 2006).

I issue one final comment on the French case. The political maximalist strategy of trade unions has left profound imprints on the French political economy despite its abandonment since the mid-1980s. The disillusionments associated with the Socialist experiment of the first Mitterrand government have brought into sharp relief the limitations associated with the state reliance strategy in terms of achieving market goals. Labor organizations have broadened their interests and have embraced firm-level goals – such as training. Nonetheless, the shift in political attitudes of labor organizations in France toward the state and the market has not led to the introduction of the nonmarket forms of coordination that are prevalent in coordinated market economies. The transformation of the French economy since the mid-1980s has been characterized by the growing importance of market mechanisms (Hall, 2006). This outcome is partly related to the timing of the transition process. Faced with ballooning budget deficits and the lack of competitiveness of domestic firms, policymakers chose to provide firms with greater strategic autonomy and reaffirmed their commitment to the European Monetary System rather than pursuing reflationary policies behind protected borders (Hall, 1986: 192–226).

[17] The structural features of the minimum wage in France have also served as a substitute to the collective bargaining process in France. A significant proportion of wages in the French economy is linked to the minimum wage with the consequences that increases in the latter are also reflected in the remuneration of employees with higher salaries.

Moreover, French policymakers pursued a specific monetary policy based on the achievement of firm competiveness through disinflation (Lordon, 1998). High real interest rates and the disindexation of wages from prices were meant to enable French companies to underbid their rivals.

The transformation of the French political economy is also deeply structural and extends beyond the characteristics of the mid-1980s context when policymakers had to orchestrate some form of strategy away from dirigisme. The context of the transition seriously constrained the ability of policymakers, but its importance has receded over time.[18] An important structural issue standing in the way of the introduction of coordinated market mechanisms is the absence of institutional capacities by actors to engage in strategic relationships at various levels: employer associations are not able to target wavering firms with the provision of information that would convince them to invest in vocational training (Culpepper, 2003), regional governments do not possess the institutional capacities to encourage local actors to collaborate (Levy, 1999), business associations have periodically experienced internal conflict between large and small companies (Woll, 2005), and the ability of trade unions to serve as equal interlocutors inside companies had been inadvertently curtailed by state policies precisely designed to compensate for their weaknesses (Sellier and Silvestre, 1986). The development of mechanisms of strategic coordination constitutes a far more difficult task than the dismantlement of existing policies (Soskice, 1999). Moreover, the introduction of institutional arrangements in coordinated market economies has often been the result of fortunate events or was undertaken for radically different reasons than their current uses (see Thelen, 2003, 2004).

The German case, in contrast, is characterized by significant differences in the strategic behavior of labor organizations embedded in historically specific political and economic contexts. The ideologies of trade unions, and the character of policymaking that shaped the interaction between labor organizations and the state, resulted in significant constraints on managerial autonomy regarding the distribution of authority at the firm-level. In the negotiation of the postwar settlement, German trade unions sought to extend control at the shop floor via the Codetermination system (Markovits and Allen, 1984; Thelen, 1991, 2004; Kotthoff, 1998). Labor organizations aimed at full participation in economic decision-making at the firm-level along nonpartisan and

[18] For instance, French employers rediscovered in the mid-1990s the limits on their autonomy from the state with the introduction of the 35-hour week (Trumbull, 2002).

industrial lines. The Weimar experience has been influential in two respects: the advent of formal political democracy and the focus on securing victory at the ballot box have not been sufficient for the full democratization of society; and divisions between competing, politically oriented union confederations weakened the labor movement as well as constituted a source of division at the plant level between employees with variations in skills. The post-1945 strategic choice of aiming at taking responsibilities for the management of the firm contrasted sharply with the decisions of British trade unions who conceptualized union power in the form of autonomy in the collective bargaining process (Bornstein and Gourevitch, 1984) as well as with the state-centered strategy of trade unions in France (Lange and Ross, 1982; Ross, 1982).

However, the objective of seeking voice and influence at the shop floor level was initially framed within a much broader set of demands characterized by full participation in economic decision-making at all levels of society – not simply at the firm-level. Trade union leaders sought to transform relations between capital and labor not only through extensive legal rights at the firm-level but also via their involvement in state-orchestrated economic planning, socialization of key industries, and participation in national-based economic councils that would pursue employment friendly monetary policies (Markovits and Allen, 1984: 94–100). These objectives were not achieved. The postwar position of Germany in the international system strongly militated against the implementation of the most radical demands of labor unions. In countries where the electoral victory of the forces of the Left was credible, France and Italy, the policy of the United States in international monetary affairs was guided by the political goal of containing Soviet influence rather than imposing monetary discipline (Cohen, 1977; Loriaux, 1991). Germany was in no such position of autonomy: the Communist (and National-Socialist) party was banned and the Bundesbank was given significant independence. The point was not simply to impose penalties on Germany for its behavior in the international system but also to avoid a repeat experience of the inflationary explosion of the early 1920s. Moreover, postwar Germany was located at ground zero in the Cold War – thereby further highlighting its importance for the United States and the rest of Western Europe. The consequence was that the demands of German labor organizations were issued within a specific distribution of power among capital, labor, and the state (Hall, 1984, 1994). Policymaking in the German postwar settlement, and beyond on some issues, took place in a context characterized by the strict division over fiscal and monetary policy between the

Ministry of Finance and the Bundesbank, thereby limiting the incentives to "capture" the state.[19] Labor organizations had to deal with the prominence of a deflationary bias within the central banks that, in an unintended manner, acted as a conducive factor for wage coordination (see Hall and Franzese, 1998).

Nonetheless, German labor organizations were able to achieve success in the introduction of Codetermination – the detailed legalistic and overarching framework that has provided for the participation of employees in the strategy of the firm. The system of Codetermination operates at two levels: the representation of employees on the board of directors and the legal rights provided at the company level through the works councils. The 1976 law on Codetermination extends to equal representation for employees and shareholder-elected directors on the supervisory board – the previous legislation (Works Constitution Act of 1952) only assigning one-third of the seats to employees. The second aspect of Codetermination rights refers to the firm-level works councils that possess extensive legal rights with variation across issues: the legal participation rights of works councils are strong in social matters, weaker over personal issues, and modest in economic and financial matters.[20] The introduction of firm-level works councils in 1952 initially constituted an attempt by conservative policymakers to circumvent and weaken trade unions since councilors are legally required to represent the interests of employees while simultaneously preserving cooperative relations with management – for instance, works councils cannot initiate strikes and other similar forms of industrial action. Nevertheless, and quite soon after the passage of the 1952 legislation, trade unions "colonized" the works councils via an active and successful campaign to fill seats with their own members (Jacobi et al., 1992). Nonunion representatives have occupied a minority of seats on works councils.[21]

The institution of works councils has been crucial for the involvement of labor organizations in the strategy of German companies. Firm-level works councils have provided employees with significant influence over many aspects of work reorganization – such as the introduction of new technologies, investment decisions, and the design and implementation of firm-level internal flexibility (Markovits and Allen, 1984: 153–69; Thelen, 1991: 209–14; Fuchs and Schettkat, 2000). Moreover,

[19] Moreover, the pivotal position of the FDP in the political system also dampened the attractiveness of the state solution strategy.

[20] Prigge (1998: 1013).

[21] Moreover, and in comparison to France, nonunion candidates can run on the first round of elections for seats on works councils.

the institution of works councils has been a stable source of influence in the face of changing political and economic conditions. On the political side, the participation of labor in the process of adjustment of firms has been independent of the composition of governments – a situation that contrasts sharply with the importance of the Social Democratic party (SAP) in Sweden (Thelen, 1993).

On the economic side, the influence of labor has been maintained in the context of a major shift in the relative power between national unions and firm-level works councils. The increasing volatility of markets and the need to adjust quickly has increased the prominence of firm-level works councils and reduced the importance of national unions – under a stable institutional framework (Thelen, 1991: 16–21; Muller-Jentsch, 1995, 2003). The newly acquired prominence of firm-level works councils reflects the rise in the importance of flexibility. The advent of flexibility is a response to the economic problems faced by advanced capitalist economies since the mid-1970s. Its introduction is associated with the decline of fordism as a mode of production (Piore and Sabel, 1984). The fordist model was based on mass production of standardized goods whose demand was sustained by expansionist Keynesian policies and by the power of labor to secure constant increases in real wages (see Boyer, 1988: 3–25). Moreover, it was viable since a virtuous circle existed between increasing domestic consumption and production. In other words, productivity levels kept up with rising real wages. However, the model ran its course with the growing ineffectiveness of Keynesian policies in increasingly trade-dependent and financially liberalized Western economies that, in turn, forced governments to turn to supply-side economic policies in order to stimulate growth (Garrett and Lange, 1991; Scharpf, 1991). The new (and current) economic regime forces firms to deal with the permanently higher levels of uncertainty associated with rapidly shifting demand (Streeck, 1987). In this context, managers have sought to redesign the production process in order to improve their ability to adjust rapidly to numerous and unexpected changes in a host of markets. The volatility of markets has led to uncertainties of demand that, in turn, affect the demand for labor. Management seeks to respond in a highly flexible manner since there is a high premium placed on the ability of firms to adapt quickly to constantly changing uncertain markets.[22] The exhaustion of fordism as a model of production provides both constraints and opportunities for firms to implement flexibility. The legal anchoring of the system of

[22] See Sorge (1985) for an early exposition of this argument.

Codetermination has provided the basis for flexibility in the dual system of industrial relations that, in, turn, has enabled employees to negotiate the terms of adjustments at the plant level since the mid-1970s (Thelen, 1991, 2004).

The latest development in the story of Codetermination is related to how it has mediated new developments in German corporate governance – such as the decline in bank monitoring, the rise in the importance of equity-based finance, and the opening of the market for corporate control (see Jackson, 2005*a*: 246–9). Detailed case studies and empirical studies have highlighted the negotiated, and politically contested, processes by which practices of shareholder value have been introduced (Hoepner, 2001; Fiss and Zajac, 2004). Their introduction by German companies did not represent the unilateral assertion of managerial authority. The incorporation of employees in the decision-making process in regard to decisions related to shareholder value practices has meant that they were able to significantly influence the design of their content and the terms of their implementation (Hoepner, 2001; Jackson et al., 2005). For instance, several German companies have sought to focus on a more limited number of activities and reshape the relationship with their suppliers in order to remain competitive in world markets (Herrigel, 2008*b*, 2010). However, the new focus on core activities significantly differed from the process by which American firms broke up conglomerates in the 1980s especially in regard to employment issues. A little over half of the 100 largest German companies have negotiated in the second decade of the 1990s a "location agreement" or "employment pact" with their works councils in the last five years (Streeck, 2001: 204). These negotiated agreements entail the trading of wages for job security for two to four years – even if units of the firm are sold off. A little fewer than twenty firms of the largest 100 have also included specific investment plans for the next two to four years in exchange for more flexible work shifts and for a reduction of company premiums and wages (Kotthoff, 1998; Streeck, 2001: 205).

1.2.2 *Hierarchical Character of Institutional Variables in Complex Causation*

The second building block of the argument presented in this book highlights the hierarchical character of institutional variables embedded in a process of complex causation, that is, some causal variables matter more than others at specific points in time within a given context. Qualitative, case study-oriented research is particularly well suited to the analysis of the phenomenon of complex causation inherent in processes of historical sequences – the settlements of political conflicts in French and German corporate governance constituting two great instances of complexity. The importance of causal complexity is increasingly seen by social scientists as an essential feature of political and social life since outcomes of interest have usually more than a single cause, and are generated by the interacting and combined effects of causal–institutional variables (Hall, 2010*a*). Qualitative-oriented research is ideally placed for addressing issues where outcomes result from the intersections of conditions, thereby highlighting the importance of multiple and conjunctural causes in phenomena of complex causation (Ragin, 1987). Conversely, standard regression analysis and statistical techniques are less suited to the analysis of phenomena of complex causation despite the increased sophistication of regression analyses. Quantitative analyses can indeed cope with interaction effects between variables (see Braumoeller, 2003; Gordon and Smith, 2004; Braumoeller and Kirpichevsky, 2005). This is not the issue. Rather, the shortcomings in the use of quantitative analyses for the study of complex causation are the following: first, an assumption of statistical analyses is that causes are additive thereby leading to the assertion that the effect of a cause is similar across all other contexts regardless of the values of other causal variables (see Ragin, 1987: 32–3). Causal complexity takes many forms: conjunctural causation (Ragin, 1987), substitutability (Braumoeller, 2003; Ragin, 2006), necessary and sufficient conditions (Braumoeller and Goertz, 2000), institutions as barriers (Goertz, 1994), INUS conditions (Mackie, 1965; Lieberson, 1991), and SUIN conditions (Mahoney et al., 2009). What all of these forms of causal complexity have in common is that the impact of the independent variables on the dependent variable, though cumulative, is not additive across cases and contexts (Braumoeller, 2003: 212). Second, and building on the previous point, quantitative analyses assume unit homogeneity in the sense that a change in the value of the independent variable is assumed to result in a change in the value of a dependent variable of the same magnitude across all other cases (see Hall, 2003: 381–3; Hall, 2010*a*: 5–9). Third, the conceptualization of causation differs sharply between qualitative and quantitative approaches with significant consequences for the process by which causal inferences are asserted, that is, the extent to which one (or several) variable (x) exerts a causal effect on the dependent variable (y) (Mahoney and Villegas, 2007; Mahoney, 2008; Mahoney and Terrie, 2008). Qualitative researchers seek to uncover the specific values taken by the causal variables that generated the occurrence of an outcome of interest. The identification of the particular causes in specific cases is crucial since complex causation entails the presence of multiple or conjunctural causal variables – that is, different conditions combining in specific or different ways. Quantitative researchers, in contrast, seek to estimate the average effects of a hypothesized independent variable across a large number of cases rather than specifying its impact in a specific context/situation. The aim is to generalize from an assessment of the average causal weight of independent variables within a large-N sample.

The importance of causal complexity figures prominently in the analysis of the investment allocation of short-term investors in France and Germany. Several factors shape the flows of short-term funds in the two countries.[23] The organization of this book is structured around the insights of two institutionally based theoretical perspectives: law and economics and VoC. The selection of these two perspectives is motivated not only by their importance in studies of comparative corporate governance (see Gourevitch and Shinn, 2005: 27–94) but also reflects different critical evaluations of the investment process of institutional investors. The law and economics perspective emphasizes the importance of corporate executives choosing to implement strategies of shareholder value over seeking to secure private benefits of control at the expense of minority shareholders. Institutional arrangements that protect the rights of minority shareholders are seen as crucial for the provision of incentives toward shareholder value-enhancing strategies (Shleifer and Vishny, 1997; Laporta et al., 2000). The VoC perspective, by contrast, highlights the impact of institutional frameworks on the process by which firms coordinate their activities. Advanced capitalist economies are distinguished by their specific configuration of institutional arrangements that translate into divergent distributions of authority at the firm-level (Hall and Soskice, 2001; see also Maurice et al., 1986; Culpepper, 1999; Soskice, 1999; Gourevitch and Shinn, 2005; Sorge, 2005). The focus of this perspective is on the ability of corporate executives to implement specific types of strategies of shareholder value – not merely whether corporate executives have internalized the importance of financial market considerations and share price appreciation (see Goyer, 2007).

[23] Studies by financial economists have pointed out the range of possible actions of institutional investors. For some, the strategy of activist short-term funds is geared toward targeting more financially profitable and healthy firms with large cash flows and high dividends (Klein and Zur 2009). The aim is to force portfolio companies to release dividends and/or proceed to share buybacks. In contrast, others have emphasized how funds select undervalued firms with potentially superior growth potential and push for the implementation of strategic and operational changes (Brav et al., 2008).

The importance of institutions as a critical independent variable has been prominent in the social sciences. From the early days of fixed cross-national institutional differences impacting on outcomes, institutional analyses have become more sophisticated and open to alternative perspectives. Scholars working with an institutional perspective rarely advance the notion that only institutions matter for outcomes. For some, institutions are mid-level variables that act as a midrange theory between state-centered and society-centered analyses (see Hall, 1984, 1986; Thelen, 2004). Institutions matter because they independently shape the distribution of power among actors (Berger, 1981). For others, institutions are part of a phenomenon of complex causation whereby an outcome results from potentially different combinations of conditions (see Lieberson, 1985; Ragin, 1987; Mahoney, 2004). Institutions might be critical independent variables but they are never the sole cause of outcomes since they result from the presence of combinations of conditions (Hall, 2010*a*).

The analysis of the disparities of asset allocation by short-term investors in France and Germany builds on these institutional analyses in a specific way. The focus on institutions as part of a process of complex causation is methodologically sound but obscures an important issue, namely the relative weight of different causal factors. Institutions are shown to be causally important but no assessment of the relative strengths of different combinations of variables is attempted (Goldthorpe, 1997: 7). This issue is particularly important since advanced capitalist economies have been responding in different ways to exogenous and endogenous challenges (Hall, 1999, 2007; Börsch, 2007; Hall and Thelen, 2009). The protection of minority shareholders (law and economics) and the ability of corporate executives to implement strategies of shareholder value (VoC) constitute important variables influencing the investment allocation of short-term-oriented institutional investors, but is one more important than the other?

I argue that the VoC perspective offers greater, but not exclusive, insights into the complex causation process of the investment allocation of short-term investors in France and Germany than the institutionally based law and economics perspective. First, the institutional basis for the coordination of activities at the firm-level in the two countries differs substantially (see Maurice et al., 1986; Sorge, 1991, 2005; Culpepper, 1999, 2003; Hancké, 2002; Whitley, 2003). The coordination of activities is shaped by firm-level institutional arrangements that result in different restructuring strategies. In particular, the VoC perspective highlights how workplace organization in France is characterized by the concentration of power in top executives that, in turn, provides for a better fit with the preferences of short-term investors. The weakness of organized labor inside the firm facilitates the implementation of short-term oriented restructuring schemes. In contrast, the institutional arrangements of large German companies provide employees with voice and quasi-veto power over important corporate decisions. The coordination of activities in German firms is characterized by the involvement of the bulk of employees, thereby resulting in lengthier negotiations. The implementation of strategies of shareholder value in Germany does not fit well with the short-term horizon of impatient investors since they have to be negotiated with the workforce. Thus, firm-level institutional arrangements identified by the VoC perspective matter since they provide top management with diverging capacities to implement shareholder value-oriented restructuring schemes within a short-term horizon (Goyer, 2006*a*). In other words, VoC-type institutional arrangements of workplace organization directly impact on the value taken by the dependent variable.

Second, the contribution of the VoC approach also shape the distribution of necessary/sufficient conditions across advanced capitalist economies, thereby illustrating the importance of the context in which political and social life occur. The investment allocation of short-term investors is embedded in a process of complex causation – but what is necessary/sufficient to produce change is asymmetrically distributed in a noncapricious manner across economies.[24] Outcomes

[24] The use of the concept of necessary/sufficient conditions and the nature of causal inference presented in this book should be understood in heterodox-probabilistic terms, not in a deterministic fashion (Mahoney, 2008: 415–20; see also Lieberson, 1985, 1991). The latter refers to attempts to infer the existence of a causal relationship through the presence of correlations between two variables. Working through elimination, the researcher seeks to uncover which independent variable covaries with the dependent variable across a small number of cases – and which independent variables do not. The implication is that the presence of a given factor that covaries with the dependent variable across all cases will produce the specified outcome when present (see Mahoney, 1999, 2000*b*, for a critical review). A heterodox-probabilistic understanding of causation, by contrast, is more modest. It stipulates that the impact of a given factor, when present, is greater for the occurrence of a specified value on the dependent variable as compared to other factors. Moreover, the hetereox-probabilisitc understanding of causation presented in this book is not based on the notion of “probability raiser” whereby the presence of a specified value on a variable increases the probability that an outcome will occur (see Gerring, 2005, for a presentation of causation as probability-raiser). Causation can take place without probabilistic dependence – X causes Y to happen, but it did not increase the probability of Y to happen (Menzies, 1996). The impact of X (or non-X) on the dependent variable remains the same before the event (potential) and after the event (actual). The impact of X on Y should be compared to the impact of Z (not the counterfactual of non-X) on Y. For the argument presented in this book, the concentration of power in top management (VoC-type institutional arrangements of workplace organization) and the presence of ownership diffusion (law and economics focus’ on protection of minority shareholders) increase the likelihood of being targeted by short-term institutional investors – but the former is substantially more influential than the latter in this process.

are the result of different combinations of conditions across advanced capitalist economies. The firm-level institutional context of the French and German economy provides for variation in the relationship between the law and economics perspective and the investment allocation of short-term investors. From the law and economics perspective, the investment allocation of short-term investors is primarily driven by the quality of institutional arrangements that protect the rights of minority shareholders (Laporta et al., 2000). The prediction of this perspective is that the presence of ownership diffusion constitutes the most important and determining factor for the introduction of strategies of shareholder value in France and Germany – corporate law in the two countries is better at lessening agency costs driven by managerial opportunism than at curbing the value destroying actions of the large shareholder (Schmidt, 1999; Roe, 2002; Enriques and Volpin, 2007).

However, the relative weight of the law and economics perspective in the overall complex causation through which short-term investors acquire equity stakes in French and German corporations is not as important as that of the VoC perspective. The relationship between the presence of ownership dispersion (the favorite scenario for the law and economic perspective) and the investment allocation of short-term investors differs across the two cases: it is positive in France since the quasi-totality of companies with ownership diffusion have been targeted by short-term investors; it is weaker in Germany given that several corporations with ownership diffusion have not been targeted by these same impatient investors. The presence of ownership diffusion constitutes a quasi-sufficient condition for being the recipient of a concentrated investment stake by impatient investors in France, but not in Germany. The disappearance of large shareholders in France constitutes the removal of a major, and perhaps the remaining, stumbling block for the implementation of short-term-oriented strategies of shareholder value given the concentration of power in top management.[25] By contrast, the strength of organized labor at the firm-level in Germany explains why the removal of large blockholders in Germany does not result in managerial autonomy to quickly implement strategies of shareholder value. This autonomy is blocked by the strength of organized labor at the firm-level. The VoC institutional context influences the

[25] Moreover, the pluralities of French and German firms targeted by Anglo-Saxon institutional investors are characterized by ownership concentration – the least likely scenario for the law and economics perspective, given the legal arrangements of shareholder protection in the two countries (see Chapter 3). In other words, legal arrangements of protection for minority shareholders do not constitute a necessary condition understood in heterodox-probabilistic terms as being the recipient of a targeted investment stake by short-term-oriented funds.

nature of the relationship between variables. The presence of a similar value on a specific variable – ownership diffusion – has different effects in two institutionally distinctive economies, namely France and Germany. In other words, the presence of ownership diffusion does not constitute a sufficient condition understood in heterodox-probabilistic terms in Germany reflecting a missing element, namely the concentration of power in top management. The methodological implication is that the relationship between variables in the process of causal complexity is characterized by the hierarchization of institutions. The presence of a specific value on the hierarchically superior causal variable (i.e., concentration of power in top management) is paramount for the magnitude effect of the other variable (ownership diffusion) to occur. The relationship between these two causal variables is not symmetrical: it is one of hierarchical interaction.

Moreover, the nature of the interaction between the two causal variables in this study – institutional arrangements of workplace organization and of legal protection of minority shareholders – should be seen as specific to the comparison between France and Germany regarding the investment allocation of short-term investors. The institutions of workplace organization constitute the most important, but not the sole, causal variable to account for the marked preference of short-term investors for French companies over their German counterparts by a ratio of 2 to 1. The generalization of this argument to other contexts should also incorporate the full range of interacting variables. The method of concomitant variation, seeking to infer causality between values on ordinally measured causal and dependent variables based on the degree to which a phenomenon is present, is useful in this regard (see Mahoney, 2000*b*: 399–406). The value taken by the institutional arrangement of legal protection of minority shareholders against occurrences of managerial opportunism (first causal variable) is high in France and Germany – reflecting the importance of legal reforms in recent years (Cioffi and Hoepner, 2006; Tiberghien, 2007). The value taken by the degree of concentration in top management associated with the institutional arrangements of workplace organization (second causal variable) is high in France and low in Germany, thereby significantly contributing to the gap in the investment allocation of short-term investors in the two countries.

The incorporation of the American case in the setting of the method of concomitant variation strengthens this claim. The American system of corporate governance is characterized by the presence of high values on institutional arrangements of legal protection of minority shareholders and on the concentration of power in top management – and

Table 1.1. Concomitant Variation: Causal Variables and Investment Allocation by Short-term Investors

	Legal protection	Concentration of power	Ability to dismiss	Investment
Germany	High	Low	Low	Low
France	High	High	Low	>2 as Germany
United States	High	High	High	At least >2 as France

also on some other important legal features that matter for the implementation of strategies of shareholder value, such as the ability of firms to quickly dismiss employees (third causal variable) (OECD, 1999) (see Table 1.1). The absence of significant legal constraints on the numerical shifts (external flexibility) to the composition of the workforce fits with the preferences of short-term investors (Capelli et al., 1997; Farber and Hallock, 2009). In turn, the presence of different values on these three causal variables for France, Germany, and the United States is associated with different values on the dependent variable. Data on blockholding acquisitions by hedge funds in American companies from 1998 to 2005 is slightly inferior to an average of one per firm and, therefore, illustrate that the presence of short-term investors in American companies is significantly superior as compared to their investment allocation in the French market (Clifford, 2008: 326).[26] The method of concomitant variation highlights the importance of institutional arrangements of workplace organization for the comparative study of France and Germany – but also provide for the limits on the generalization of the claim to other contexts.

Finally, the analysis of the relative weight of the insights associated with the law and economics approach versus those of the VoC perspective should not be interpreted as a paradigm war between two theories made to be tested against each other. Rather, it has been designed to capture the importance of causal complexity in social sciences (see e.g. Braumoeller, 2009: 241). The simultaneous analysis of complexity and hierarchy between causal variables is crucial to capture the respective contributions of the law and economics and VoC perspective for the value taken by the dependent variable, namely the marked preference for French companies by short-term investors. The insights of the law

[26] It should also be noted that the data on American firms does not incorporate acquisitions above the 5 percent threshold by actively managed mutual funds from 1998 to 2009 and by hedge funds from 2006 to 2009 – thereby highlighting the magnitude of the investment allocation of short-term investors in the United States.

and economics approach do matter even if their relative weight in accounting for the disparities of investment allocation of short-term investors is not as great as that of the VoC perspective. The hierarchically inferior position of the law and economics perspective implies that the variable possesses less importance in terms of accounting for the presence of the dependent variable in the current period. The hierarchy between institutional variables presented in this book reflects the uneven patterns of change across advanced capitalist economies, namely that changes in corporate governance have been more prominent than the evolution of institutional arrangements in employment relations and skill formation. The long-standing institutional differences in the organization of work in France and Germany did not prove significant to questions of corporate governance before the mid-1990s. France and Germany constituted two advanced political economies where the importance of shareholder value in the strategic direction of companies was previously marginal. Developments in the early to mid-1990s in the sphere of corporate governance transformed the "dormant" character of institutions of work organization. Legal reforms to protect minority shareholders and the spread of ownership diffusion starting in the mid-1990s, previously preceded by the removal of capital controls and the decision by Anglo-American institutional investors to diversify their investment allocation beyond their national borders, have been more impressive as compared to the relative stability by which companies build their innovative competencies.[27] Policymakers have found it easier, and even highly attractive in some cases, to pass legislation designed to protect the legal rights of minority shareholders than to confront organized labor through market deregulation (Beyer and Hoepner, 2003; Cioffi and Hoepner, 2006; Tiberghien, 2007). Policymakers have also found it more politically convenient to deregulate labor markets for potential "outsiders" via the liberalization of fixed-term contracts rather than directly confronting "insiders" (Blanchard and Landier, 2002; Smith, 2004; Rueda, 2007; Palier and Thelen, 2010). The impact of these developments in the sphere of corporate governance, however, has been structured by institutional variations in the character of labor relations and skill formation in each country (Hoepner, 2001; Goyer, 2006*b*).

27 On changes in corporate governance, see Culpepper (2005), Cioffi and Hoepner (2006), Enriques and Volpin (2007), and Deakin and Rebérioux (2009). On the relative stability by which firms develop their innovative capabilities, see Börsch (2007), Culpepper (1999, 2003), Whitley (2003), Thelen (2004), Sorge (2005), Palpacuer et al. (2007), and Thelen and Busemeyer (2008).

The German case is particularly important in this regard. Changes in German corporate governance have been important but have not been matched by correspondingly significant transformations in employment relations and skill formation. An implication is that potential changes in the regulation of labor markets, the decline of the prominence of firm-specific skills, and the declining appeal of vocational training would increase the attractiveness of German companies to short-term investors by increasing the concentration of power in top management. The gap between the occurrence of change in German corporate governance and the overall stability of the process by which domestic companies build their innovative capabilities is the outcome of political circumstances and, moreover, illustrates the importance of causal complexity and provides a healthy warning against piecemeal analyses focusing on a single institutional variable. A second implication is that impressive changes in French corporate governance took place in a setting whereby significant concentration of power already resided in top management. The move toward ownership diffusion in France was highly conducive to the arrival of short-term investors since the organization of work favors the relatively rapid implementation of new strategies of adjustment. The removal, or significant reduction, in the agency problem in the form of the large owner paved the way for the rise of a short-term version of shareholder value. Nevertheless, one question remains unanswered: what is the relationship between legal reforms of the rights of minority shareholders (law and economics in this book) and institutional arrangements of employment relations/skill formation (VoC in this book)? Are these two spheres characterized by institutional complementarities displaying the interaction between different institutions in separate spheres (Milgrom and Roberts, 1994, 1995)? Are these two spheres illustrating the presence of compatibility given the lack of corresponding and coordinated evolution between them (Hoepner, 2005; Deeg, 2007)? I now turn to this issue.

1.2.3 *Hierarchy as Context*

What form does institutional hierarchy take? I argue that the hierarchically superior causal variable serves as the context that mediates the interaction between other causal variables and the dependent variable – in addition to the hierarchically superior variable exerting an important influence on the dependent variable. As constituting the context, the hierarchically superior institution does not affect the value (s) taken by the other hypothesized independent variables (x1, x2, . . . , xN) in a process of complex causality. The presence of institutional arrangements with specific values in different spheres does not impose insurmountable constraints on the design of a new institution. Rather, I stress that an important, and often forgotten, form of institutional hierarchy lies in the impact of the context on the relationship between variables (see Goertz, 1994). The hierarchically superior institutional variable is operationalized as the context that shapes the relationship between other causal variables (x1, x2, . . . , xN) and the dependent variable (Y).[28] The implication is that hypothesized causal variables (x1, x2, . . . , xN) do not cause outcomes by themselves and must be seen within the context in which they are embedded before marking causal inferences (Falleti and Lynch, 2009). The context has often being relegated as a background factor in assessing the relationship between variables. However, context changes over time/ across space – thereby constituting an essential part of the causal process (Mackie, 1965; Hall, 2010*a*).

In this study of the investment allocation of UK/US-based institutional investors, the hierarchically superior causal variable is operationalized as the VoC-type institutional arrangements of work organization and the associated distribution of power inside companies. The institutional arrangements of workplace organization shape the process of adjustment and the terms by which strategies of shareholder value are introduced and implemented (O'Sullivan, 2000; Hoepner, 2001; Goyer, 2006*b*; Börsch, 2007). Short-term oriented institutional investors prefer firms characterized by the absence of many stakeholders with a voice in the process of adjustment given the short-term horizon of their trading strategy (Rebérioux, 2002; Goyer, 2006*a*). Moreover, the VoC-type institutional arrangements of workplace organization also serve as the context that impacts on the nature of the interaction between the legal protection of minority shareholders (other causal variable) and being targeted by Anglo-American institutional investors (dependent variable). The presence of ownership diffusion, an essential feature for the law and economics perspective given the configuration of French and German corporate law – almost invariably results in French firms being targeted by Anglo-American institutional investors while this is not the case for their German counterparts. The reason is that

[28] The argument presented in this book differs from that of Goertz (1994) in that the institutional variable that serves as the context (C) not only shapes the outcome of the interaction between other hypothesized causal variables and the dependent variable but also directly acts upon the value taken by the dependent variable. In other words, the influence of the hierarchically superior institutional–causal variable is dual. The hierarchically superior institutional–causal variable impacts on the value of the dependent variable and it shapes whether (and how) other hypothesized causal variables impact on the value taken by the dependent variable. For Goertz, the context does not directly act upon the dependent variable and, thus, does not constitute a causal variable.

the presence of ownership diffusion is contextually bounded. French firms with ownership diffusion are attractive to short-term investors not only because of the absence of a large owner with incentives to secure private benefits of control but also for the concentration of power at the top of the managerial hierarchy that makes it easier to implement strategies of shareholder value. German firms with a more egalitarian distribution of power, in contrast, are not as attractive to short-term investors despite the removal of the large owner whose interests are likely to lie outside that of shareholder value. The distribution of power inside German companies provides employees with significant opportunities to delay the introduction of strategies of shareholder value designed to generate short-term benefits.

The importance of context highlights the shortcomings associated with an analysis of causal inference based on invariant patterns of association – that is, the presence of covariance between the values taken by a hypothesized independent variable and the dependent variable. The introduction of legal reforms in France and the growing ownership diffusion of French companies have been associated in terms of timing with the rise of blockholding acquisitions by short-term foreign investors. Nonetheless, the timing between the change in the values taken by the law and economics institutional variable (ownership concentration → ownership diffusion) and the dependent variable should not be interpreted as the proof of the causal influence of the former. The growing ownership diffusion of French companies occurred in a setting characterized by the concentration of power in top management while the corresponding rise of ownership diffusion in Germany did not result in similarly important rise of short-term foreign ownership since the coordination of activities inside German companies is characterized by the involvement of many parties. The presence of the concentration of power in top management is paramount for the magnitude effect of ownership diffusion to take place.

The context as the hierarchically superior institution in a process of causal complexity is highly insightful for the study of the investment allocation by short-term-oriented institutional investors in France and Germany. However, the importance of the concept of context extends beyond this study. From a methodological perspective, the notion of context significantly contributes to our understanding of complexity in social sciences. Previous studies have highlighted that the absence of a correlation between two variables across time and space should not be interpreted as an indication that there is no relationship between them (Ragin, 1987; Goertz, 1994). An important insight is that the presence of different relationships between variables over time/across space is not necessarily capricious. It can be quite systematic in reflecting the importance of variation in the context.[29] Moreover, the notion of context presents interesting methodological insights in its differentiation from that concept of an intervening variable. The presentation of institutions as intervening variables (as distinct from macrostructures) acting as a midrange theory has been important in social sciences (Merton, 1968). It reveals an element of modesty as scholars working from an institutional perspective rarely advance the notion that only institutions matter for outcomes (Hall, 1984, 1986; Thelen and Steinmo, 1992; Hall and Taylor, 1996).[30] Nonetheless, causal mechanisms as a chain of intervening factors with an intervening variable should be distinguished from complex causation as an intersection of variables leading to an outcome. The context as an institutional variable does not impact on the value(s) taken by other institutionalized variables (Falleti and Lynch, 2009: 1146). Causal complexity does at times require researchers to distinguish between macrostructures and the institutional elements within such structures (Merton, 1968); causal complexity could also involve the investigation of the different institutional arrangements as part of an intersection of conditions that generate a specific outcome (Ragin, 1987).

I also argue that the notion of context of the hierarchically superior institutional variable in a process of causal complexity presents additional important methodological advantages. The concept of context provides significant insights for the analytical treatment of sufficient conditions – an issue that has been relatively underdeveloped.[31] Sufficient conditions bring to the forefront the importance of institutional hierarchy. The argument runs as follow: a potential objection to the argument presented in this book is that I confuse the notion of context with that of conjunctural causation. An alternative explanation is that the institutional arrangements of workplace organization and the legal protection of minority investors should be seen as two necessary, but not sufficient, conditions for being targeted by Anglo-American institutional investors. French firms characterized by the concentration of power in top management and with ownership diffusion have been targeted by short-term foreign investors. The issue for the German case

[29] The systematic character related to the absence of a relationship between two variables would be difficult to integrate in quantitative-oriented analyses since the impact of X on Y as measured by the β is not constant (Goertz, 1994: 15).

[30] The notion of intervening variable has also been a useful tool for methodological scholars seeking to present causal mechanisms as a chain of variables that connect the original hypothesized cause with its effects on the dependent variable (see Rueschemeyer et al., 1992; King et al., 1994: 85–7).

[31] Analyses of necessary conditions, in contrast, have been characterized by extensive theoretical sophistication (see Braumoeller and Goertz, 2000; Mahoney, 2004).

is that there are too many firms characterized by a more even distribution of power that, in turn, deter short-term investors despite the growing ownership diffusion. The implication would be that the reduction in the power of labor organizations in Germany would pave the way for the massive arrival of short-term-oriented institutional investors given the growing number of firms with ownership diffusion.

This interpretation, however, is incorrect on several grounds. The use of context as a concept serves to illustrate the importance of sufficient conditions understood in heterodox terms. The presence of ownership diffusion – most favorite scenario for the law and economics perspective – does not constitute a necessary condition for the occurrence of the dependent variable. The pluralities of French and German firms targeted by short-term-oriented institutional investors are characterized by the presence of ownership concentration and, moreover, there are twice as many French companies targeted in comparison to their German counterparts (see Chapter 2). The presence of ownership concentration has not deterred short-term institutional investors from investing in both Germany and, especially, in France. We cannot refer to two institutional variables that are necessary, but not sufficient, and are part of a phenomenon of conjunctural causation. Instead, an important focus of this book deals with sufficient conditions. What happens when French and German firms become characterized by ownership diffusion – the ideal scenario for the law and economics perspective? What are the consequences associated with market-enhancing developments across advanced capitalist economies? As previously mentioned, the quasi-totality of French firms with ownership diffusion has been targeted by short-term institutional investors while a significant number of German firms with a similar ownership structure have not. The context, VoC-type institutional arrangements of workplace organization, shapes the impact of the ownership structure on the dependent variable. The use of the context as an institutional variable is important for methodological considerations in four ways: assessment of the importance of market-driven changes, the reembedding of the concept of institutional complementarities, the assessment of the importance of sufficiency, and the role of politics in complex causation.

First, developments in the world economy during the last thirty years have witnessed the increased importance of market forces in economic relationships (Frieden, 1991; Loriaux, 1991; Hall, 2006) but without a corresponding convergence in the organization of firms and of capitalist economies (Hall and Soskice, 2001; Sorge, 2005; Berger, 2006). Differences in institutional starting points (Thelen, 1993; Locke and Thelen, 1995; see also Locke and Thelen, 1995; Kogut et al., 2002), interactions between stable institutions and newly introduced institutions (Hall, 1994; Hall and Franzese, 1998), and actors seeking functionally equivalent institutional reforms to existing modes of coordination (Hall, 2007; Hall and Thelen, 2009) account for the gap between the market-driven processes of change and the reproduction of diversity in its consequences. From a methodological perspective, these factors highlight the importance of context as specific institutional arrangements that influence the process by which market-enhancing developments impact on some pre-specified dependent variables. In particular, the implications associated with reforms designed to protect the legal rights of minority shareholders (Cioffi and Hoepner, 2006; Enriques and Volpin, 2007; Tiberghien, 2007) require an investigation of the institutional arrangements of workplace organization in which firms are embedded (Maurice et al., 1986; Sorge, 1991, 2005; Soskice, 1999; Whitley, 2003; Jacoby, 2005; Goyer, 2006*a*). This is why the study of sufficient conditions understood in heterodox-probabilistic terms is important. It refers to an investigation of the consequences associated with the introduction of market enhancing developments. The advent of institutional change in advanced capitalist economies is undeniable. The real issue, however, is to distinguish between radical, path-breaking change versus coordination-reinforcing change. The assessment of the impact of institutions (and institutional change) on major issues requires the operationalization and specification of the nature of illusory differences (see e.g. Ragin, 1987: 44–9). The illusion of change characterizes situations whereby processes of institutional change do not entail a modification in the behavior of actors (Culpepper, 2005; Goyer, 2006*a*; Hall, 2007). The concept of context in assessing whether a variable constitutes a sufficient condition provides significant insights into the importance of market-enhancing developments for the evolution of advanced capitalist economies.[32]

[32] The importance of the issue of whether market-enhancing developments are sufficient to induce changes has been enhanced by a recent paper by Hall (2010*a*) where politics is presented as an structured process across spaces and over time and characterized by the interaction between variables in a given context. Hall points out that coalition formation is not an automatic and easy process despite the occurrence of favorable external developments since actors need to reinterpret their interests and assemble the resources that are essential for the process of coalition formation. These are not easy tasks even in some of the most favorable circumstances. The successful process of coalition formation requires the occurrence of several interacting factors. The connection between this insight into the process of coalition formation and the argument presented in this book is that some changes will be sufficient to generate the outcome of interest in one contextual setting, but not in another. The nature of the interacting factors and the presence of a hierarchically institutional variable will condition the process of adjustment of firms and countries. The notion of sufficient conditions highlights how the presence of multiple causal variables can be overcome, a rather rare historical occurrence, for the outcome of interest to occur.

Second, the notion of context provides for a reembedding of the concept of institutional complementarities. The most severe, and insightful, critics of the VoC have focused of the perceived shortcomings associated with the concept of institutional complementarities (Amable, 2003; Boyer, 2004; Crouch, 2005; Hoepner, 2005; Deeg, 2007). A common element associated with these works is the nature of change across institutional spheres. What happens when one institution which is part of a complementary framework undergoes a transformation? Would other institutions also change in a symmetrical fashion? Does institutional design in one sphere of the economy depend on the presence of institutions located in other areas? These critics have targeted an aspect of the VoC perspective, namely the influence associated with the presence of institutional complementarities on the strategic choice of actors. The process of institutional change is shaped by the existence of complementarities with the implication that actors will either resist change or seek calibrated change: institutional change that reproduces complementarities whereby the coexistence of two or more newly introduced institutions still enhances the functioning of each (Hall, 2005). These critics have instead advocated the notion of a gap in the character of institutional change across the different spheres of the economy. The process of institutional change is disjointed across spheres. For Deeg (2007), the issue is that the distribution gains associated with the presence of complementary institutions are unequally distributed in the economy. For Hoepner (2005), institutions could be compatible without being complementary – so, the presence of one institution could enhance the functioning of others but its presence is not necessary for the proper working of others. For Amable (2003: 66–73) and Boyer (2004: 28–33), institutional design reflects the power of important social groups with the implication that institutional change will be more easily implemented in areas where dominant groups have fewer vested interests.

The notion of context, in contrast, highlights the possibility of disjointed institutional transformation (change in one sphere not commensurately matched in other spheres), while keeping the core notion of institutional interaction that generates complementarities.[33] The context shapes the nature of the interaction between other hypothesized causal

[33] Moreover, Hall and Soskice (2001: 57–8) indicated reservations over the notion of commensurate institutional change, emphasizing how institutional stability does not derive its political support for any alleged contributions to the national economic welfare. Instead, self-interested actors seek institutional change, or to preserve institutional stability, for the benefits the institutional arrangements generate for them. The implication is that apparent incommensurate changes in patterns of institutional complementarities can occur without affecting the insightfulness of the concept of institutional complementarities.

variables and the dependent variable; the context does not influence the value taken by other hypothesized causal variables. Disjointed change between the values taken by the variable of the context and that of other hypothesized variables can take place without affecting the relationship between the context and the dependent variable. For the argument presented in this book, the evolution of the values taken by the context (VoC-type institutional arrangements of workplace organization) and that of the other hypothesized causal variable (the ownership structure of companies) have displayed significant divergence. The (different) values taken by the former in both France and Germany have exhibited substantially greater stability as compared to the greater importance of ownership diffusion for companies in the two countries. In other words, the institutional arrangements of workplace organization do not impact on the ownership structure of companies. However, the complementarities between institutional arrangements of workplace organization and the preferences/strategies of Anglo-American institutional investors remain unchanged. The fit between the concentration of power in top management in France and the preferences/strategies of short-term investors still remains strong – and vice versa for the German case. In other words, the presence of complementarities reflects different degrees of strength across institutional spheres – an observation previously illustrated by Hall and Gingerich (2009: 464, figure 3).

Third, the notion of context serves to provide an assessment for the importance of the concept of sufficient conditions. In everyday language, one is almost invariably impressed by the notion of sufficiency. The mere presence of a value taken by a variable is sufficient for the outcome to occur! The intervention of one factor in itself causing the expected outcome to occur is often seen as a sign of strength. However, the argument presented in this chapter highlights potential problems of interpretation associated with sufficient conditions. As previously mentioned, all (but a few) French firms with ownership diffusion have been targeted by short-term-oriented institutional investors. This empirical finding should not be interpreted as a source of the supposed superior explanatory power of the law and economics perspective. The occurrence of growing ownership diffusion in France took place in a context characterized by the concentration of power in top management. The value of ownership diffusion led to a specific result in France, but not in Germany, as a result of the value by the hierarchically superior variable of the context.[34] Sufficient conditions

[34] Moreover, Goertz (2006) illustrated that there are several potential sufficient conditions in a given process of complex causation. The most important of these sufficient conditions is the one that happens most frequently since it contributes more often to the occurrence of

should not be seen in a piecemeal fashion but as part of the context in which they are embedded.

Fourth, the notion of context captures the contribution and limits of politics. The settlements of political conflicts across advanced capitalist economies result in institutional diversity. What happens next? How does politics matter? The answer to these questions depends on the issue area. Politics impacts on the content of institutional formation across different spheres of the economy but without uniformity. The values taken by institutional arrangements in one area of the economy do not impact on the content of institutions in other spheres. Disjointed institutional evolution can occur, namely the presence of change in one sphere not being commensurately matched in other spheres. The more important issue, however, is not the presence of disjointed institutional evolution that has been interpreted as a shortcoming of the concept of institutional complementarities. Instead, the importance of politics lies in its influence of the institutional arrangements that later become the context. The hierarchically superior causal variable that constitutes the context is important not only for its impact on the dependent variable but also because of its mediation of the relationship between other causal variables and the dependent variable. The presence of institutional change on the hierarchically superior causal variable is more important than the evolution of institutional arrangements in other areas. The advantage of this conceptualization of politics is that it allows for the presence of the institutional hierarchy within complex causation and in the presence of disjointed institutional evolution. One variable can be more influential while outcomes are still being generated by an intersection of conditions. It also provides for the presence of different degrees of political salience across issue areas (see Culpepper, 2010).

1.3 A Roadmap

The remainder of the book is presented in the following manner. Chapter 2 presents the empirical data on the investment allocation of short-term Anglo-American institutional investors in France and Germany. Shareholder value-oriented funds possess many strategies and preferences, and a sophisticated differentiation between categories of investors and strategies is needed in order to avoid making faulty inferences. Pension funds are not nearly as threatening for the process by which

the desired outcome. A sufficient condition that occurs infrequently is significantly less important.

companies coordinate their activities in coordinated market economies as are hedge funds; short-selling strategies are not connected to the implementation of strategies of shareholder value as are long-only acquisition of a significant stake in a listed company. Chapter 3 provides an analytical overview of the system of corporate law in France and Germany and illustrates how both countries are fairly effective at dealing with agency problems related to the actions of managers (ownership diffusion) but often unable to restrain attempts by the large owner to secure private benefits of control at the expense of minority shareholders (ownership concentration). Chapter 4 presents the research methodology of the book and illustrates how causal complexity could be incorporated with institutional hierarchy – that is, one set of variables being more important than others. Chapter 5 provides an overview of the institutional arrangements of work organization in France and Germany and illustrates how previous choices made by actors have shaped current differences in the degree of power concentration inside companies. Chapter 6 concludes by summing up the argument and by briefly illustrating how the 2008 financial crisis, an ongoing development, and the response of governments to its advent are unlikely to change the institutional contours of the economy – thereby highlighting that varieties of capitalism are alive and well and playing in Greenwich (CT), Paris, and Wolfsburg.