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Sectors versus borders: interest group cleavages and struggles over corporate governance in the age of asset management

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Abstract

Universally invested asset managers like BlackRock have established a dominant position in equity markets around the globe. While extant contributions have explored their voting behaviour and role in shaping corporate governance at the firm level, less is known about their potential to build interest coalitions with other business groups, and their leverage over state-level corporate governance institutions. This article investigates conflict over a far-reaching reform to co-determination in Germany. Qualitative content analysis of over 100 stakeholder statements yields that asset managers forge coalitions with short-term-oriented investors to abolish key tenets of corporatist institutions. However, a domestic countercoalition of financial and non-financial firms prevented momentous institutional change. This article improves our understanding of international asset managers' preferences and highlights coalition building as a key determinant of the political power of international finance. By aligning the costs of institutional change for incumbents, corporatist institutions continue to act as shields against financialization.

Key words: corporate governance; firm strategy; Germany; institutional complementarity; power; political economy

JEL classification: P12 Capitalist Enterprises; P16 Political Economy

1. Introduction

The rise of a new and omnipresent class of international investment firms continues to rattle financial systems around the globe. The so-called *passive asset managers*, led by American investment behemoth BlackRock, have reinvented the game of capital allocation, and—given their overwhelming financial success—reshuffled the power structures in modern capitalism (Wigglesworth 2021). In contrast to activist investors who follow a cost-

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intensive approach by deliberately choosing particular stocks and equities in an effort to *outperform* markets, passive investors *track and replicate* market indices as closely as possible. This low-cost strategy has propelled a global 'money mass-migration' (Fichtner and Heemskerk 2020) into passive funds and has leveraged the 'Big Three' American index funds—BlackRock, Vanguard, and State Street—to emerge as ringleaders of a new age of 'asset manager capitalism' (Fichtner, Heemskerk, and Garcia-Bernardo 2017; Braun 2021).

While observers are quick to note the transformative character of this development, the precise implications are less clear. Depending on the perspective, scholars have either decried asset managers' short-termist voting behaviour supportive of controversial means to inflate balance sheets and asset prices to boost shareholder value (Harmes 1998; Griffin 2020a; Baines and Hager 2023) or lauded their potential as patient investors and even benevolent 'agents of corporate de-financialization' (Fichtner 2020). Whichever way they lean, what *is* clear is that the size and span of asset managers' global investments inject a new dynamism into interest group politics, raising important questions over the changing power of finance vis-à-vis the nonfinancial sector, and society at large (Braun 2022).

In the past, international political economy (IPE) scholars have considered the financial sector to be comprised of relatively homogenous actors and interests that would jointly exert transformative pressure on domestic models of capitalism and lead to convergence along a financialized, Anglo-American shareholder-value-oriented trajectory (Rubach and Sebora 1998; Dore 2008; Hardie *et al.*, 2013; for a detailed discussion see Maxfield, Winecoff, and Young 2017). Since plurality in business is low and non-financial business groups usually share the de-regulatory agenda of the financial industry (Pagliari and Young 2016; Young and Pagliari 2017), interest group competition should be structured along *sectors* where a united (international) financial sector dominates non-financial interest groups.

Recently, however, scholars have cautioned that preferences within the financial sector are more heterogeneous and diverse than previously assumed (Meyer and Bridgen 2012; Naczyk and Hassel 2019; Röper 2021a, 2021b). From this perspective, coalitional conflict might not run along sectors, but along *borders*, where the domestic institutional environment conditions, and potentially aligns, the preferences of financial and non-financial firms and restricts the scope of financialization pressures (Goyer 2011; Maxfield, Winecoff, and Young 2017). This debate raises the question what are asset managers' preferences regarding corporate governance institutions and are coalitional tugs of war over industrial democracy ultimately structured along *sectors* or *borders*?

To answer these questions, this article proposes a framework of coalition-building including asset managers, derives theoretical expectations over governance outcomes for different coalition building scenarios, measures actual interest group preferences empirically, and provides causal explanations for observed preference formation. Research into asset managers' political strategies and their power over corporate governance is hampered by data availability issues as index funds tend to circumvent traditional institutions of sectoral and firm-level coordination and prefer informal meetings behind closed doors. Anticipating such challenges, I test my coalition model by drawing on a rare case of open conflict between different factions of capital over the future of corporate supervision: a proposed reform of the German Corporate Governance Code (GCGC), which provides Good Governance Guidelines that all listed firms must adhere to.

The reform contained a highly controversial amendment that proposed a reduction of the service terms for shareholder-elected supervisory board members from five to 3 years.

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Supervisory boards represent key institutions of coordinated models of capitalism (Shonfield 1965; Hall and Soskice 2001) as they guide and monitor management and allow veto players to interfere in firm-level decision making. Seats on supervisory boards are predominantly held by external labour and capital representatives who can 'impose collective interests *beyond* the firm level [...] *upon* the firm' (Höpner 2007: 7). Therefore, contemporary critics of the reform proposal saw in the amendment a blatant attack on the dual corporate governance structure and its strict separation between supervisory and management boards, a threat to their independence and a long-term orientation, and an unjustified bias towards shareholder interests.

I draw on publicly available stakeholder consultations to trace the controversies that this amendment provoked and the interest coalitions that formed in favour or against the proposal. Data from policy consultations are generally accepted in the interest group literature and used frequently in analyses of lobbying behaviour (Pagliari and Young 2014: 580). I use qualitative content analysis (QCA) to categorize 110 individual statements from various stakeholders in the GCGC Commission consultation including capital and labour representatives, national and international investors, banks, insurance, legal and academic experts, government agencies, and larger and smaller firms. In a subsequent step, I propose a novel data visualization technique to map coalitions by translating the coded statements into a radar chart. This radar chart indicates for different interest groups if their justification to support/oppose the amendment is more market or coordination-driven, and highlights overlaps between factions that provide the basis for interest coalitions.

My results suggest that passive asset managers sided with activist private equity and hedge funds in calling for a reduction of service terms for supervisory board members. The deliberate aim of this coalition was a transition towards yearly board re-elections which would allow shareholders to leverage their substantial voting powers more often and increase pressure on the board while weakening antagonist voices. However, withstanding the efforts by international investors was a heterogeneous but sizable countercoalition of domestic financial corporations, non-financial firms and labour that defeated the amendment. The uniting theme was a shared concern that more frequent elections would disrupt the traditional balance of power (parity) on the board with negative consequences for all parties involved.

My findings qualify extant literature that has emphasized the structural dominance of passive asset managers (Griffin 2020a; Bebchuk and Hirst 2022) by showing how coalitions between 'strange bedfellows' (Mahoney 2008: 175) can constrain the political power of international asset managers. These results highlight the persistent importance of institutional complementarities in aligning the preference structures of unlike groups of incumbents and reinforcing the resilience of key corporate governance institutions *even when* international investors have already obtained a dominant investment position within the corporate network.

The remainder of the article is organized as follows. The next section reviews the extant literature on the role of asset managers in corporate governance. Section 3 develops a theoretical framework to derive scenarios for political coalition-building and predicted governance outcomes. Section 4 outlines the data and methodological approach and specifies the details of the GCGC reform. In Section 5, I present the results of the QCA and visualize the 'tug of war' between different coalitions over the proposed amendment using a novel

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mapping strategy. The final section discusses the role of institutional complementarities in underwriting tactical coalitions between 'strange bedfellows' and concludes.

2. Literature review: the power of asset managers and their role in corporate governance

Although the literature on asset managers and their role in corporate governance is still relatively nascent, by now a broad consensus exists that asset managers' universal ownership provides them with determinative voting control over firms in their portfolios (Fichtner, Heemskerk, and Garcia-Bernardo 2017; Griffin 2020b; Braun 2021; Bebchuk and Hirst 2022). A key question then is, if and how asset managers actually leverage their spectacular equity stakes to influence corporations (Wigglesworth 2021).

What little literature we have paints an inconclusive picture. On the one hand, scholars have pointed out that asset managers' passive investment strategy should provide little incentive to actively engage in corporate governance (Kahan and Rock 2020; Bebchuk and Hirst 2022); on the contrary, this would imply unnecessary costs. Asset managers lack the exit options typical of other activist international investors (Jahnke 2019). Investment and divestment decisions are determined exclusively by a target firm's membership in an index and passive funds must remain invested in a firm for as long as it is a member of a chosen baseline. Bebchuk and Hirst (2022) explain asset manager passivity with distorted incentives which lead them to be excessively deferential to corporate managers. Since asset managers do not immediately profit from governance gains at the firm level, they have little incentive to engage (Bebchuk, Cohen, and Hirst 2017; Kahan and Rock 2020). These conditions have led some academics to conclude that passive index funds represent a new class of patient investors 'without any skin in the game' (Braun 2016: 268; Deeg and Hardie 2016: 640; Braun 2021). Others, with a whiff of optimism, do not rule out their potential to become 'agents of corporate de-financialization and long-termism' (see Fichtner 2020: 274).

On the other hand, more recent empirical research has cautioned that internal contradictions might entice asset managers to more 'passive-aggressive' behaviour than is commonly acknowledged (Fichtner, Heemskerk, and Leaver 2018). As global money managers, they remain first and foremost devoted to creating value for their shareholders. Disagreement remains whether their influence has positive or negative outcomes. For instance, Barzuza, Curtis, and Webber (2020: 1243) argue that 'index funds have taken a leading role in challenging management and voting against directors in order to advance board diversity and corporate sustainability' driven by competition for assets from the millennial generation as well as by young employees who put a premium on value investment. Condon (2020: 47) argues that the green activism of institutional investors is explained by the effects of common ownership that lead universal investors to 'internalize intra-portfolio climate externalities'.

In contrast, more pessimistic contributions have shown that asset managers vote actively and highly congruent with management recommendations, proxy advisors, and activist shareholders, and often support short-term strategies to boost stock value (Fichtner 2020; Fichtner and Heemskerk 2020). Baines and Hager (2023) demonstrate that asset managers are locked into balance sheet positions with the world's major polluters from the fossil fuels, cement, and mining sectors. In these firms, universal investors more often than not

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oppose shareholder resolutions to curb environmental damages. Far from actively enforcing environmental, social, and governance (ESG) standards, the Big Three emerge as stewards of shareholder value maximization. One reason for their shortcomings in these domains seems to lie in the fact that index funds do not actively seek input from investors, do not draw on investor guidance in proxy voting, and therefore remain relatively unconstrained from fiduciary duties (Griffin 2020a). Labour rights and trade union priorities, too, find virtually no representation in index funds' voting behaviour (Committee on Worker's Capital 2020). Other contributions have yielded similar results in the realms of the agri-food sector (Clapp 2019), and the influence of universal owners on executive pay and income inequality (Linsi, Hopkin, and Jaupart 2023).

While this literature has contributed greatly to an improved understanding of asset manager preferences and their behaviour, most of it focuses on ESG issues and proxy voting *at the firm level* with a strong geographical bias towards the USA. As a consequence, we lack studies that examine how asset managers might leverage their ownership to affect state-level institutions of corporatism, especially in jurisdictions where such institutions are long-established and defensive. This article addresses this gap by exploring the links between an asset manager's investment position and the shape of national corporate governance institutions.

3. Theoretical framework: sectors versus borders?

The rise of universal asset managers at a global scale injects new life into the debate if and how international financial interests shape domestic models of capitalism. This article examines if interest group competition over financial (de-)regulation is structured around *sectors* or *borders*. Proponents of the 'sectors view' argue that global financial integration will structure interest group competition along a distinction between the financial sector and the real economy, with finance more often than not emerging as the victor (Rubach and Sebora 1998; Dore 2008; Hardie *et al.*, 2013; for a detailed discussion, see Maxfield, Winecoff, and Young 2017). In contrast, the 'borders view' assumes that national institutional specificities will continue to nurture and sustain incumbent social coalitions that defend extant institutions against international challengers (Hall and Soskice 2003; Hancké, Rhodes, and Thatcher 2007; Goyer 2011).

A rich political economy literature has convincingly argued that coalition building matters, both, in boosting individual groups' political thrust, and in predicting the outcomes of distributional struggles (Gourevich and Shinn 2005; Pagliari and Young 2014). For example, Höpner (2003: 152) and Gourevich and Shinn (2005: 60) model conflict in corporate governance including managers, owners (shareholders), and workers. Depending on the coalitional constellation, the outcome varies between class conflict (managers + owners versus workers), insider/outsider conflict (managers + workers versus owners), or conflict over management domination (owners + workers versus managers). These models build on the principal–agent problem and have provided important insights into the interdependencies—and potential conflict lines—between shareholder value orientation and domestic labour relations.

Subsequent contributions to the study of interest group coalitions have levelled two important critiques of this foundational approach. First, in Gourevitch and Shinn's world, alliances between owners, managers, or workers are based on the mutual realization among

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ostensibly different actors that they share the same preferences and objectives, which leads them to unite in domination of the third party. Such focus on shared strategic goals underwritten by the benefits of a particular institutional setting makes these coalitions and, by extension, their institutional outcomes highly resilient and enduring. Yet, interest group conflict often unfolds in a dynamic fashion. Actors' preferences are frequently updated in light of new developments as well as the constraints of a changing environment, and coalitions are reorganized given actual or expected payoffs for individual partners. Interest group coalitions are therefore often merely *tactical* in nature (Axelrod 1981; Mahoney 2008). Partners in tactical coalitions do not necessarily have to share the same goals, let alone the same moral convictions. It may simply suffice for actors to share the same idea about the means required to achieve their personal objective to make their alliance mutually reinforcing.

Secondly, Gourevitch and Shinn's model implicitly assumes a high degree of homogeneity within actor groups. However, cleavages often run through these classifications (Röper 2021a). For example, workers can be separated into insiders and outsiders with very different socio-economic rights and political demands. Conflict among managers can arise between externally installed financial professionals and traditional corporate managers. And depending on their time horizon, owners can be separated into short-term and long-term-oriented investors. In conjunction, these critiques suggest that to understand if and why interest group conflict in the age of asset management is structured around sectors or borders, individual factions of capital and their potentially heterogeneous preferences ought to be considered as the main unit of analysis.

Against the background of the extant literature, we can formulate theoretical expectations regarding the preferences of specific interest groups in German corporate governance. To simplify my model, I consider four sets of interest groups: activist investors, passive asset managers, domestic commercial banks, and domestic non-financial firms. Labour unions as sector-overarching interest groups nested within domestic firms are considered separately in my analysis (see Section 5.2).

Activist investors comprise international financial entities such as hedge funds, private equity firms, and wealthy individuals. Activist investors deliberately buy stakes in a target firm and seek to exert influence on management decisions to improve their own investment returns in the short to medium run (Scheuplein 2019). Corporate investments are financed via leveraged buyouts whereby investors draw on external debt, which is often transferred to the target company's balance sheet (Froud and Williams 2007). This aggressive investment strategy requires direct and unimpeded access to decision-making authority at the firm level. I thus expect activist investors to engage in efforts to limit industrial civil rights and co-determination.

In contrast, German non-financial firms typically follow a long-term investment and innovation strategy. Following the *Varieties of Capitalism* (VoC) literature, the combination of patient investment and inclusive corporate governance institutions creates comparative advantages in incremental product innovation (Hall and Soskice 2001: 36ff.). The absence of short-term pressures allows capital and labour to strike distributive compromises which involve a high degree of employment security, steady shareholder returns from long-term investments, and protection against hostile takeovers. I thus expect domestic non-financial firms to come out in support of existing corporatist institutions.

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As indicated in the literature review, formulating theoretical expectations regarding the interests of passive asset managers amounts to a more challenging feat. As deeply ambiguous actors, it remains an empirical question whether they emerge as a new caste of the patients, disinterested owners, or as active change agents in national corporate governance models, and what the consequences of their preferences and behaviour may be. The same is true for big commercial banks. For a long time, banks played a central role in Germany's bank-based coordinated model of capitalism (Zysman 1983). Universal investments, cross-shareholdings, and proxy voting power gave them influence on strategic decision making in large industrial firms and privileged access to business deals and inside information (Lütz 2005; Ahrens 2019: 873). However, the rise of market-based banking and international financial integration (Hardie et al., 2013) exposed commercial banks to international competition and forced them to divest shares and cut ties to domestic markets (Beyer and Höpner 2003; Streeck 2010). This allowed them to shift their business model from domestic credit extension to Anglo-American-type investment banking activities and shareholder value creation. As a result, commercial banks' commitment to domestic corporatist institutions and their willingness to defend industrial civil rights and institutions of co-determination may have been weakened (Hardie et al., 2013).

Based on the hypothesized preference structures of individual interest groups, I can make predictions about political coalition building, cleavage structures, and governance outcomes (see Table 1; cf Gourevitch and Shinn 2005: 23). The observed outcome is ultimately an empirical question and will depend on where the more ambiguous cases—commercial banks and asset managers—position themselves.

Under constellation A, financial interest groups, both domestic and international, forge an interest coalition against domestic non-financial firms. The cleavage therefore runs between *sectors* (finance versus the real economy). The predicted outcome under this constellation is institutional convergence as activist investors, passive asset managers, and commercial banks will lobby to weaken corporatist institutions of co-determination which in turn will strengthen shareholder value orientation.

Under constellation B, commercial banks and non-financial firms will forge a coalition against international challengers of activist investors and passive asset managers. Here, the conflict runs along *borders* (domestic versus international). While the observed outcome depends on the political influence these two respective groups command, I assume, *a priori*, that the incumbent coalition will profit from a 'home turf advantage' and dominate the group of international challengers (Capoccia 2016; Emmenegger 2021: 651). Since

Table 1. Political coalitions and predicted outcomes.

Coalitional Lineup	*Dominated group*	*Cleavage*	*Predicted outcome*
Constellation A: Activist investors + passive asset managers + commercial banks	Non-financial firms	Sectors	Convergence
Constellation B: Commercial banks + non-financial firms	Activist investors + passive asset managers	Borders	Resilience
Constellation C: Passive asset managers + non-financial firms + commercial banks	Activist investors	Investment horizon	Patience

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changing institutions is typically a greater feat than preserving the status quo, challengers will likely be in a disadvantageous position. Thus, the predicted outcome is resilience where a domestic counter coalition succeeds in fending off challenges from international investors.

Under constellation C, passive asset managers are assumed to be truly passive (i.e. disinterested), long-term investors who either abstain from competition altogether or side with non-financial firms and commercial banks in protecting corporatist institutions against short-term-oriented activist investors. The cleavage runs along the investment horizon (short-term versus long-term) and the outcome is a fortified patient capital regime (Deeg, Hardie, and Maxfield 2016).

In the remainder of this article, I test this model of political coalitions and measure interest groups' preferences vis-à-vis the German corporate governance model empirically. QCA allows to derive causal explanations for preference formation. The next section discusses data and methods in further detail.

4. Data and methods

Research on the interests and strategies of financial elites has in the past suffered from a formidable empirical challenge: they are exceptionally shy creatures. Passive asset managers are no exception. They typically recuse themselves from classical corporatist institutions, they refuse seats on supervisory boards that are usually reserved for large investors and instead rely on bilateral and behind closed-door meetings with top management to make their interests heard. As a result, researchers often must do with limited empirical material for quantitative analysis, mostly voting behaviour at annual shareholders' meetings (Fichtner and Heemskerk 2020; Griffin 2020a, 2020b; Baines and Hager 2023). For many of the same reasons, qualitative studies remain the exception.

This article leverages a critical policy event that allows for an in-depth mixed methods analysis of the impact of asset managers and their strategies vis-à-vis the German corporate governance system: a proposed reform to the GCGC. Since 2002, the GCGC has provided Good Governance Guidelines for all listed firms in Germany. It is implemented and updated annually by a special independent government commission. The main aim of the code is to provide guidance, transparency, and information to national and international shareholders. As such, the GCGC constitutes soft law and is not legally binding, but it is still powerful as a collection of the main guiding principles of corporate governance, especially where the hard law allows for interpretative scope. CEOs and supervisory boards of all listed firms are required by law to issue an annual statement on how the code was followed and applied (under the so-called 'apply and explain' rule).

Germany presents a critical case (Eckstein 1975; Gerring 2007) to analyse interest group conflict involving international investors. The country has been at the vanguard of debates around financialization, either as a case of least-likely change (Hardie et al., 2013), or as one of unexpected resilience (Goyer 2011). While the comparative political economy literature characterizes Germany as a coordinated, export-led model of capitalism where financial interests are dominated by the manufacturing sector (Hall and Soskice 2001; Baccaro and Pontusson 2016; Braun and Deeg 2020), the steamrolling force of index funds did not spare its equity markets. In 2020, the 'Big Three' were the largest individual shareholders in 40 per cent of Germany's DAX30 firms and in many cases the owners of sizeable block holdings. As Fig. 1 illustrates, in 2020 BlackRock alone held 10.0 per cent of the entire

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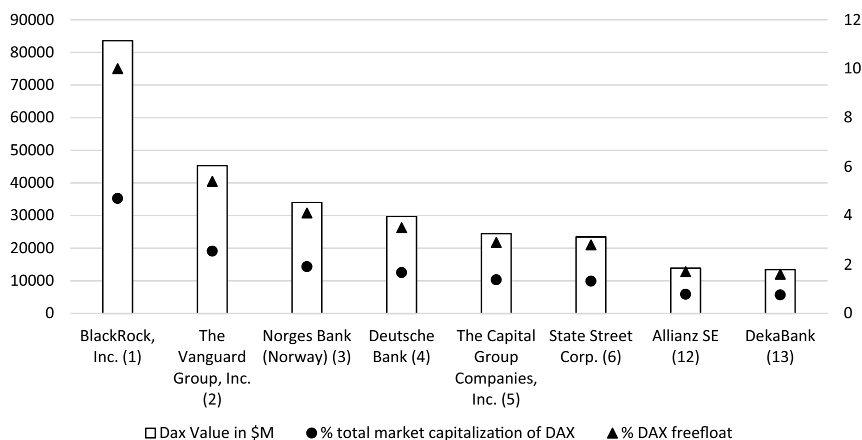

Figure 1. Selected DAX investors at group level (2020).
Source: DIRK 2021 HIS Markit; numbers in brackets indicate overall ranking

DAX30 free float easily outsizing all other group investors in the blue-chip index. Deutsche Bank and Allianz—the former heirs of Germany's famed but now decimated corporate network (*Deutschland AG*)—rank in distant spots four and twelve. Germany is the fifth-most popular destination for index investors after the USA, UK, Japan, and Australia. And even in the MDAX, which contains mainly family-controlled firms, the Big Three are at least the third largest investors in 42 per cent of listed firms, but in 10 per cent of cases still the largest (Fichtner and Heemskerk 2020). To underscore the remarkable dimensions of change, Figs. 2 and 3 present network graphs that highlight the dominant position that BlackRock now holds at the centre of Germany's corporate network (*cf* Höpner and Krempel 2004).

In October 2018, the GCGC commission proposed a highly contentious reform to its guidelines which read as follows: '*Supervisory Board members elected by the shareholders shall be appointed for a period of not more than three years*' (Recommendation B.1). In effect, this proposal would reduce the service terms from the maximum 5 years that are enshrined in existing law (§102(1) AktG). Given the momentous implications of this amendment, the reform proposal triggered a heated debate among stakeholders. While some saw in the reform a much-needed move towards international standard alignment, others alleged a blatant attack on Germany's dual board system, which, as we recall from the introduction, plays a central role in Germany's coordinated model of capitalism.

In multiple rounds of consultations, the GCGC commission invited stakeholders of all colours to provide official statements on the reform proposal which are publicly available. Therefore, this case provides us with a rare opportunity to explore the interests of different factions of financial and non-financial actors vis-à-vis German corporate governance institutions, including the strategies of international asset managers and big commercial banks, as well as the coalitional dynamics reflected in the competition over institutional reform. In the next section, I draw on a total of 110 statements available from the GCGC archive[1] and

1 Available at https://www.dcgk.de/en/consultations/archive/consultation-2018/19.html (Accessed on November 24, 2023).

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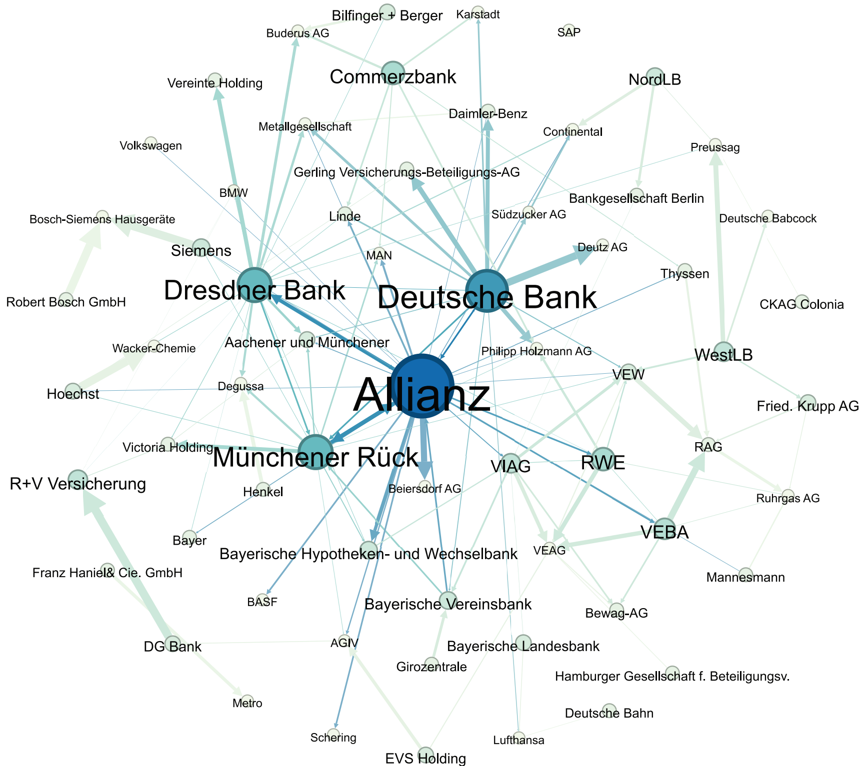

Figure 2. The German corporate network dominated by banks and insurers in 1996.

Source: Author, based on Monopolkommission (1998); cf Höpner and Krempel (2004).

Note: Figure shows the corporate network of the 100 largest Germany-based firms in 1996. Size of nodes indicates relative number of outgoing ties (network centrality). Thickness of edges (arrows) indicates size of investments.

combine QCA with a novel coalition visualization technique to distinguish between rival factions of stakeholders and their emphasis on different arguments and logics in the struggle over corporate governance reform.

For my analysis, I draw on a mix of inductive and deductive, or, 'directed' QCA (Hsieh and Shannon 2005; Schreier 2012; Mayring 2021). QCA is a method that allows for the systematic analysis of qualitative material by assigning it to a coding frame. In a first step, inductive coding of stakeholder statements yields a set of nine themes which I then assign to two overarching and competing logics: a *market logic*, and a *coordination logic*. These broad logics are derived from the VoC literature and represent the two distinct models of capitalism clashing in my study. Under the market logic, contracts are the dominant mode of economic organization and institutional investors use the threat of exit to exert pressure on management when they are unhappy with a company's performance (Hirschman 1970). Financial capital under this logic is therefore more short-term-oriented and nervous and

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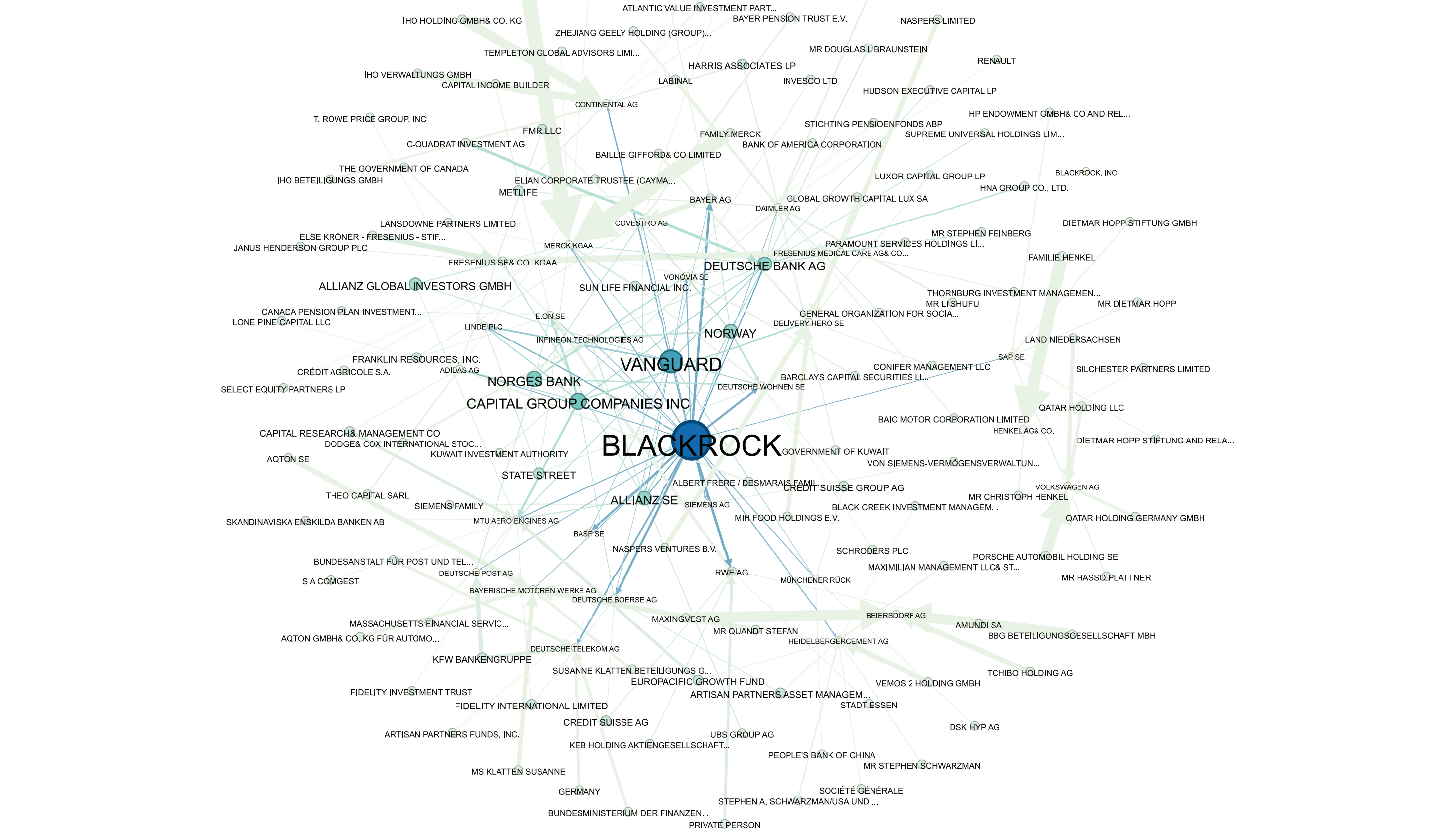

Figure 3. The German corporate network dominated by index funds in 2020.

Source: Author's calculations, based on Orbis database.

Note: Figure shows the corporate network of DAX30-listed firms and their investors with >3 per cent of ownership in 2020. Size of nodes indicates relative number of outgoing ties. Size of edges (arrows) indicates size of investments.

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shareholder value creation constitutes the dominant heuristic. In contrast, the coordination logic is characterized by strategic links between banks, businesses, and labour representatives. Capital is typically more patient and loyal, even in the face of short-term market fluctuations or adverse firm performance, and decision making is much more stakeholder oriented (Deeg and Hardie 2016). Given limited exit options, voice is used as the dominant means of corporate engagement. These logics speak directly to our sectors–borders distinction. Where the cleavage runs along sectors, the market logic dominates; where it runs along borders, the coordination logic prevails.

Along these two logics, I visualize coalitions of different interest groups by translating the coded statements into a radar graph. I classify congeneric stakeholders into factions (e.g. commercial banks, non-financial DAX30 firms, activist investors, passive investors, etc.) and code their statements along their mentions of particular subthemes using dummy variables (0 = not mentioned, 1 = mentioned). This allows me to aggregate these data for factions and calculate the share of stakeholders within a faction that has referred to a particular theme. Overlapping the results in a radar graph indicates (1) which themes and logics particular factions draw on predominantly and (2) where interests of different factions might align either in favour of or in opposition to the proposed GCGC reforms. The radar graph thus helps to understand where the logics of different factions overlap to form a tactical coalition in pursuit of the same outcome, albeit for potentially different individual motives. The next section presents the results of the empirical analysis.

5. Analysis: interest factions and coalition analysis

Out of a total of 110 statements from consulted stakeholders on the 2018 GCGC reform, sixty referred to Recommendation B.1 to reduce the tenure of supervisory board members elected by the shareholders. The types of stakeholders ranged very broadly from individual legal and academic experts to employer, labour, and investor representative associations, small and medium-sized firms and larger DAX listed corporations, banks, and insurers, investors of all types, proxy advisors, and financial umbrella associations (see Supplementary Appendix A1). Different trade unions as well as works councils of many firms co-signed a joint statement by the German Trade Union Confederation (DGB) which was submitted multiple times to the GCGC commission. Overall, a large majority of stakeholders (40) came out in strong opposition to the proposed reform, clearly outnumbering a smaller number of mostly international institutional investors (16) who voiced their support. Another set of four commentators could be classified as cautiously in favour (see Supplementary Appendix A1).

5.1 QCA

QCA of sixty stakeholder statements yields a set of nine distinct themes. As signposted above, I bundle these themes under two competing logics, a market logic, and a coordination logic (Table 2). Beginning with the *coordination logic*, a number of commentators expressed concerns that a shorter duration of elected supervisors on the board would hinder smooth operations within firms. The main focus laid on the problem of having to find qualified personnel more frequently and a disruption of the balance of power on the board between capital and labour. In large German firms, the dual corporate governance structure ensures parity between capital and labour with the board's chair casting the decisive vote.

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Table 2. Frequency table of logics and sub-themes ($n = 60$ stakeholders).

Logic	Sub-themes	Frequency
Coordination	Loss of qualification	20
	Knowledge exchange	6
	Balance of power	28
	Independence from shareholders	13
	Excessive short-termism	24
Market	Flexibility	8
	International standard alignment	9
	Shareholder value	5
	Independence from management	7

Since the reform concerned shareholder-elected representatives of the capital side only, consulted stakeholders cautioned against a sustained drifting apart of time spent in service between representatives on the labour side and those of capital.

In addition, they also raised potential issues relating to knowledge exchange on the boards, another key element of strategic coordination. Since supervisors usually serve on a number of boards simultaneously, they can act as information carriers between large firms. At the same time, supervisory boards constitute the main hub for knowledge exchange between management and labour within a firm.

Finally, commentators under the coordination logic decried an excessive focus on short-termism. Under the dual supervision model, supervisory boards are elected by the shareholders at annual general meetings where one unit of common stock carries one vote. In this context, stakeholders specifically warned against a loss of independence of elected board members should they face re-election from international shareholders with dominant voting rights more frequently. For example, the chairmen of Allianz, Deutsche Bank and Siemens supervisory boards cautioned that the proposal threatened to weaken 'the role of a qualified Supervisory Board as an independent monitoring body' (my translation).

Under the *market logic*, on the other hand, stakeholders highlighted positive implications for corporate efficiency. Some argued that more frequent re-elections would allow firms to react more flexibly to the challenges of an ever faster changing corporate environment. Others alluded to further opportunities to strengthen shareholder value orientation if investors could decide more frequently over the composition of supervisory boards and personnel. In addition, many deemed the reforms a first but necessary step to align Germany's dual board structure with the internationally more common single board model under which there is no clear separation between supervision and management duties, and decision-making authority is more concentrated with the management board. And finally, some commentators hoped that the reform would help to break conspiratorial structures on the board and increase the independence of shareholder-elected supervisory board members from management and labour representatives.[2] For instance, State Street argued that

2 Irrespective of above logics, some commentators cited practicability reasons in opposition to the reform. More frequent board elections would imply significant costs involved in organising stockholders' meetings. In addition, some stakeholders voiced legal concerns pointing out that formal law

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'annual director elections provide increased accountability and encourage board members to be more responsive to shareholder interests, thereby improving board quality' while BlackRock lauded the proposal's potential to 'foster long-term, sustainable value creation by companies and responsible share ownership by investors'.

As discussed in the previous section, I use these nine themes and two overarching logics to classify different factions of stakeholders along with their emphasis on particular aspects and concerns regarding the reform. By amalgamating the individual faction statements, I can identify interest overlaps between unlike groups that provide the basis for tactical coalition building either in support of or in opposition to the proposal.

5.2 Coalition analysis

The results of my coalition analysis show a striking separation of factions in support of, and in opposition to, the reforms distinguished clearly along the two guiding logics (Fig. 4). At a first glance, this confirms the initial intuition that the GCGC's proposal to reduce the tenure of supervisory board representatives was highly contentious.

The coalition in favour of this reform consisted of activist and passive institutional investors, including the 'Big Three' index funds. These stakeholders welcomed the proposal to cap the service time at a maximum of 3 years, but also saw it as only a first step with 'annual Board elections as [the] ultimate objective' (Vanguard), or, in other words, as 'a transition period where companies could choose to first shift from the current 5-year term of office to a 3-year term before moving to annual elections' (State Street). The motives behind this stance seem rather obvious. As money managers, shareholder value creation constitutes the main decision-making rationale of activist and passive investors, alike. Reducing the tenure of supervisory board members increases the frequency of board re-elections which in turn increases the opportunities for shareholder representatives to use their voting powers to exert pressure on a portfolio firm; by threatening to axe unpopular representatives, and by appointing allies. BlackRock reiterated this objective indirectly by arguing that 'director elections provide the board with a sense of the level of shareholder support'. At first glance, this seems to confirm a conventional wisdom: since shareholder value is the dominating logic of financial markets, international money managers lean towards short-termist preferences. Somewhat unsurprisingly, then, activist and passive investors share a similar market logic towards Germany's corporate governance institutions.

But upon more nuanced analysis, the radar graph reveals important differences in the discourse of activists (blue) versus passive investors (red). Activist investors put a strong emphasis on the prospect of increased flexibility (50 per cent), a standard short-term perspective that also featured explicitly in the rationale of the Commission's First Draft from 25 October 2018: 'A shorter term of office increases the flexibility in order to better meet a developing profile of skills and expertise, and to take into consideration changes in the ownership structure'. Alluding to the pressures of fast-changing business environments, activist shareholders have traditionally called for more bundled competencies in top management. The concentration of decision power at the top would come to their benefit because it would allow easier access and implementation of extractive investment strategies

granting tenure of a maximum of 5 years could stand *ultra vires* to the more informal CGCG. In the interest of conceptual clarity, I focus my analysis on above logics even though these practicability concerns are important to note.

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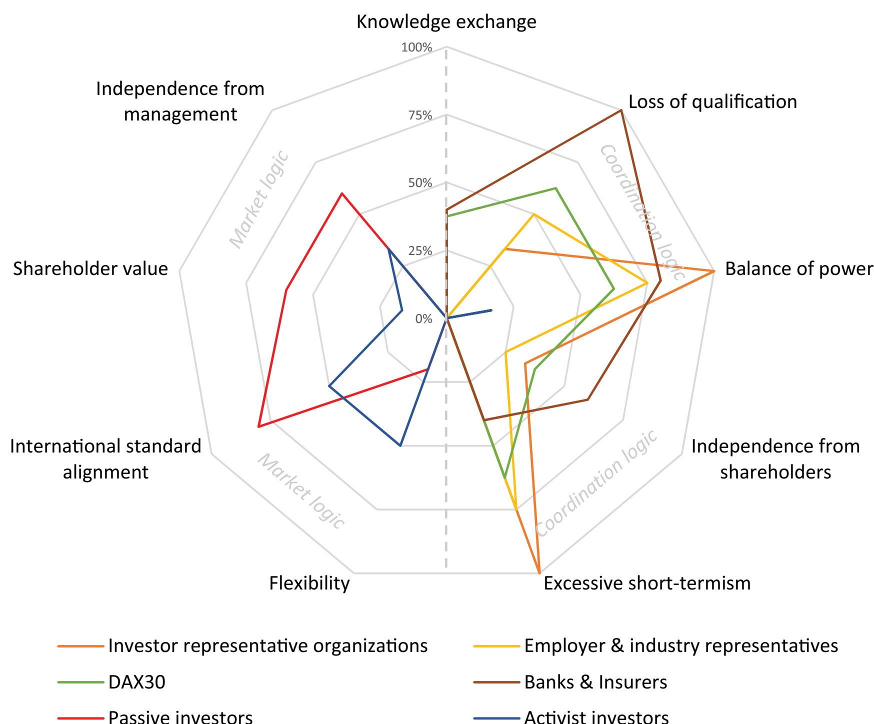

Figure 4. Radar chart of interest coalitions.

Note: Each corner depicts a subtheme. Right-hand subthemes relate to the coordination logic, left-hand subthemes relate to the market logic. Amplitudes of individual lines indicate in percent how many individual stakeholders from a faction mentioned a particular subtheme in their statement. Overlapping lines suggest agreement between different factions regarding a particular subtheme. In the interest of legibility, remote factions such as legal and academic experts or proxy advisors were excluded from this figure (relevant statements are revisited in the discussion below). Labour unions' reactions are discussed separately below (see footnote 3). Reading example: Within the faction of 'banks & insurers', 40 per cent of stakeholders referred to 'knowledge exchange', 100 per cent referred to 'loss of qualification', 80 per cent referred to 'balance of power', etc. While all of them referred to 'loss of qualification', they share the largest overlap with other stakeholders on 'balance of power'. None of the stakeholders from the 'banks & insurers' faction referred to themes under the market logic.

(Goyer 2007; Fichtner 2015). Interestingly, shareholder value is not a theme that activist investors emphasize predominantly.

Passive investors, on the other hand, do not tend to raise the issue of flexibility. Instead, they focus first and foremost on the accountability of board members and on creating long-term value for shareholders. In their statement, BlackRock expressed their hope that the reform would guarantee a 'sufficient number of independent board directors to ensure objective debate and oversight that leads to decisions that protect and advance the interests of all shareholders'. State Street echoes this view: 'As a global investor that has active

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engagement and voting programmes in key global markets, we find that annual director elections provide increased accountability and encourage board members to be more responsive to shareholder interests, thereby improving board quality'. Passive investors therefore seem hopeful that more frequent board elections would increase the independence of board members from management and workers and prevent them from suffering corporate 'Stockholm syndrome'.

Overall, asset managers understand board composition as a key element of good governance (in the words of Vanguard, 'Good governance begins with a great Board'). BlackRock considers 'The performance of the supervisory board [...] critical to the long-term success of the company and to the protection of shareholders' economic interests', adding that 'BlackRock's pursuit of good corporate governance stems from our responsibility to protect and enhance the long-term economic value of the companies in which our clients are invested' (BlackRock statement). Statements like these resonate with points made elsewhere in asset managers' stewardship guidelines. For example, State Street (2018) reiterates that moving towards annual board elections 'would provide shareholders with an effective mechanism to fulfil our stewardship responsibilities and improve the quality of board oversight and company performance in the long-term'. Taken together, these statements appear to convey a more long-term approach compared with activist investors, which resonates with the image as socially responsible investors that index funds attempt to construct for themselves.

So, while the two types of investor groups stand unitarily in support of shortening the maximum service of supervisory board members, they do so for different reasons. What unites them, as Fig. 4 illustrates, is a shared conviction that the German corporate governance system should converge towards the internationally standard one-tiered model in which management is not institutionally separated from supervision and where these two functions are performed by one and the same body, usually, the Board of Directors. This latter model provides more entry points for shareholder interests and is generally characterized by fewer veto players.

As Fig. 4 illustrates, the demands of international money managers were met with fierce opposition from a heterogenous cross-class coalition of 'strange bedfellows' (Mahoney 2008) encompassing banks and insurers, DAX30 corporations, domestic investor associations such as the Deutsche Schutzvereinigung für Wertpapierbesitz (Germany's largest association of shareholders with over 30,000 members), the German Investor Relations Association (DIRK), employer representatives such as the Bund Deutscher Arbeitgeber (BDA), and major labour unions.

Banks and insurers, as well as blue-chip firms listed in the DAX30, were most concerned about loss of qualification on the board. In a joint statement, which, remarkably, reinvigorated the close ties between financial and non-financial firms of Deutschland AG, the chairmen of the supervisory boards of Allianz, Deutsche Bank, and Siemens warned that 'a shortened mandate would increase the risk of loss of competence and know-how on the supervisory board and further weaken the authority of the respective supervisory board member' (my translation). Others voiced their support in defence of typical features of strategic coordination, for example, representatives of Telekom AG who warned against 'considerable disadvantages for the transfer of knowledge and cooperation on the board'. Recall that tacit, firm/sector-specific knowledge plays an important role in German companies that compete in diversified quality production and take time and money to accumulate.

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Domestic investor representatives were most concerned about the spectre of increased short-term pressure, as well as legal barriers since the proposal effectively challenged existing law. The Deutsche Schutzvereinigung für Wertbesitz (DSW) representing the interests of more than 30,000 shareholders took particular issue with the goal raised by proponents of the reform to align German regulations with international standards: 'Unlike the Anglo-American system, which provides for much shorter terms of office and also takes a more short-term approach overall, current service terms of up to 5 years Germany's dual system does more justice to the long-term nature of the interests of shareholders on the supervisory board' (my translation). Many commentators questioned the comparability of the German supervision model with international standards.

Employer and industry representatives including the powerful Confederation of German Employers' Associations (BDA) decried increasing costs of more frequent re-elections that would accrue to firms, but like many other stakeholders, they also pointed to the negative implications of increased time pressure and short-termism, as well as the challenge to find qualified personnel and the adverse effects this could have onboard operations. The Federation of German Industries (BDI) argued that 'due to the increasing complexity of supervisory board activities, especially in listed companies, the statutory maximum term of office of 5 years has proven its worth from the perspective of German industry. The continuity associated with this model is of great importance to companies, which is why a reduction to 3 years could have a negative impact on the quality of supervisory board work overall' (my translation).

While stakeholders in opposition to the reform alluded to many different motives to justify their stance, the radar graph indicates a single uniting theme: a potential threat to the balance of power on German boards. This concern stemmed from the fact that the GCGC's formulation referred only to board representatives elected by the shareholders, that is, the capital side while leaving rules for labour-elected board members untouched. Unsurprisingly, therefore, capital representatives saw in the proposal an 'arbitrary differential treatment of the shareholder and the employee side' (Allianz) and a 'clear deviation from the principle of equal legal status of all members of the supervisory board' (Deutsche Telekom AG). In their statement, chemical company and DAX member Merck put the concerns of capital in clear terms: 'While employee representatives have 5 years to familiarize themselves with the subject matter, forge alliances and get to know the company from the supervisory board's point of view, shareholder representatives have only 3 years. Such discrepancy and the practical difficulties this entails lacks any objective justification' (my translations).

Even though unions have been shown to usually oppose financial interest groups (Clapp and Helleiner 2012; Scholte 2013; Kastner 2014), given capital's alarms we might suspect labour representatives to support a reform proposal that promised to increase their relative strength on the board. However, a joint statement by the DGB, co-signed by works council representatives from various firms, shows that in fact the opposite was the case: labour unions sided with domestic capital.[3] The worker side had two main concerns. First, they

3 Since labour representatives co-signed and submitted the same joint statement by the DGB multiple times, there is no variation of themes within this faction. Therefore, workers' interests cannot be integrated meaningfully as another faction into the radar graph and need to be discussed separately here.

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argued that the reform would nullify lessons drawn from the Great Financial Crisis that had led to a shift of companies' strategies 'away from mere shareholder-primacy to reimbursement systems incentivizing long-term goals' (DGB 2019). Rainer Hoffmann, chairman of the DGB, argued in his statement that the reform proposal 'would set considerable incentives for a short-term orientation of corporate policy and would stand in extreme contradiction to recent remuneration developments for board members, which (rightly so) increasingly take long-term incentives into account. The long-term future of the company would thus be lost from the view of the supervisory board with negative social and economic effects' (my translation).

Secondly, and most considerably, the balance of power argument raised by capital representatives found strong reiteration among unions, since supervisory board terms of labour and capital are tightly coupled under German law and the principle of parity. As the DGB (2019) explained,

> Even though the GCGC refers to shareholder representatives only, it would equally affect the tenure of worker representatives. Pursuant to §15 section 1 of the Co-determination Act (MitbestG), the length of term in office for worker representatives of the supervisory board is bound to the length of term in office for shareholder representatives as determined by the articles of a company. In other words, recommendation B.1 would authorize shareholders to decide over the length of tenure for worker representatives in the supervisory board.

This legal detail epitomizes an important and powerful lever in Germany's coordinated model of capitalism. Path-dependent complementarities that stem from past negotiations over the corporate distribution of power can align the interests of producer groups that are usually competitors to protect existing institutions. Since board mandates in Germany are legally linked, opposed interest factions find themselves in the same boat when it comes to fundamental changes to the way the system works and are incentivized to forge strong majorities in its defence. The GCGC case highlights that unions play a particularly important role in reinforcing this arrangement. Once they consider themselves an involved party, they will not tire to point out that curtailing the power of the capital side will have adverse implications for their *social* mandate, which intensifies the pressure on political decision makers. The capital side, in turn, will profit from unions' involvement. As a result, aligned incentives can lock actors into a pareto-efficient situation where existing institutions will be jointly defended.

To summarize my findings, QCA and coalition mapping reveal that passive asset managers sided with activist investors in an attempt to undermine one of Germany's trademark institutions of corporatist coordination: the dual supervision model. Interest group cleavages very clearly followed *borders* where international financial investors' logic clashed with that of domestic incumbents. Note, however, that although international investors' overall assessment of the objectives of the GCGC's reform proposal was strongly aligned, in their individual statements they provided diverse reasonings. While activist investors voiced their aim to increase short-termism and flexibility in target firms, passives alleged improved accountability and sustainable decision making resulting from more intensive and frequent shareholder representation. This suggests that passive investors do constitute a corporate-political class of actors in their own right, who unite both, long-term aims and short-term strategies.

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In contrast, the interest factions in opposition to the proposed reform appear much more heterogeneous and conflicting. But a startling degree of unity in their coordination logic and their action against the proposal to weaken capital representatives on supervisory boards shows that domestic producer coalitions can continue to forge strong bulwarks against financialization pressures even when facing universally invested asset managers with sizable shares and considerable voting rights. The final section discusses the implications of the findings in more detail.

6. Discussion and conclusion

The attempt to reform the GCGC and weaken a central tenet of Germany's corporate governance framework—the dual board supervision model—gives political economy scholars front-row seats to the high-staked battles over corporate governance that global asset managers engage in. Drawing on this critical case, this article analyses the internal logics guiding asset managers' preferences vis-à-vis coordinated corporatist institutions and examines whether coalitional conflict between interest groups follows cleavages along *sectors* (financial sector versus the real economy) or *borders* (international versus domestic interest groups).

As passive investors but activist owners, asset managers distinguish themselves from other types of investors and should be understood and classified as a financial faction with characteristic traits and distinct interests. Some observers have painted passive asset managers as typical patient investors who lack exit options, remain financially involved in target firms in the long run and follow a generally docile approach to ownership (Deeg and Hardie 2016; Bebchuk, Cohen, and Hirst 2017). However, although from the outside they seem to resemble patient capitalists by any of the standards employed in the past, at the same time, their relation to institutions of patience appears fundamentally antagonistic. Asset managers are driven by an internal logic that easily clashes with that of proponents of coordination. Shareholder value constitutes their main guiding principle, they have little interest in the ability to coordinate with domestic producer groups, and they desire direct access to management to meet fiduciary duties.

Against this backdrop, my article holds important lessons for the ongoing debate around passive asset managers, interest group plurality, and the power of international finance. Passive asset managers show their ambition to align German corporate governance with international standards and empower shareholder interests. In that sense, they can be considered a potential force of corporate financialization with significant equity shares and voting rights that forge interest coalitions with activist investors. At the same time, however, the fulminant rejection of the reform proposal demonstrates a discrepancy between asset managers' dominant position in German equity markets and their (lack of) ability to change key corporatist institutions.

To understand this discrepancy, this article has investigated the coalitional dynamics and the role of complementarities that shape and align the interests of unlike actors. The results show that producer coalitions in pursuit of mutual institutional outcomes must not necessarily share the same goals or convictions to forge an influential political alliance. It suffices for them to share the realization that an external shock to the institutional order will impair their position, or, conversely, improve it vis-à-vis other interest groups. Institutional complementarities and the legacies of past negotiations are important in

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aligning the internal logics of antagonistic actors who operate under the same model of capitalism. QCA demonstrated that labour unions and domestic capital representatives—usually not natural allies, to say the least—united in strong opposition to the reform when both felt equally worse-dispositioned. The fact that even large commercial banks and domestic shareholder representatives joined the efforts to prevent the reform supports recent contributions that show that financial actors' interests are more heterogeneous and internally conflictual than commonly assumed (Röper 2021a, 2021b). While truly strange bedfellows, incumbent factions jointly realized that changing key institutions of co-determination amounts to a complex, multi-dimensional operation. Even though the GCGC reform proposal targeted the powers of the capital side exclusively and might have increased the relative strength of labour representatives, unions strongly supported opposition to the proposal, because the consequences of softening supervisory board regulations were more than unclear. The fact that cleavages clearly run along borders suggests that interest group plurality between financial and non-financial factions, but crucially also within the financial sector itself, is more pronounced than often assumed (Swenson 2002; Pagliari and Young 2016, 2017; Röper 2021a). Rather, the degree of interest group plurality depends on the institutional context and its dominant operating logic, as well as the potential scope of a reform's impact.

Still, when drawing conclusions about the power of asset managers, we should not forget that the case and statements I analysed in this article provide only a limited snapshot of their actual political agency (Braun 2022). Future research should focus on finding additional innovative points of access into the political engagement of asset managers, for example, their political lobbying activities or more direct interference with management boards.

Supplementary data

Supplementary data is available at *SOCECO Journal* online.

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